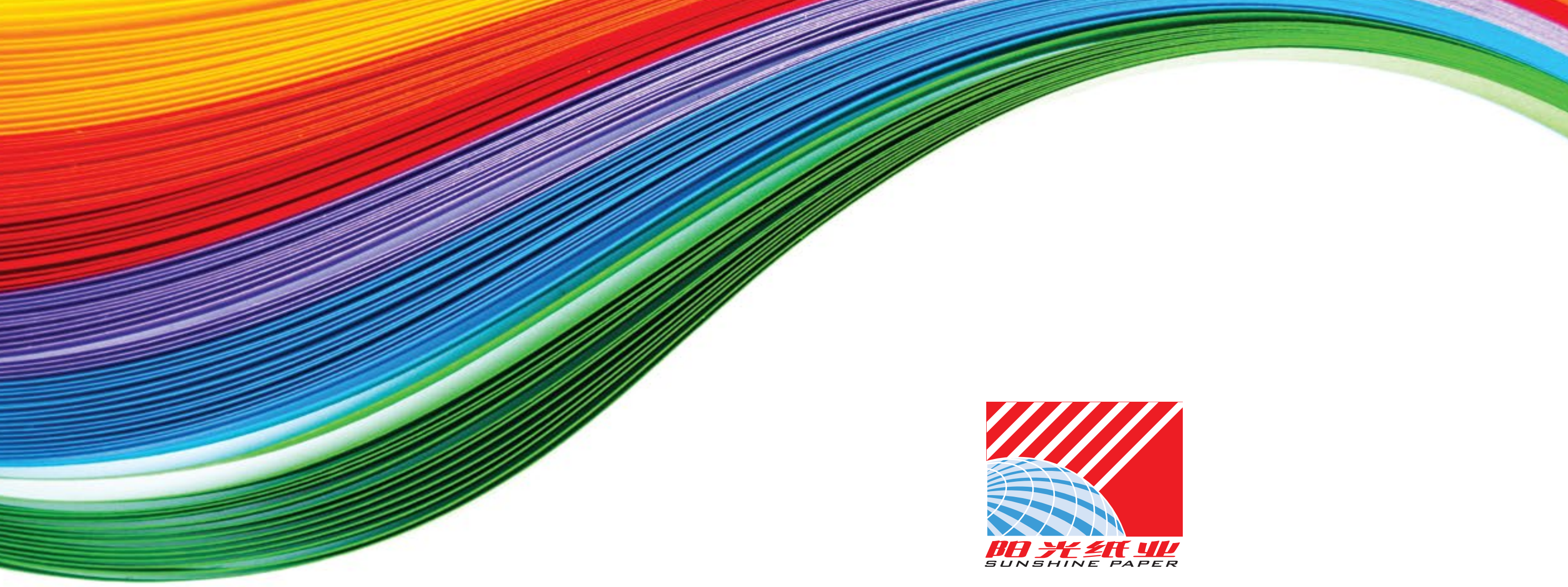


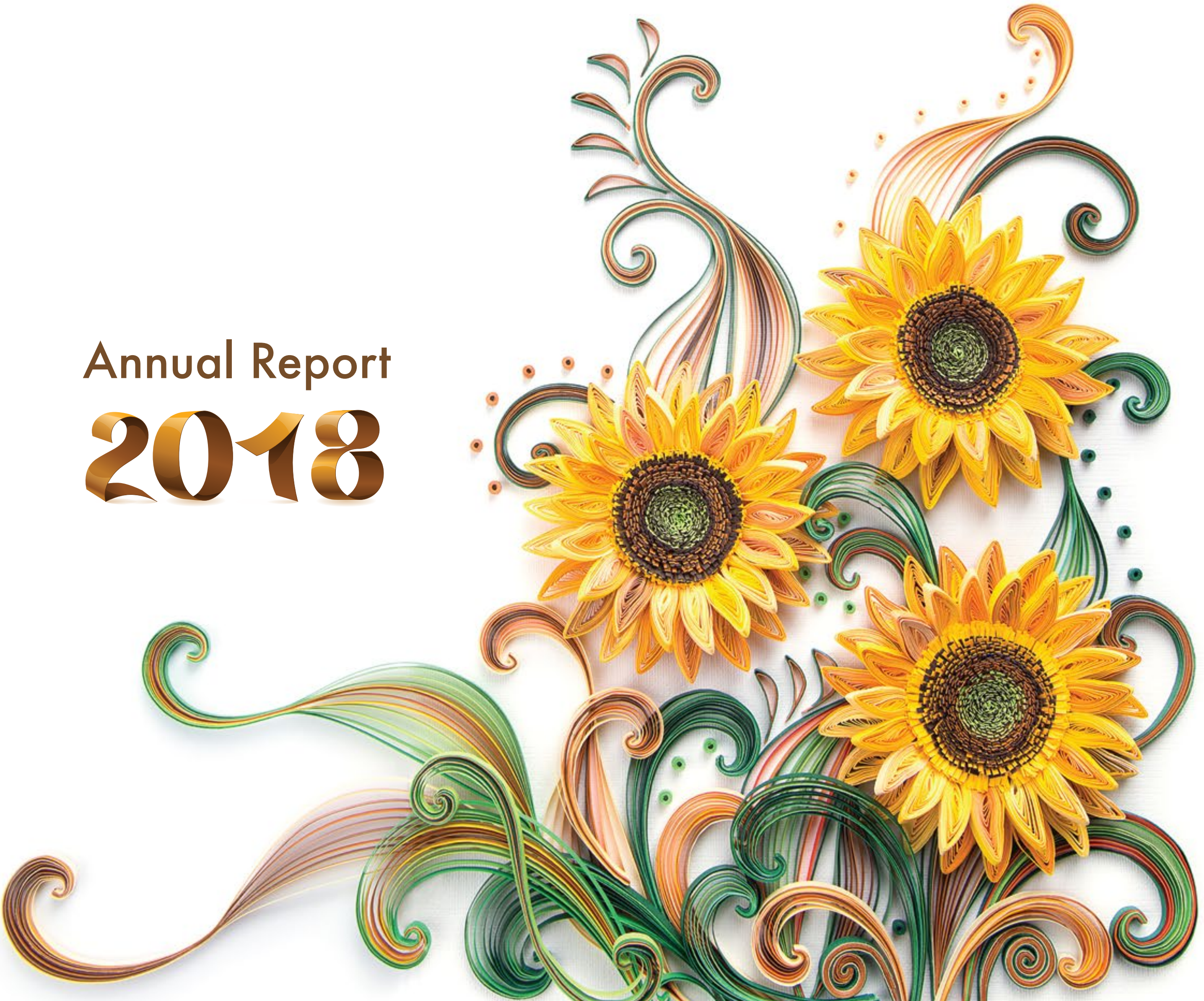
China Sunshine Paper Holdings Company Limited

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2002

Annual Report 2018

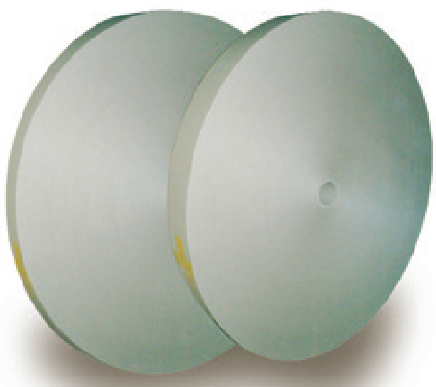


*For identification purposes only

Contents

Main Products

White top linerboard is used to provide the outer facing surface of the corrugating medium. It is a combination of linerboard and fluted inner sheet of corrugating medium, which gives the board its rigid structure and stacking strength. White top linerboard is typically used as packaging material for boxes, which require high quality printability and stacking strength.



Coated white top linerboard* is a form of white top linerboard comprising a multiple-ply sheet made of a bleached upper ply layer coated writer a coating medium. Such coating allows superior printability by offering better brightness and gloss, and at the same time, delivers excellent ink transfer quality. The coating layer of the coated white top linerboard is much thinner than that of the traditional coated duplex board, and thus, it is considered more environmentally friendly.

Core board is the main material used to produce "cores" which are tubes generally used as the base around which various products, such as paper and yarn, are wound. It is predominantly used to produce durable spindles with the ability to withstand high spinning speeds, and to produce strong paper cores and related products.

* Previously known as light coated linerboard

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)*
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*

Non-Executive Directors

Mr. Xu Leihua *(Resigned on 15 April 2019)*
Mr. Li Hengwen *(Resigned on 15 April 2019)*
Ms. Wu Rong *(Appointed on 15 April 2019)*

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)*
Mr. Wang Dongxing
Ms. Shan Xueyan

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael

AUTHORISED REPRESENTATIVES

Mr. Wang Dongxing
Mr. Chan Yee Ping, Michael

PRINCIPAL PLACE OF BUSINESS IN CHINA

Changle Economic Development Zone
Weifang 262400
Shandong
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F, Winsan Tower
98 Thomson Road
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

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

STOCK CODE

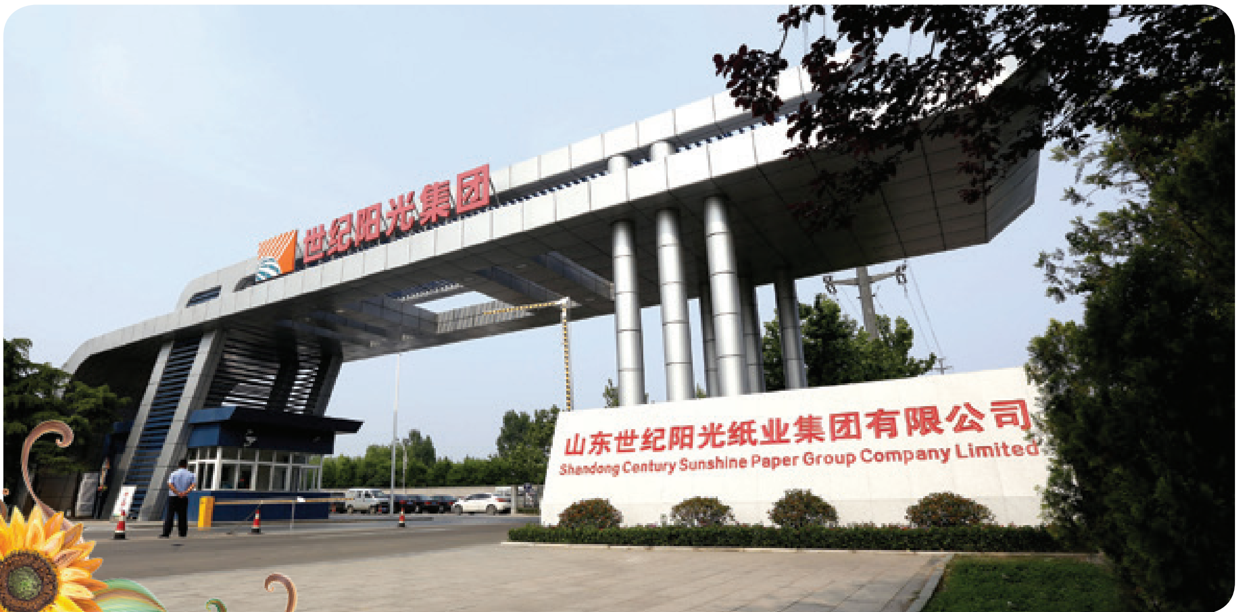
2002

WEBSITE

www.sunshinepaper.com.cn


Chairman's Statement

Chairman's Statement



Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Sunshine Paper Holdings Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of our Group for the financial year ended 31 December 2018.

BUSINESS REVIEW

The Group is committed to producing various specifications of high-quality packaging products, including white top linerboard, coated-white top linerboard and core board, and maintains a number of intellectual property rights, invention patents and utility model national patents. The production line of major products imports advanced automatic equipment, which can achieve continuous production throughout the year to ensure timely and sufficient supply of high-quality paper products. Ushering in the 40th anniversary of the economic reform of China in 2018 the paper industry witnessed a cyclical turning point, when the Group strove hard for its steady development. Against complicated and changing economic conditions and an industrial landscape of multiple conflicts, the Group further developed its business despite difficulties, seeking to satisfy the diverse needs of different customers and maintaining a good operating momentum.

In 2018, the most stringent environmental protection measures in the history were introduced, and orders were given to restrict waste paper, during which, the paper manufacturing industry came under the spotlight. Coupled with simmering factors, including tremendous changes in the international trades, the paper manufacturing industry embraced a new norm of development. Small paper mills with a weak comprehensive strength were forced out of the market, contributing to an increasing concentration of enterprises in the industry. This was conducive to the improvement of the competitiveness of the Group, thereby increasing the income from the principal business as a whole. In FY2018, the Group recorded a sales volume of approximately 1.26 million tons of packaging products (approximately 1.22 million tons in FY2017) and sales revenue of approximately RMB6,585.7 million (approximately RMB5,781.9 million in FY2017).

Chairman's Statement

OUTLOOK

Looking into 2019, the economy may experience tough changes despite its overall stability. Against the complexity and severity of external conditions and numerous uncertainties, the paper manufacturing industry will continue to face the challenges and opportunities in upcoming year.

As always, the Group continues to optimize its product mix to identify new growth drivers. By consolidating its management base, the Group will maintain the "momentum of advancing forward amid stability" for the purposes of becoming a paper-making powerhouse with healthy operations and business growth.

Upon successful completion of Phase II of the joint venture, "Sunshine Oji (Shouguang) Specialty Paper Co., Ltd. (陽光王子(壽光)特種紙有限公司)", alongside its successful trial production, the joint venture succeeded in producing qualified paper in the same month. The new production line in full swing will further satisfy the market demands for product customization and diversity, which will help optimize the product mix and expand the market share. As a result, the Company will increase its market share and enhance its comprehensive strength, which in return will boost the economies of scale. This will truly facilitate our penetration into the high-end market of decorative papers.

Furthermore, in the light of the national policy tightening the import of waste paper, the Group will actively expand its diversified upstream business to safeguard the supply of raw materials and reduce production costs. While improving the scale of development, the Group continues to strengthen the concept of "making green and environmental paper" to conserve energy and reduce emissions so as to fulfil our corporate social responsibility.

Wang Dongxing
Chairman

Shanghai, China
29 March 2019

Management Discussion and Analysis

Management Discussion and Analysis

TOTAL REVENUE

Our Group's total revenue for FY2018 was approximately RMB6,585.7 million, representing an increase of approximately RMB803.8 million or 13.9% as compared to that of approximately RMB5,781.9 million for FY2017.

Sales of paper products, which recorded an increase of 14.2% in FY2018 as compared with last year, accounted for substantially all of our Group's total revenue in FY2018. The increase in revenue mainly resulted from increase in selling prices and quantity of the paper products.

Sales of electricity and steam continued to account for a low single digit percentage of our Group's total revenue for FY2018.

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

	FY2018		FY2017	
	RMB'000	%	RMB'000	%
Sales of paper products				
White top linerboard	1,772,195	27.0	1,545,784	26.7
Coated-white top linerboard*	2,485,513	37.7	2,267,706	39.2
Core board	822,785	12.5	736,082	12.7
Specialised paper products	1,272,819	19.3	1,014,692	17.6
Sub-total of paper products	6,353,312	96.5	5,564,264	96.2
Sales of electricity and steam	232,344	3.5	217,593	3.8
	6,585,656	100.0	5,781,857	100.0

* *Previously known as light-coated linerboard*

COST OF SALES

Our cost of sales was around RMB5,493.9 million for FY2018, whereas the cost of sales for FY2017 was approximately RMB4,534.6 million. Cost of sales for FY2018 was in line with the increase in total revenue in general.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit decreased from approximately RMB1,247.2 million for FY2017 to approximately RMB1,091.8 million for FY2018. Our gross profit margin for FY2018 was 16.6%, representing a 5.0 percentage point decrease as compared to that of 21.6% for FY2017. The decline in gross profit and gross margin are mainly due to the rising cost of raw materials.

OTHER PROFIT AND LOSS ITEMS

Other income of approximately RMB246.4 million for FY2018 (FY2017: approximately RMB167.1 million) mainly comprised interest income of approximately RMB40.8 million (FY2017: approximately RMB41.6 million), rental income from an investment property and other properties of approximately RMB1.1 million (FY2017: approximately RMB1.5 million) and government grants of approximately RMB204.5 million (FY2017: approximately RMB124.0 million).

We recorded net other losses of approximately RMB70.6 million for FY2018, as compared to that of approximately RMB24.8 million for FY2017. Other losses mainly reflected impairment loss on property, plant and equipment of approximately RMB89.0 million in FY2018 (FY2017: Nil), and a loss on disposal and written off of property, plant and equipment of approximately RMB8.7 million in FY2018 (FY2017: approximately RMB49.7 million). Gain from sale of scrap materials recorded approximately RMB27.0 million for FY2018 (FY2017: approximately RMB15.6 million).

Products of the packaging business achieved a very low margin level. During FY2018, it was 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 recorded RMB287.7 million for FY2018 as compared to RMB269.2 million for the corresponding period last year. For FY2018, such expenses represented approximately 4.4% of the total revenue, as compared with approximately 4.7% of the total revenue for FY2017.

Administrative expenses recorded RMB273.1 million for FY2018 as compared to RMB296.9 million for the corresponding period last year. For FY2018, it accounted for approximately 4.1% of the total revenue, as compared with approximately 5.1% of the total revenue for FY2017.

Finance costs recorded approximately RMB233.9 million for FY2018 as compared to approximately RMB252.6 million for the corresponding period last year. For FY2018, it accounted for approximately 3.6% of the total revenue, as compared with approximately 4.4% of the total revenue for FY2017. The decrease was mainly due to the reduction in the amount of liabilities and the discount interest rate.

INCOME TAX EXPENSES

Income tax expenses were approximately RMB131.5 million for FY2018 as compared to approximately RMB162.9 million for FY2017.

PROFIT FOR THE YEAR

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of approximately RMB333.0 million for FY2018, representing a decrease of approximately RMB63.0 million from approximately RMB396.0 million for FY2017.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury policy

Our working capital requirement and capital expenditure are financed by a combination of cash generated from our operations and bank and other borrowings. It is our Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During FY2018, our Group continued to adopt a conservative approach to financial risk management.

Market risks

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

Working capital

Net current liabilities of our Group was approximately RMB1,920.0 million as at 31 December 2018, as compared to approximately RMB1,503.6 million as at 31 December 2017. Current ratio was 0.68 times and 0.73 times, respectively, as at 31 December 2018 and 31 December 2017.

Bank balances and cash, and restricted bank deposits were approximately RMB1,918.9 million as at 31 December 2018, as compared to approximately RMB1,956.0 million as at 31 December 2017.

Inventories were approximately RMB756.4 million as at 31 December 2018, as compared to approximately RMB768.1 million as at 31 December 2017. Inventory turnover was 51 days for FY2018, as compared to 45 days for FY2017.

Trade receivables were approximately RMB507.2 million as at 31 December 2018, as compared to approximately RMB425.6 million as at 31 December 2017. Trade receivables turnover for FY2018 was 26 days as compared to 23 days for FY2017.

Trade payables were approximately RMB1,039.8 million as at 31 December 2018, as compared to approximately RMB853.3 million as at 31 December 2017. Trade payables turnover for FY2018 was 63 days, as compared to 72 days for FY2017.

Cashflow

Net cash from operating activities amounted to approximately RMB1,030.5 million for FY2018 (FY2017: approximately RMB236.1 million).

Net cash used in investing activities amounted to approximately RMB644.7 million for FY2018 (FY2017: approximately RMB528.7 million), primarily representing the purchase of property, plant and equipment of RMB494.1 million, and additions of deposits for acquisition property, plant and equipment RMB292.3 million, and proceeds from disposal of property, plant and equipment of RMB9.1 million.

Net cash used in financing activities amounted to approximately RMB336.1 million for FY2018 (FY2017: Net cash generated from financing activities amounted to approximately RMB175.0 million), primarily attributable to interest paid of RMB258.7 million, the repayment of bank and other borrowings of RMB3,668.7 million, and the repayment of obligations under finance leases of RMB254.1 million, offset in part by the net proceeds from sale and finance lease back transactions of RMB374.0 million and new bank borrowings raised of RMB2,994.4 million, etc.

The combined effect of the above resulted in a net increase in cash and cash equivalents of RMB49.7 million for FY2018 (FY2017: Net decrease in cash and cash equivalents of RMB117.6 million).

Gearing ratio

Our net gearing ratio decreased from approximately 72.2% as at 31 December 2017 to approximately 39.4% as at 31 December 2018. The decrease in net gearing ratio was mainly driven by the decrease in bank borrowings.

Capital expenditure

During FY2018, our capital expenditure was approximately RMB494.1 million, which mainly involved the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

Pledge of assets

FY2018, the aggregate carrying amount of our assets pledged was approximately RMB2,988.1 million. (FY2017: approximately RMB3,723.9 million).

Capital commitments and contingent liabilities

Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of property, plant and equipment was approximately RMB371.0 million as at 31 December 2018 (FY2017: RMB207.8 million).

As at 31 December 2018, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 3,970 full-time employees in the PRC and Hong Kong as at 31 December 2018. The staff costs for FY2018 were approximately RMB302.4 million, representing an increase of RMB27.9 million over FY2017 of approximately RMB274.5 million. The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Notes to financial ratios

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

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

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

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

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

Corporate Governance Report


晶乐盛世热电厂电气主接线图

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Code on Corporate Governance Practices

Our Company is committed to achieve 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 as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") in Appendix 14 to the Listing Rules during FY2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made to all Directors by our Company to confirm that all Directors have complied with the Model Code during FY2018.

THE BOARD

Board responsibilities

Our Board is responsible for the overall development and guidance of our Group. It formulates business strategies and policies for our Group and oversees the effectiveness of management strategies to maximize long-term shareholders' value. Our Group's management team takes charge of the daily operations of our Group. Our Board primarily performs the following duties:

- formulate long-term business strategies;
- approve annual budgets;
- review operating and financial performance;
- discuss and approve acquisition opportunities, investments and significant capital expenses;
- approve the appointment of Directors and the company secretary of our Company; and
- monitor the performance of our Group's management.

The chairman of our Board is responsible for the management and operation of our Board. Our executive Directors (including the chairman of our Board) also take charge of the operations of our Company.

Board composition

For FY2018 and as at the date of this report, the Board comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. The members of the Board are as follows:

Chairman:	Mr. Wang Dongxing
Executive Directors:	Mr. Wang Dongxing Mr. Shi Weixin Mr. Wang Changhai Mr. Zhang Zengguo Mr. Ci Xiaolei *(Appointed on 15 April 2019)*
Non-executive Directors:	Mr. Xu Leihua *(Resigned on 15 April 2019)* Mr. Li Hengwen *(Resigned on 15 April 2019)* Ms. Wu Rong *(Appointed on 15 April 2019)*
Independent non-executive Directors:	Ms. Shan Xueyan Mr. Wang Zefeng Ms. Jiao Jie

Our Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of our Company.

Biographical details of our Directors and their respective terms of appointment are set out in the section headed "Directors and Senior Management" of this report.

As to the relationships among our Board members, Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo, Mr. Wang Changhai and Ms. Wu Rong are parties to a concert parties agreement. For further details of their relationship, please refer to notes 1 and 2 of the section headed "Directors' Interests in Securities". Other than the relationships between Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo, Mr. Wang Changhai and Ms. Wu Rong, there is no other relationship between other members of our Board.

Retirement of Directors and re-election of Directors

In accordance with the articles of association of our Company, one third (or if their number is not a multiple of three, the number nearest to but not less than one-third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Pursuant to Article 87 of the Articles, Mr. Zhang Zengguo, Ms. Shan Xueyan and Mr. Wang Zefeng shall retire from office at the forthcoming annual general meeting of the Company to be held on 30 May 2019 (the "AGM") and being eligible for re-election, will offer themselves for re-election at the AGM.

Pursuant to Article 86(3) of the Articles, Mr. Ci Xiaolei and Ms. Wu Rong shall being eligible, will offer themselves for re-election at the AGM.

Independence of independent non-executive Directors

Our Company has received from each of our independent non-executive Directors an annual confirmation of his/her independence for FY2018 in accordance with Rule 3.13 of the Listing Rules. Our Company considers all of the independent non-executive Directors are independent.

Board meetings and general meetings

For FY2018, our Company held a total of four Board meetings and one annual general meeting. The attendance records of each member of the Board at the Board meetings and the general meeting are set out in the following table:

Director	Board meetings attendance/held	General meetings attendance/held
Executive Directors		
Mr. Wang Dongxing	4/4	1/1
Mr. Shi Weixin	4/4	1/1
Mr. Wang Changhai	4/4	1/1
Mr. Zhang Zengguo	4/4	1/1
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*	N/A	N/A
Non-executive Directors		
Mr. Xu Leihua *(Resigned on 15 April 2019)*	4/4	1/1
Mr. Li Hengwen *(Resigned on 15 April 2019)*	4/4	1/1
Ms. Wu Rong *(Appointed on 15 April 2019)*	N/A	N/A
Independent Non-executive Directors		
Ms. Shan Xueyan	4/4	1/1
Mr. Wang Zefeng	4/4	1/1
Ms. Jiao Jie	4/4	1/1

Directors' training and continuous professional development

Each of our newly appointed Directors is provided with the necessary induction and information to ensure that such Director has a proper understanding of our operations and businesses as well as his responsibilities under the Listing Rules and other relevant regulatory requirements.

Furthermore, from time to time, the company secretary of our Company updates and provides training and written materials on the latest development of the applicable laws, rules and regulations to our Directors.

According to the records maintained by our Company, our Directors received the following training during FY2018:

Director	**Type of training attended**
Executive Directors	
Mr. Wang Dongxing	A
Mr. Shi Weixin	A
Mr. Wang Changhai	A
Mr. Zhang Zengguo	A
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*	N/A
Non-executive Directors	
Mr. Xu Leihua *(Resigned on 15 April 2019)*	A
Mr. Li Hengwen *(Resigned on 15 April 2019)*	A
Ms. Wu Rong *(Appointed on 15 April 2019)*	N/A
Independent Non-executive Directors	
Ms. Shan Xueyan	A
Mr. Wang Zefeng	A
Ms. Jiao Jie	A

Legend:

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

NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

For the terms of appointment of our non-executive Directors and independent non-executive Directors, please refer to the section headed "Report of the Directors — DIRECTORS — Directors' service contracts" on page 45 of this annual report.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control system and risk management of our Company and to provide advice and comments to our Board. The members of the audit committee are all of our independent non-executive Directors. During FY2018, our audit committee held two meetings to review our annual results for FY2017 and interim results for the six months ended 30 June 2018, and our risk management and internal control systems.

REMUNERATION COMMITTEE

Our Board has established a remuneration committee in compliance with the CG Code. The remuneration committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng and Ms. Shan Xueyan. Mr. Wang Zefeng is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and give recommendations to our Board in relation to the remuneration and other benefits paid by our Company to our Directors and the senior management of our Group. The remuneration of all our Directors and the senior management of our Group is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. During FY2018, our remuneration committee held one meeting to determine the policy for the remuneration of our executive Directors and assess performance of our executive Directors.

NOMINATION COMMITTEE

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

The nomination committee consists of three members, of whom one is an executive Director, namely Mr. Wang Dongxing, and two are independent non-executive Directors, namely Mr. Wang Zefeng and Ms. Jiao Jie. Ms. Jiao Jie is the chairlady of the nomination committee. During FY2018, our nomination committee held one meeting to review the structure, size and composition of our Board, the retirement of our Directors by rotation and the re- appointment of retiring Directors at the AGM.

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

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

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

During FY2018, the nomination committee has considered the board diversity policy and whether the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the nomination committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the board diversity policy for FY2018.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during FY2018. The attendance records of each member of our audit committee, remuneration committee and nomination committee are set out in the following table:

Director	Audit committee attendance/held	Remuneration committee attendance/held	Nomination committee attendance/held
Executive Directors			
Mr. Wang Dongxing	—	1/1	1/1
Mr. Shi Weixin	—	—	—
Mr. Wang Changhai	—	—	—
Mr. Zhang Zengguo	—	—	—
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*	—	—	—
Non-executive Directors			
Mr. Xu Leihua *(Resigned on 15 April 2019)*	—	—	—
Mr. Li Hengwen *(Resigned on 15 April 2019)*	—	—	—
Ms. Wu Rong *(Appointed on 15 April 2019)*	—	—	—
Independent Non-executive Directors			
Ms. Shan Xueyan	2/2	1/1	—
Mr. Wang Zefeng	2/2	1/1	1/1
Ms. Jiao Jie	2/2	—	1/1

COMPANY SECRETARY

For FY2018, in accordance with Rule 3.29 of the Listing Rules, Mr. Chan Yee Ping, Michael, the company secretary of our Company, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Chan are set out in the section headed "Directors and Senior Management" of this report.

CORPORATE GOVERNANCE POLICY

Our Board is responsible for developing and reviewing our Company's policies and practices on corporate governance. It reviews and monitors the training and continuous professional development of our Directors and senior management of our Company; reviews and monitors our Company's policies and practices on compliance with legal and regulatory requirements; develops, reviews and monitors the code of conduct applicable to our Company's employees and Directors; and reviews our Company's compliance with the CG Code and the disclosure in this corporate governance report. During FY2018, the Board has carried out such responsibilities during the Board meetings held in the year.

CHAIRMAN AND CHIEF EXECUTIVE

The CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive. Mr. Wang Dongxing is the chairman of our Board. Mr. Wang Changhai was the general manager of Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine"), the principal operating subsidiary of our Group for FY2018. As such, our Company has complied with Code 2.1 of the CG Code in respect of the appointment of chairman and chief executive.

AUDITOR'S REMUNERATION

For FY2018, we have engaged the auditor of our Company for audit services only. The fee paid or payable to the auditor of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.2 million and RMB0.1 million, respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

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

During FY2018, our Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of our Company also performs regular review of our Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of our Group. Such review in FY2018 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. Our Group's review procedures involved in the risk management and internal control mainly included:

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

Our Directors acknowledge their responsibility for preparing the consolidated financial statements for FY2018, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditor of our Company on the consolidated financial statements of our Group are set out in the independent auditor's report on pages 57 to 62 of this annual report.

SHAREHOLDERS' RIGHTS

Under article 58 of the articles of association of our Company, in addition to annual general meeting, one or more shareholders of our Company holding 10% or more of the paid up capital of our Company carrying the right of voting at general meetings of our Company have the right to require an extraordinary general meeting to be called by our Board through written requisition, provided that on the date of requisition, such shareholder or shareholders are holding 10% or more of the paid up capital of our Company. Such extraordinary general meeting called may transact any business specified in the said written requisition and such meeting shall be held within two calendar months after the deposit of the written requisition. If within 21 days of such deposit, our Board fails to proceed to convene such meeting, the shareholder or shareholders requesting the meeting may do so in the same manner and all reasonable expenses incurred by such shareholder or shareholders as a result of the failure of our Board to convene such meeting shall be reimbursed by our Company. The same procedures apply to any proposal to be tabled at the annual general meeting for adoption.

We value opinions from our shareholders and acknowledge the importance of communication with our shareholders. We have a section titled "Investors Relations" on our Company's website www.sunshinepaper.com.cn where shareholders may access the published information, announcements and circulars of our Company. Shareholders who have enquiries may also send us email to the email accounts as disclosed in the "Investors Relations" on our Company's website.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There are no significant changes to the constitutional documents of our Company during FY2018.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

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

Unless otherwise specified, this environmental, social and governance report covers the overall performance of the Group for the period from 1 January 2018 to 31 December 2018.

PRODUCTION CONCEPT OF MANUFACTURING PAPER PRODUCTS WITH WASTE PAPER AND CREATING GREEN CIRCULAR ECONOMY

"Making paper by green and environmental-friendly methods" is the concept that has been advocated and practised by us throughout the production process, and we have dedicated ourselves to the full utilisation of renewable resources and waste paper, which are used as our major row material, to diminish the impact of it on the overall environment. Meanwhile, we constantly strengthen each and every fundamental aspect of our management, and establish, bit by bit, a scientific, highly-sophisticated and professional management structure which will facilitate a polished performance in corporate and social responsibilities. The Group has always adhered to the highest level of environmental standards. Continuous efforts have been made to enhance the construction of environmental-friendly facilities and our investment in environmental conservation. With various environmental and energy consumption indicators superior to national standards, we have become a resource- and environmental-friendly corporation.

A. ENVIRONMENT

A1. Emissions

In recent years, China has been implementing relevant policies to enhance environmental conservation, with a view to striking a balance between economic development and ecological equilibrium. Consistently adhering to high environmental standards, the Group proactively adopts various improvement measures and approaches to fulfil its corporate social responsibilities.

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

Sewage Discharge

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

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

Gas Emissions

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

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

CO_2

Total amount of coal consumed by our Company during the reporting period was 918,210 tonnes, translated into 1,728,000 tonnes of CO_2.

SO_2

Total SO_2 emission amount of our Company during the reporting period was 62.9 tonnes and the measured concentration of emission was 7.7 mg/m^3.

NO_x

Total NO_x emission amount of our Company during the reporting period was 535 tonnes and the measured concentration of emission was 65.53 mg/m^3.

Particulate

Total particulate emission amount of our Company during the reporting period was 8.39 tonnes and the measured concentration of emission was 1.03 mg/m^3.

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

Solid Waste

Most solid waste generated from paper-making processes in our group companies has been recycled and reused. For instance, sludge, once it is selected, will be transported to Changle Shengshi Thermoelectricity Co., Ltd, a subsidiary of the Group, for incineration with coal. By such process, it could generate steam and electricity for our production. All solid wastes, i.e. waste plastic would be sent for detoxification through the comprehensive utilisation projects of solid waste treatment. All the coal slag, ash and etc. generated from energy supply process would be sold to and collected by the recycling agent.

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

Non-hazardous Waste

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

A2. Use of Resources

Another long-term goal of the Group in environmental protection is to achieve energy saving by limiting the energy consumption throughout production processes. In this regard, the Group optimises the energy system of the equipment which is consuming significantly and establishes a system for energy management. We also carry out cleaner production activities to reduce the consumption of water and electricity, from which the Group is committed to minimising the impact on the environment continually. The enterprise has been granted the certification to ISO9001 Quality management system, ISO14001 Environmental Management System, OHSAS18001 Occupation Health Safety Management System, ISO50001 Energy Management System and FSC Forest Management System.

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

Some products of the Group need to use plastic stretch film to package for the purpose of avoiding products damages. The Group has formulated standards in respect of the classification, storage and usage of packaging materials to reduce materials waste. The Group will also continue to adopt the simple packaging principle and use environmental-friendly packaging materials as much as possible to reduce the impact on the environment.

A3. Environment and Natural Resources

Our Group companies adopted a diversified and specialised strategy for their developments, which introduces a new tide on the green package — using fewer papers. Waste paper is the primary raw materials for our group companies' products. Not only the recycling can significantly limit the pace of deforestation and destruction, but also can lower our energy consumption and emission. Therefore, the effect on the environment is limited.

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

B. SOCIAL

Employment and Labour Practices

B1. Employment

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

The Group arranges working hours of employees in strict compliance with the provisions of laws, ensuring that no more than 8 working hours one day, and implements "Three sets in operation; one set idle (四班三運轉)" working model in production workshop, safeguarding the rest time of frontline employees to the greatest extent.

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

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

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

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

B2. Health and Safety of Employees

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

B3. Development and Training

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

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

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

B4. Labour Standards

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

Operating Practices

B5. Supply Chain Management

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

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

B6. Product Responsibility

Customer first is always our priority. To offer premier services to our customers, the Group purchases standardised materials carefully so as to provide quality products to our customers. All products produced by the plant are inspected by Department of Quality Control intensively. The Group maintains good cooperation relationships with customers. Since the commencement of business, the Group has kept excellent after-sale services to uphold its commitment to customers in the areas of product quality, safety and assurance, so that we could satisfy our customers' expectation in a great extent.

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

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

B7. Anti-corruption

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

- Directors and employees should be integral and committed to their responsibilities and are prohibited to acquire improper benefits with their authority and power.

- Employees are prohibited from participating in income generating activities in private, taking up part-time positions with remunerations from other economic entities and engaging in paid agency activities. Registration of or investment in companies competing with the Company is prohibited.

- Employees should observe the requirements of the management and use of public property and are prohibited from using public resources to satisfy private needs.

- Directors and employees shall be committed to frugality and avoid extravagance, overspending, squandering public fund and wastefulness.

- a committee primarily responsible for anti-corruption is established to examine, oversee and assess the system formulation and implementation.

Community

With continuous growth and development, the Group makes contribution to fiscal revenues and drives surrounding employment. It also promotes local economic development and fulfills social responsibilities to participated in disaster reliefs. Our Group has entered into close cooperation agreements with various institutions to provide students with opportunities of visits and internship as well as offer promising career opportunities to them.

Report of the Audit Committee

MEMBERS

The audit committee of our Company consists of the three independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie, with Ms. Shan Xueyan sitting as the chairlady of the audit committee. Biographical details of the current members are set out in the section headed "Directors and Senior Management".

TERMS OF REFERENCE

Based on the terms of reference of the audit committee as at 31 December 2018, members of the committee shall, among other things, oversee our Group's relationship with its external auditor, review the preliminary results, interim results and annual financial statements, review the scope, extent and effectiveness of our Group's internal audit functions and risk management, and, where necessary, commission independent investigations by legal advisers or other professionals.

MEETINGS

Two audit committee meetings were held during FY2018 and all members at the relevant time have attended such meetings.

The following is a summary of the tasks completed by the audit committee during FY2018 and up to the date of this report:

- reviewed the consolidated financial statements for FY2017;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2018;
- reviewed the external auditor's audit plan, letter of representation and audit engagement letter for FY2018;
- considered and approved the external audit fees for FY2018;
- reviewed our Company's internal control and risk management systems; and
- reviewed the "Connected Transactions" set out on pages 53 to 56 of this annual report.

FINANCIAL REPORTS

The audit committee reviewed and considered the reports and statements of the management to ensure that the consolidated financial statements of our Group have been prepared in accordance with International Financial Reporting Standards and Appendix 16 to the Listing Rules. The committee also met with the external auditor of our Company, Grant Thornton Hong Kong Limited, to consider the scope and results of their independent audit in respect of the consolidated financial statements.

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The audit committee assisted our Board to perform its duties to maintain effective risk management and internal control systems for our Group. The audit committee reviewed our Group's procedure and workflow for environmental and risk assessment and its initiatives for business risks management and control.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The audit committee recommended to our Board that, subject to Shareholders' approval at the AGM, Grant Thornton Hong Kong Limited be re-appointed as our Company's external auditor for the year ending 31 December 2019.

For FY2018, the fee paid or payable to the external auditor of our Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.2 million and RMB0.1 million, respectively.

Directors and Senior Management

BOARD OF DIRECTORS

Our Board is responsible for and has general powers over the management and conduct of our Group's business. Our Board consists of nine Directors including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Company has entered into service contracts with each of our executive Directors. The table below shows certain information in respect of the members of the Board:

Name	Position in our Group
Executive Directors	
Mr. Wang Dongxing	Chairman of our Board, a member of the remuneration committee and a member of the nomination committee
Mr. Shi Weixin	Vice chairman of our Board
Mr. Wang Changhai	General manager of our Group
Mr. Zhang Zengguo	Deputy general manager of our Group
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*	Deputy general manager of our Group
Non-executive Directors	
Mr. Xu Leihua *(Resigned on 15 April 2019)*	
Mr. Li Hengwen *(Resigned on 15 April 2019)*	
Ms. Wu Rong *(Appointed on 15 April 2019)*	
Independent non-executive Directors	
Ms. Shan Xueyan	Chairlady of the audit committee and a member of the remuneration committee
Mr. Wang Zefeng	Chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee
Ms. Jiao Jie	Chairlady of the nomination committee and a member of the audit committee

EXECUTIVE DIRECTORS

Mr. Wang Dongxing, aged 56, is an executive Director and the chairman of our Board. Mr. Wang was appointed as a Director on 22 August 2007. Mr. Wang is also a member of the remuneration committee and a member of the nomination committee of our Board. With over 20 years of experience in the paper manufacturing industry, Mr. Wang is responsible for the overall management and strategy of our Group. Mr. Wang has been with our Group since the establishment of Changle Century Sunshine Paper Industry Co., Ltd. ("Changle Sunshine") in 2000 and was previously the general manager of Century Sunshine. Mr. Wang is also a director of China Sunshine Paper Investments Limited ("China Sunshine") and China Sunrise Paper Holdings Limited ("China Sunrise"), controlling shareholders of our Company. He graduated from 山東輕工業學院 (Shandong Institute of Light Industry) with a Bachelor of Engineering degree in 1983, with a major in pulp and paper making. He served as a director and deputy general manager of Shandong Chenming Paper Holdings Limited ("Shandong Chenming"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 1812), which was mainly engaged in the business of production of machine-made paper, paper plate, paper materials and paper-making related machineries from 1985 to 1999. He was mainly responsible for the daily operation and management in Shandong Chenming. He served as a factory manager of Shandong Chenming Paper Industry Group Qihe Cardboard Co., Ltd ("Qihe Cardboard") from 1995 to 1996. During his tenure in office in Qihe Cardboard, Mr. Wang obtained the Qihe County's Economic Special Achievement Golden award. He also served as a factory manager of Shandong Chenming No. 2 Factory from 1997 to 1998, and was the general manager of Wuhan Shuailun Paper Industry Co., Ltd. from 1999 to 2000.

Mr. Shi Weixin, aged 62, is an executive Director and the vice chairman of our Board. Mr. Shi was appointed as a Director on 19 November 2007. With over 20 years of experience in electrical automation control, Mr. Shi is responsible for the management of the automation system. Mr. Shi has been with our Group since the establishment of Changle Sunshine in 2000. Mr. Shi is also a director of China Sunshine and China Sunrise, controlling shareholders of our Company. He graduated from China Textile University in 1986, with a major in industrial electrical automation. Mr. Shi used to be a director of Shanghai Paper Manufacturing Machinery General Factory from 1981 to 1992 and was responsible for the design of the automation control system for paper-making equipments. During 1984 to 1992, he has been named as an "Excellent Technician" twice. In 1993, Mr. Shi founded Shanghai Paper Mechanical Electric Control Technology Institute ("Shanghai Institute"), and has been its chairman and general manager since 1993. Mr. Shi was primarily responsible for management and operation in Shanghai Institute. He was also a member of the Shanghai Hongkou District Committee of Political Consultative Conference, a member of the executive committee of Shanghai Hongkou Federation of Industry and Commerce and a director of Hongkou Association of Entrepreneurs Association. Mr. Shi won the "Shanghai City Technological Achievement" award in 2000.

Mr. Wang Changhai, aged 48, is an executive Director and the general manager of our Group. He has been appointed as a Director on 29 February 2016. Mr. Wang joined our Group in 2001 and he has 17 years of experience in the paper products industry and is very familiar with the operations of the Group. Mr. Wang is currently a General Manager of the Group and is responsible for the overall management of the Group. He had been a manager and an assistant manager of the Group prior to the promotion to the deputy general manager of domestic sales in 2003.

Mr. Zhang Zengguo, aged 52, is an executive Director and the deputy general manager of our Group and is responsible for material management fire control and external liaison affairs ect. Mr. Zhang was appointed as a Director on 19 November 2007. Mr. Zhang joined our Group in 2001. He is also the director of the technical department, assistant general manager and deputy general manager of Changle Sunshine since 2001. Further, Mr. Zhang is a director of China Sunshine and China Sunrise, controlling shareholders of our Company. He graduated from the Shandong Institute of Light Industry in 1988, with a major in pulp and paper manufacturing. Mr. Zhang was the department director and engineer of Jinguang Paper Mill from 1993 to 2000. During his tenure in office in Jinguang Paper Mill, Mr. Zhang was primarily responsible for the design, construction and test run of projects.

Mr. Ci Xiaolei, aged 43, is an executive Director and the production investment director of the Group and is responsible for the operation of Changle Shengshi Thermoelectricity Co., Ltd., a subsidiary of the Group. Mr. Ci graduated from Anhui University of Technology and Science with a bachelor of engineering in July 1998 and joined the Group in March 2003. Mr. Ci has been the project manager, deputy general engineer and general engineer and general manager of the Group. Mr. Ci previously served as an executive Director of the Company from 24 May 2012 to 29 February 2016. Prior to joining the Group, Mr. Ci worked at Shandong Chenming Paper Industry Group Co., Ltd and was responsible for equipment management and maintenance.

NON-EXECUTIVE DIRECTORS

Ms. Wu Rong, aged 55, is a non-executive Director of our Group. Ms Wu has more than 20 years experience in financial management. She is the chairman of board of supervisors in Shandong Century Sunshine Paper Co. Ltd, a subsidiary of the Group. She is also the chief financial officer of Shanghai SIED Electric Drive Co., Ltd,. Ms. Wu graduated from Shanghai University in July 1987, majoring in electric automation, and graduated from China Central Radio and Television University in July 2005, majoring in finance. Between August 1987 and December 1992, Ms. Wu served as a designer in the Research Institute of Shanghai Papermaking Machinery General Factory, and then joined Shanghai SIED Electric Drive Co., Ltd. (former Shanghai Paper Mechanical Electric Control Technology Institute) in January 1993, where she held the roles of administrative director and chief financial officer. Ms. Wu received the certificate of accounting professional in China in May 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zefeng, aged 58, is an independent non-executive Director. Mr. Wang joined our Group in 2007 and was appointed as a Director on 19 November 2007. Mr. Wang is also the chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee of our Board. Mr. Wang graduated from Shandong Institute of Light Industry in 1982 with a Bachelor's degree in industrial art of pulp and paper. He is currently the principal of Shandong Papermaking Industry Research and Design Institute and the chairman of Shangdong Paper Manufacturing Industry Association. He previously served as the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group.

Ms. Jiao Jie, aged 38, is an independent non-executive Director. Ms. Jiao first joined our Group in 2007 and subsequently left our Group in 2010. The last position held by Ms. Jiao was as a joint company secretary of our Company and the special assistant to the chairman of our Board. Ms. Jiao rejoined our Group in January 2014 and was appointed as a Director on 27 January 2014. Ms. Jiao is currently the General Manager of Securities Department of Wanda Sports Group. From June 2014 to December 2018, she was the chief financial officer of iClick Interactive Asia Group Limited, a company listed on Nasdaq (stock code: ICLK) and was responsible for corporate finance and internal control. Prior to that, she was joint company secretary and general legal counsel of ArtGo Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 3313) from March 2012 to May 2014. From January 2010 to February 2012, Ms. Jiao was the chief legal counsel and head of investor relations of SouFun Holdings Limited, a company listed on the New York Stock Exchange (stock code: SFUN). Ms. Jiao was a legal assistant of Jingtian & Gongcheng from 2004 to 2007. Ms. Jiao graduated from the Law School and China Center for Economic Research at Peking University with bachelor's degrees in law and economics in July 2003 and obtained a degree of magister juris from University of Oxford in July 2005. Ms. Jiao obtained the certificate of Legal Profession Qualification in March 2010. She also obtained Registered Qualification Certificate of Enterprise Legal Adviser of the PRC from Stated-Owned Assets Supervision and Administration Commission of the State Council in May 2012, and Chartered Financial Analyst qualification in September 2014. Ms. Jiao was appointed as an independent non-executive director of TradeGo FinTech Limited (stock code: 8017), a company listed on the Stock Exchange since September 2018.

Ms. Shan Xueyan, aged 41, is an independent non-executive Director. Ms. Shan joined our Group in 2016 and was appointed as a Director on 15 December 2016. Ms. Shan is also the chairlady of the audit committee and a member of the remuneration committee. Ms. Shan has over 15 years of experience in accounting and auditing. Currently, Ms. Shan is the audit supervisor of Shouguang Shengcheng Certified Public Accountants ("Shouguang Shengcheng") (壽光聖誠有限責任會計師事務所), which she joined in July 2001. At Shouguang Shengcheng, Ms. Shan is mainly responsible for auditing sizeable enterprises and government projects, and providing finance and tax consultancy services to enterprises in China. Ms. Shan graduated with a Bachelor of Engineering degree from the Tsingtao Polytechnic University in July 2001. She is a member of the Chinese Institute of Certified Public Accountants and has been qualified as a senior accountant since 2011.

SENIOR MANAGEMENT

Mr. Chen Xiaojun, aged 50, is the deputy general manager of our Group and is responsible for purchasing management. He graduated from the Shandong Institute of Light Industry in 1991, with a major in mechanical design. Mr. Chen joined our Group in 2001. Prior to joining our Group, Mr. Chen worked at Shandong Chenming Paper Industry Group Co., Ltd and was responsible for mechanical engineering.

Mr. Liu Wenzheng, aged 47, is the deputy general manager of our Group and is responsible for the management of the accounting and finance of our Company's subsidiaries in China. Mr. Liu joined the Group in February 2010. Mr. Liu graduated from Shandong Administration Institute with a Bachelor's degree in accountancy in 1993. Prior to joining our Group, he was the chief financial controller of Shandong Haoxin Group. He was a supervisor of Shandong Chenming. Mr. Liu is a member of the Chinese Institute of Certified Public Accountants.

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

COMPANY SECRETARY

Mr. Chan Yee Ping, Michael, aged 42, is the company secretary of our Company. Mr. Chan joined our Group in September 2013 and was appointed as a company secretary of our Company on 26 September 2013. He has more than ten years of experience in the areas of audit, financial management, corporate secretarial management and corporate governance. He graduated from The Hong Kong Polytechnic University with an honour bachelor's degree in accountancy. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He is currently a director of MCI CPA Limited, a certified public accountant firm in Hong Kong. He is currently serving as independent non-executive directors for four companies whose shares are listed on the Stock Exchange, namely China Sandi Holdings Limited (Stock Code: 910), China Renji Medical Group Limited (Stock Code: 648), New Wisdom Holding Company Limited (Stock Code: 8213) and Mengke Holdings Limited (Stock Code: 1629). He also acts as a company secretary of another company whose shares are listed on the Main Board of the Stock Exchange, namely Northeast Electric Development Company Limited (Stock Code: 0042) since 2012.

He served as the independent non-executive directors of Prosper One International Holdings Company Limited (Stock Code: 1470) whose shares are listed on the Main Board of the Stock Exchange from September 2017 to December 2018. He also acted as a company secretary of Birmingham International Holdings Limited (Stock Code: 2309) whose shares are listed on the Main Board of the Stock Exchange from June 2015 to October 2016.

Report of the Directors

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for FY2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE INDICATORS

A business review and an analysis on the financial key performance indicators are set out in the section headed "Chairman's Statement" on pages 8 to 11, and the section headed "Management Discussion and Analysis" on pages 14 to 19. These discussions form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The consolidated results of our Group for FY2018 are set out in the consolidated financial statements on page 63.

DIVIDEND

The Board recommended the payment of a final dividend of HK4.0 cents per ordinary share for FY2018 (FY2017: HK7.0 cents).

DIVIDEND POLICY

The Board considers sustainable returns to shareholders to be one of the main objectives of the Company. Stable dividend payment to shareholders is the primary objective of the Company.

Under the applicable laws of the Cayman Islands and the Articles of Association of the Company, all of the shareholders have equal rights to dividends and distributions. The Board determines the interim dividend and recommends the final dividend which requires the approval of shareholders. In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares also requires the approval of shareholders.

Retained profits can be used to achieve growth in corporate value. The Board has been making effective use of retained profits to strengthen the operating base and the development of businesses. According to the dividend policy adopted by the Company on 1 January 2019, the Board takes into account the various factors when considering the declaration and payment of dividends: financial results; cash flow situation; availability of distributable profits; capital requirements and expenditure plans; business status and strategies; future operations and earnings; development plans; interests of shareholders as a whole; any restrictions on declaration and/or payment of dividends; and any other factors the Board may deem relevant.

In practice, the Company will not declare any dividend(s) where: (1) there are reasonable grounds for believing that the Company is or would be, after a dividend payment, unable to pay its liabilities or discharge its obligations as and when they become due; (2) pursuant to dividend decision date, the Company is insolvent or bankrupt or where, as a result of paying dividends, the Company would be rendered insolvent or bankrupt; or (3) there is any other case set forth by any law.

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The register of members of our Company will be closed from 27 May 2019 to 30 May 2019, both days inclusive, for the purpose of determining entitlement to attend the AGM, during which no transfer of shares of our Company will be registered. In order to qualify for attending and voting at the AGM, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 24 May 2019.

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

In relation to the final dividend

Shareholders whose names appear on the Company's register of members on 11 June 2019 will qualify for the proposed final dividend. The register of members of our Company will be closed from 6 June 2019 to 11 June 2019, for the purpose of determining entitlement to the proposed final dividend, during which no transfer of shares of our Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 5 June 2019. The proposed final dividend (the payment of which is subject to the Shareholders' approval at the AGM) is payable on or about 20 June 2019 to the shareholders whose names appear on the register of members of the Company on 11 June 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Business risk

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

Loss of key individuals

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

RESERVES

Details of the change in reserves of our Group for FY2018 are set out in the consolidated financial statements on page 66.

DONATIONS

During the financial year ended 31 December 2018, our Group donated a total of RMB5.0 million (2017: Nil) for charitable purpose.

PROPERTY, PLANT AND EQUIPMENT, AND LAND USE RIGHTS

Details of the movements in the property, plant and equipment, and land use rights of our Group during FY2018 are set out in notes 15 and 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of our Company during FY2018 are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of our Group for the last five financial years is set out on page 160.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 49 to the consolidated financial statements.

BANK BORROWINGS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY2018, neither our Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of our Company.

DIRECTORS

The Directors who held office during FY2018 and up to the date of this report were:

Executive Directors

Mr. Wang Dongxing *(Chairman of our Board)*
Mr. Shi Weixin *(Vice chairman of our Board)*
Mr. Wang Changhai *(General manager of our Group)*
Mr. Zhang Zengguo *(Deputy general manager of our Group)*
Mr. Ci Xiaolei *(Appointed on 15 April 2019)*

Non-executive Directors

Mr. Xu Leihua *(Resigned on 15 April 2019)*
Mr. Li Hengwen *(Resigned on 15 April 2019)*
Ms. Wu Rong *(Appointed on 15 April 2019)*

Independent non-executive Directors

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

In accordance with the articles of association of our Company, one third (or if their number is not a multiple of three, the number nearest to but not less than one third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Pursuant to Article 87 of the Articles, Mr. Zhang Zengguo, Ms. Shan Xueyan and Mr. Wang Zefeng shall retire from office at the AGM and being eligible for re-election, will offer themselves for re-election at the AGM.

Pursuant to Articles 86(3) of the Articles, Mr. Ci Xiaolei and Ms. Wu Rong shall being eligible, will offer themselves for re-election at the AGM.

Our Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence during the year ended 31 December 2018 pursuant to Rule 3.13 of the Listing Rules and our Board considers that all of the independent non-executive Directors are independent.

Directors' service contracts

Each of Wang Dongxing, Shi Weixin and Zhang Zengguo has entered into a service contract dated 19 November 2016 with our Company for a term of three years commencing on 19 November 2016 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

Mr. Wang Changhai has signed a service contract dated 29 February 2019 with our Company for a term of three years commencing on 29 February 2019 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

Mr. Ci Xiaolei has signed a service contract dated 15 April 2019 with our Company for a term of three years commencing on 15 April 2019 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

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

Ms. Wu Rong has signed a letter of appointment dated 15 April 2019 with our Company to act as a non-executive Director for a period of three years, commencing on 15 April 2019, unless terminated in accordance with the terms and conditions specified in such letter.

Mr. Wang Zefeng has signed a letter of appointment dated 12 December 2016 with our Company under which he has agreed to act as an independent non-executive Director for a period of three years, commencing on 12 December 2016, unless terminated in accordance with the terms and conditions specified in such letter.

Ms. Jiao Jie has signed a letter of appointment dated 27 January 2017 with our Company under which she has agreed to act as an independent non-executive Director for a period of three years, commencing on 27 January 2017, unless terminated in accordance with the terms and conditions specified in such letter.

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

Details of directors' emolument for each of our Directors for FY2018 are set out in note 10 to the consolidated financial statements.

Except as disclosed above, none of our Directors has a service contract or a letter of appointment with our Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2018, the Directors listed below had the following interests and short positions in the shares of our Company (the "Shares"), underlying shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

(a) Long positions in our Company:

Name of Director	Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Beneficial owner	18,425,500	2.25%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	3,840,000	0.47%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	22,265,500	2.72%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company(1)	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	22,265,500	2.72%
Mr. Wang Changhai	Interest of a party to an agreement to acquire interests in our Company(1)	321,687,052	39.26%
	Beneficial owner	3,840,000	0.47%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement(2)	18,425,500	2.25%
Mr. Ci Xiaolei	Beneficial owner	929,000	0.11%
Ms. Wu Rong	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%

Notes:

1. A group of 18 individuals comprising Mr. Chen Xiaojun, Mr. Guo Jianlin, Ms. Li Hua, Mr. Li Zhongzhu, Mr. Lu Yujie, Mr. Ma Aiping, Mr. Sang Ziqian, Mr. Shi Weixin, Mr. Sun Qingtao, Mr. Wang Changhai, Mr. Wang Dongxing, Mr. Wang Feng, Mr. Wang Yilong, Mr. Wang Yongqing, Ms. Wu Rong, Mr. Zhang Zengguo, Mr. Zheng Fasheng and Mr. Zuo Xiwei (the "Controlling Shareholders Group") entered into an agreement on 16 June 2006 and as amended by a supplemental agreement on 19 November 2007 (the "Concert Parties Agreement"), pursuant to which each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in China Sunshine, China Sunrise and any members of our Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai, is deemed to be interested in the 321,687,052 Shares held by China Sunrise.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF OUR COMPANY

So far as we, the Directors, are aware, as at 31 December 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 are as follows:

Name	Long position/ short position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
China Sunrise	Long	Beneficial interest	321,687,052	39.26%
China Sunshine[1]	Long	Interest of a controlled corporation	321,687,052	39.26%
Controlling Shareholders Group[2]	Long	Interest of a party to an agreement to acquire interest in our Company	321,687,052	39.26%
		Interest of a party to an agreement to acquire interests in our Company apart from such agreement	22,265,500	2.72%

Notes:

1. As China Sunshine owns the entire interest of China Sunrise, China Sunshine is deemed to be interested in the 321,687,052 Shares held by China Sunrise.

2. Pursuant to the Concert Parties Agreement, each of the members of the Controlling Shareholders Group has confirmed that, among other things, since he or she became interested in and possessed voting rights in the Target Entities and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by Shareholders. As China Sunshine owns the entire interest of China Sunrise, and the Controlling Shareholders Group owns the entire interest of China Sunshine, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code) is deemed to be interested in the 321,687,052 Shares held by China Sunrise. Further, Mr. Wang Dongxing is interested in 18,425,500 Shares as beneficial owner and Mr. Wang Changhai is interested in 3,840,000 Shares as beneficial owner. Other members of the Controlling Shareholders Group, being member of the Concert Parties Agreement, are deemed to be interested in such shares held by Mr. Wang Dongxing and Mr. Wang Changhai under section 318 of the SFO.

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of our Company as at 31 December 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 1 month.

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 FY2018.

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 2 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. On 4 October 2017, 16,774,000 Awarded Shares have been granted to Wang Dongxing, Wang Changhai and Liu Wenzheng under the Share Award Scheme.

No Awarded Shares were granted during FY 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, our Group purchased less than 30% of its goods from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

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

CORPORATE GOVERNANCE

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 45 to the consolidated financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Steam Supply Agreement and Electricity Supply Agreement

The Group has entered into two agreements on 28 January 2016 with Weifang Shengtai Medicine Co., Ltd ("Shengtai Medicine"). Shengtai Medicine is interested in 20% of the registered capital of Changle Shengshi Thermoelectricity Co., Ltd ("Shengshi Thermoelectricity"), a subsidiary of the Group. Accordingly, Shengtai Medicine is a substantial shareholder at the subsidiary level, and thus a connected person of the Company. Transactions under such two agreements constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and the details of such continuing non-exempt connected transactions are set out below:

(a) A steam supply agreement dated 28 January 2016 was between Shengtai Medicine as a customer and Shengshi Thermoelectricity as a supplier. Shengshi Thermoelectricity has agreed to supply steam to Shengtai Medicine for a term of three years from 1 January 2016 to 31 December 2018, renewable for term(s) of not more than three years each upon expiry. The price of steam sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of steam sold by Shengshi Thermoelectricity to Century Sunshine and it reflects Shengshi Thermoelectricity's policy to sell steam to its shareholders who purchase steam in bulk at a discount. Our Directors consider that the price of steam is fair and reasonable and on normal commercial terms.

    For the year ended 31 December 2018, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB82.5 million, which was below the annual cap of RMB166.5 million for the year ended 31 December 2018 under the steam supply agreement dated 28 January 2016.

Such agreement expired on 31 December 2018 and had been renewed for another three years from 1 January 2019 to 31 December 2021, pursuant to which the annual caps thereunder would be RMB96.7 million, RMB111.2 million and RMB128.0 million.

(b) An electricity supply agreement dated 28 January 2016 was between Shengtai Medicine as the customer and Shengshi Thermoelectricity as the supplier. Shengshi Thermoelectricity has agreed to supply electricity to Shengtai Medicine for a term of three years from 1 January 2016 to 31 December 2018, renewable for term(s) of not more than three years each upon expiry. The price of electricity sold by Shengshi Thermoelectricity to Shengtai Medicine is the same as the price of electricity sold by Shengshi Thermoelectricity to Century Sunshine and it reflects Shengshi Thermoelectricity's policy to sell electricity to its shareholders who purchase electricity in bulk at a discount. The Directors consider that the price of electricity is fair and reasonable and on normal commercial terms.

For the year ended 31 December 2018, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB45.5 million, which was below the annual cap of RMB89.6 million for the year ended 31 December 2018 under the electricity supply agreement dated 28 January 2016. Such agreement expired on 31 December 2018 and had been renewed for another three years from 1 January 2019 to 31 December 2021, pursuant to which the annual caps thereunder would be RMB53.3 million, RMB61.3 million and RMB70.5 million.

Pursuant to Rule 14A.56 of the Listing Rules, our Board engaged the auditor of our Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of our Group. The auditor have reported the factual findings on these procedures to our Board.

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

(1) had been approved by the Board;

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

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

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

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

The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of our Group;

(2) either on normal commercial terms or on terms no less favourable to our Group than terms available to or from (as appropriate) independent third parties;

(3) on terms that are fair and reasonable and in the interests of our shareholders as a whole; and

(4) in accordance with the relevant agreements governing the said transactions.

Master Sales Agreement and Master Procurement Agreement and Power Supply Framework Agreement on 11 June 2018.

Reference is made to the announcements of the Company dated 11 June 2018 and 5 July 2018. For the purpose of this paragraph, unless defined otherwise, capitalized terms used herein shall have the same meanings as those defined in such announcements.

On 11 June 2018, among others, Shandong Century Sunshine Paper and Changle Numat Paper (the "Vendors"), Shanghai Luda Paper Co., Ltd.* (上海魯達紙製品有限責任公司) (the "Purchaser"), Shanghai Wangreat Industrial Co., Ltd. (上海王的實業有限公司) (the "Target Company") entered into the disposal agreement (the "Disposal Agreement"), pursuant to which the Vendors agreed to sell and the Purchaser agreed to purchase 96.54% of the equity interest in the Target Company for a total cash consideration of RMB350 million (the "Proposed Disposal").

On 11 June 2018, Shandong Century Sunshine Paper Co., Ltd. entered into the master sales agreement (the "Master Sales Agreement") with Shanghai Luda Paper Co., Ltd, for a term of three years commencing from the completion of the disposal (the "Disposal Completion").

On 11 June 2018, Shandong Century Sunshine Paper entered into the master procurement agreement (the "Master Procurement Agreement") with Shandong Sunshine Concept Packaging Co., Ltd., for a term of three years commencing from the Disposal Completion.

On 11 June 2018, Changle Shengshi Thermoelectricity Co., Ltd. entered into the power supply framework agreement (the "Power Supply Framework Agreement") with Shandong Sunshine Concept Packaging Co., Ltd., for a term of three years commencing from the Disposal Completion.

Since the Purchaser is a connected person of the Company, and Shandong Sunshine Concept Packaging will cease to be a member of the Group upon the Disposal Completion and will become a connected person of the Company, under the Listing Rules, each of the Master Sales Agreement, Master Procurement Agreement and Power Supply Framework Agreement therefore constitutes a continuing connected transaction on the part of the Company.

As at 11 June 2018, the Remaining Group has provided the Corporate Guarantees (i) in favour of Bank of Fushun Co., Ltd.* (撫順銀行股份有限公司) in respect of the borrowings by Liaoning Sunshine Tianze Packaging up to a maximum principal amount of RMB50 million; and (ii) in favour of International Far Eastern Leasing Co., Ltd.* (遠東國際租賃有限公司) and Far East Hongxin (Tianjin) Financing Lease Co., Ltd.* (遠東宏信(天津)融資租賃有限公司) in respect of the finance lease by Shandong Sunshine Concept Packaging up to a maximum principal amount of RMB83.59 million. For the avoidance of doubt, the financial assistance provided by the Company under the Corporate Guarantees in the aggregate amount of RMB133.59 million as at the date of this announcement represents the maximum amount of guarantee provided by the Company in favour of the Disposed Group. The Purchaser has undertaken to the Company that it shall use its best endeavours to obtain release of the Corporate Guarantees by the Remaining Group. The Purchaser has also agreed to indemnify the Remaining Group on a dollar-for-dollar basis for all such obligations, liabilities or indebtedness of the Remaining Group as due and owing under the Corporate Guarantees as at the Disposal Completion.

It was expected that the Corporate Guarantees given by the Company will remain in place after the Disposal Completion and the Disposed Group, including Liaoning Sunshine Tianze Packaging and Shandong Sunshine Concept Packaging, which are subsidiaries of the Target Company, will become connected persons of the Company under the Listing Rules. Therefore, the provision of the Corporate Guarantees in respect of borrowings by Liaoning Sunshine Tianze Packaging and finance lease by Shandong Sunshine Concept Packaging will therefore each become a connected transaction on the part of the Company.

Upon further consideration and assessment, in view of, among other factors, the unusual volatility of the global financial market and the uncertain macro economic environment since the entering of the Disposal Agreement, the Board considers that continuing to pursue the Proposed Disposal may not be in the best interest to the Company and the Shareholders as a whole. Accordingly, on 5 July 2018, among others, the Vendors, the Purchaser, the Target Company, entered into the termination agreement ("Termination Agreement") on 5 July 2018 to terminate the Disposal Agreement, pursuant to which, all parties agreed that, among other things, (i) the Disposal Agreement shall be fully terminated and the respective rights and obligations of the parties thereunder shall cease; and (ii) the parties shall have no rights, claims, liabilities, demand, and costs and expenses against the other party in connection with the Disposal Agreement and any transactions contemplated thereunder.

As the Proposed Disposal will not proceed, the Group will not convene the extraordinary general meeting to approve the Proposed Disposal, the Master Sales Agreement and the provision of Corporate Guarantees and Loans Advances, and the transactions contemplated thereunder.

COMPLIANCE WITH NON-COMPETITION DEED

Each of China Sunrise, China Sunshine and members of the Controlling Shareholders Group (the "Covenantors") has confirmed to our Company of its or his or her compliance with the non-competition undertaking provided to our Company under the deed of non-competition dated 19 November 2007. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under such deed of non-competition have been complied with by the Covenantors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to our Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of our Company's issued shares up to the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2017 and 2018 have been audited by Grant Thornton Hong Kong Limited, who will retire at the forthcoming annual general meeting of our Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Dongxing
Chairman

Shanghai, China
29 March 2019

Grant Thornton
致同

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

OPINION

We have audited the consolidated financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

The Key Audit Matters	How the matter was addressed in our audit
Carrying values of investment in a joint venture and the receivables therefrom *Refer to note 4.5, 20, 27 and 45(b) to consolidated financial statements.*	
The Group has joint interest in Sunshine Oji (Shouguang) Specialty Paper Co., Ltd (the "JV") and it is carried at RMB208,096,000 in the consolidated financial position at reporting date. The Group also has receivables totalling RMB183,136,000 from the JV, resulting a collective financial interest in the JV of RMB391,232,000 at reporting date, which represents 15.1% of net assets value (RMB2,586,924,000) of the Group. The JV recorded a profit for the current year of RMB6,670,000. There was no impairment loss made on these carrying amounts based on the management's judgment that the JV has a positive outlook to carry on making profit in the future. We have identified the carrying values of the JV and the receivables from the JV as a key matter to our audit considering materiality of the balances and the extent of management judgment exercised.	We reviewed management's assessment of the indicators of positive outlook and evaluated the significant assumptions used. We reviewed the profit and cash flow forecasts projected by the management and corroborated the historical financial information in which the forecasts grounded and evaluated assumptions of the projected revenue streams. We also reviewed the accuracy of prior year forecasts against actual results occurred to date.

KEY AUDIT MATTERS (continued)

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

Going concern

Refer to note 4.1 and 5 to consolidated financial statements.

The Group recorded net current liabilities of RMB1,920,043,000 at reporting date. The Group employs high level of debt financing in its operations including bank borrowings, discounted bills financing and corporate bond of RMB2,092,812,000, RMB1,916,750,000 and RMB298,393,000 respectively at reporting date. RMB4,062,316,000 of these debts is repayable in one year.

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

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

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

We reviewed and assessed the Group's capital management policy and risk management policies over liquidity. In assessing the feasibility of these policies, we considered the financial positions of the Group in prior periods. We concurred that these policies were consistently applied in prior periods and objective of these policies were achieved. We assessed the management's claim of relationship with banks and reviewed evidence of subsequent negotiation with banks including agreements to extend due date of bank borrowings of RMB623,804,000 for one year.

We obtained cash flow forecasts by management and:

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

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

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

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

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

29 March 2019

Kwong Kam Wing Kelvin
Practising Certificate No.: P05373

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6 & 7	**6,585,656**	5,781,857
Cost of sales		**(5,493,906)**	(4,534,623)
Gross profit		**1,091,750**	1,247,234
Other income	8	**246,385**	167,092
Other gains or losses	8	**(70,600)**	(24,840)
Distribution and selling expenses		**(287,734)**	(269,171)
Administrative expenses		**(273,147)**	(296,947)
Gain/(loss) on fair value changes of an investment property	16	**585**	(18,908)
Share of profit of a joint venture	27	**4,554**	12,695
Finance costs	9	**(233,853)**	(252,613)
Profit before income tax	12	**477,940**	564,542
Income tax expense	11	**(131,450)**	(162,918)
Profit and total comprehensive income for the year		**346,490**	401,624
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**332,951**	396,031
Non-controlling interests		**13,539**	5,593
		346,490	401,624
Earnings per share for profit attributable to owners of the Company during the year			
Basic and diluted (RMB)	14	**0.41**	0.49

The notes on pages 69 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,734,877**	3,460,983
Investment property	16	**120,674**	162,879
Prepaid lease payments	17	**365,364**	327,046
Goodwill	18	**30,326**	30,326
Deferred tax assets	19	**28,614**	11,498
Interest in a joint venture	27	**208,096**	203,542
Deposits for acquisition for property, plant and equipment		**292,440**	26,172
Deposits and other receivables	20	**226,076**	238,903
		5,006,467	4,461,349
Current assets			
Prepaid lease payments	17	**8,567**	7,317
Inventories	21	**756,442**	768,055
Trade receivables	22	**507,154**	425,576
Bills receivables	23	**679,101**	765,598
Prepayments and other receivables	24	**290,925**	165,778
Income tax recoverable		**37**	313
Restricted bank deposits	25	**1,394,637**	1,481,484
Bank balances and cash	25	**524,252**	474,519
		4,161,115	4,088,640
Current liabilities			
Contract liabilities	31	**57,818**	—
Trade payables	28	**1,039,778**	853,282
Bills payables	29	**322,000**	245,000
Other payables	30	**180,356**	135,779
Payables for construction work, machinery and equipment		**87,577**	37,792
Income tax payable		**12,818**	34,655
Obligations under finance leases	32	**308,090**	165,571
Deferred income	33	**2,405**	2,405
Discounted bills financing	34	**1,916,750**	1,455,751
Bank borrowings	35	**2,045,566**	2,551,969
Other borrowing	36	**8,000**	10,000
Corporate bond	37	**100,000**	100,000
		6,081,158	5,592,204
Net current liabilities		**(1,920,043)**	(1,503,564)
Total assets less current liabilities		**3,086,424**	2,957,785

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital	38	**73,779**	73,779
Reserves	39	**2,226,115**	1,945,811
Equity attributable to owners of the Company		**2,299,894**	2,019,590
Non-controlling interests		**287,030**	187,545
Total equity		**2,586,924**	2,207,135
Non-current liabilities			
Obligations under finance leases	32	**229,668**	210,659
Bank borrowings	35	**47,246**	213,211
Corporate bond	37	**198,393**	297,321
Deferred income	33	**18,788**	18,665
Deferred tax liabilities	19	**5,405**	10,794
		499,500	750,650
Total equity and non-current liabilities		**3,086,424**	2,957,785

Approved and authorised for issue by the board of directors on 29 March 2019.

Wang Dongxing
Director

Wang Changhai
Director

The notes on pages 69 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 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	72,351	610	695,682	(2,776)	79,992	7,015	107,982	5,429	649,770	1,616,055	151,898	1,767,953
Acquisition of a subsidiary (note 47)	–	–	–	–	–	–	–	–	–	–	38,245	38,245
Acquisition of additional interest in subsidiaries	–	–	–	–	2,566	–	–	–	–	2,566	(16,066)	(13,500)
Capital contribution by non-controlling interests of a subsidiary of the Company	–	–	–	–	4,098	–	–	–	–	4,098	7,902	12,000
Dividend paid to owners of the Company (note 13)	–	–	–	–	–	–	–	–	(27,863)	(27,863)	–	(27,863)
Dividend paid to non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	(27)	(27)
Recognition of equity-settled share-based payment (note 46)	1,428	–	27,275	–	–	–	–	–	–	28,703	–	28,703
Transfer	–	–	–	–	–	–	4,351	(4,351)	–	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–	42,186	–	(42,186)	–	–	–
Transactions with owners	1,428	–	27,275	–	6,664	–	46,537	(4,351)	(70,049)	7,504	30,054	37,558
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	396,031	396,031	5,593	401,624
At 31 December 2017	73,779	610	722,957	(2,776)	86,656	7,015	154,519	1,078	975,752	2,019,590	187,545	2,207,135
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 2)	–	–	–	–	–	–	–	–	(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 subsidiaries of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**86,000**	**86,000**
Dividend paid to owners of the Company (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48,356)**	**(48,356)**	**–**	**(48,356)**
Dividend paid to non-controlling interests of a subsidiary of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(54)**	**(54)**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**44,022**	**–**	**(44,022)**	**–**	**–**	**–**
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**44,022**	**–**	**(92,378)**	**(48,356)**	**85,946**	**37,590**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**332,951**	**332,951**	**13,539**	**346,490**
At 31 December 2018	**73,779**	**610**	**722,957**	**(2,776)**	**86,656**	**7,015**	**198,541**	**1,078**	**1,212,034**	**2,299,894**	**287,030**	**2,586,924**

The notes on pages 69 to 159 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before income tax	**477,940**	564,542
Adjustments for:		
Interest income	**(40,768)**	(41,622)
Finance costs	**233,853**	255,237
Depreciation of property, plant and equipment	**253,397**	253,412
Amortisation of prepaid lease payments	**6,158**	7,550
Loss on disposal and written off of property, plant and equipment	**8,716**	49,733
Release of deferred income	**(2,377)**	(2,733)
(Gain)/Loss on fair value change of an investment property	**(585)**	18,908
Reversal for impairment of trade and other receivables	**(1,070)**	(781)
Impairment of property, plant and equipment	**89,023**	—
Share of profit of a joint venture	**(4,554)**	(12,695)
Equity-settled share-base payment expenses	**—**	28,703
Operating cash flows before movements in working capital	**1,019,733**	1,120,254
Decrease/(Increase) in inventories	**11,613**	(415,166)
Increase in trade receivables	**(81,088)**	(112,691)
Decrease/(Increase) in bills receivables	**86,497**	(233,582)
(Increase)/Decrease in prepayments and other receivables	**(117,433)**	173,680
Increase/(Decrease) in trade payables	**186,496**	(82,969)
Increase in bills payables	**77,000**	20,000
Increase/(Decrease) in other payables	**16,561**	(75,983)
Increase in contract liabilities	**6,666**	—
Cash generated from operations	**1,206,045**	393,543
Income tax paid	**(175,516)**	(157,393)
Net cash from operating activities	**1,030,529**	236,150

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Investing activities		
Interest received	33,547	22,966
Proceeds from disposal of property, plant and equipment	9,106	7,089
Government grants received	2,500	—
Purchase of property, plant and equipment	(494,051)	(337,067)
Addition for an investment property	—	(75)
Decrease/(Increase) in restricted bank deposits	86,847	(35,892)
Addition loan to a third party/a related party	(6,996)	(25,000)
Repayment from a third party/a related company	60,912	8,000
Advance to a joint venture	(30,256)	—
Capital injection to a joint venture	—	(120,000)
Increase in guarantee deposits for obligations under finance leases	(13,965)	(6,430)
Disposal of available-for-sale financial assets	—	8,000
Additions of deposits for acquisition property, plant and equipment	(292,339)	—
Acquisition of additional interest in a subsidiary	—	(13,500)
Net outflow of cash and cash equivalents in respects of the acquisition of the subsidiaries	—	(36,829)
Net cash used in investing activities	(644,695)	(528,738)
Financing activities		
Interest paid	(258,702)	(260,963)
Increase in amount due to a non-controlling shareholder of a subsidiary	78,502	—
Repayment of bank and other borrowings	(3,668,746)	(2,591,179)
Repayment of obligations under finance leases	(254,122)	(154,654)
Repayment of corporate bond	(100,000)	(100,000)
Proceeds from capital contribution of non-controlling interests of a subsidiary of the Company	86,000	12,000
New bank borrowings raised	2,994,378	3,484,159
Net proceeds from sale and finance lease back transactions	374,000	347,600
Increase/(Decrease) in discounted bills financing	460,999	(534,141)
Dividend paid to owners of the Company	(48,356)	(27,863)
Dividend paid to non-controlling interests of a subsidiary of the Company	(54)	(27)
Net cash (used in)/generated from financing activities	(336,101)	174,932
Net increase/(decrease) in cash and cash equivalents	49,733	(117,656)
Cash and cash equivalents at beginning of the year	474,519	592,175
Cash and cash equivalents at end of the year, representing bank balances and cash	524,252	474,519

The notes on pages 69 to 159 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) is a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company (the "Directors"), the Company's controlling shareholder is China Sunrise Paper Holdings Limited (incorporated in the Cayman Islands), whose controlling shareholder is China Sunshine Paper Investments Limited (incorporated in the British Virgin Islands ("BVI")). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its subsidiaries operate (the functional currency of the Company and its subsidiaries).

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are production/generation and sale of paper products, electricity and steam.

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

The International Accounting Standards Boards (the "IASB") has issued a number of new and revised IFRS. The Group has adopted all these revised IFRS, which are effective for the accounting period beginning on or after 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 1 and IAS 28	As part of the Annual Improvement to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

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

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" ("ECL") model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also 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:

— IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including trade receivables, bills receivables, other receivables, restricted bank deposits and bank balances and cash).

For trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies either 12-month ECL or lifetime ECL depending on whether there has been a significant increase in credit risk since initial recognition.

Upon the adoption of IFRS 9, the Group recognised additional ECL on the Group's trade receivables and other receivables of RMB319,000 and RMB3,972,000, respectively, which resulted in a decrease in retained earnings of RMB4,291,000 as at 1 January 2018.

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

IFRS 9 Financial instruments (continued)

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) are summarised as follows:

	Measurement category				
	Original IAS 39 category	**New IFRS 9 category**	**31 December 2017 (IAS 39)**	**Adoption of IFRS 9 Remeasurement**	**1 January 2018 (IFRS 9)**
			RMB'000	RMB'000	RMB'000
Non-current financial assets					
Deposits and other receivables	Amortised cost	Amortised cost	238,903	(2,857)	236,046
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	425,576	(319)	425,257
Bill receivables	Amortised cost	Amortised cost	765,598	–	765,598
Other receivables	Amortised cost	Amortised cost	32,999	(1,115)	31,884
Restricted bank deposits	Amortised cost	Amortised cost	1,481,484	–	1,481,484
Bank balances and cash	Amortised cost	Amortised cost	474,519	–	474,519
			3,180,176	(1,434)	3,178,742
Total financial asset balances			3,419,079	(4,291)	3,414,788

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

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 ECL under IFRS 9	(4,291)
Impact at 1 January 2018	(4,291)

The details of new significant accounting policies are set out in note 4.

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

IFRS 9 Financial instruments (continued)

ECL

For further details on the Group's accounting policy for accounting for ECL, see note 4.18. The following table reconciles the loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB$'000
Loss allowance at 31 December 2017 under IAS 39	9,530
Additional ECL recognised at 1 January 2018 on:	
— Trade receivables	319
— Other receivables	3,972
	4,291
ECL allowance at 1 January 2018 under IFRS 9	13,821

IFRS 15 Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" and the related clarification to IFRS 15 "Revenue from Contracts with Customers" (hereinafter referred to as "IFRS 15") replace IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18.

In accordance with the transition guidance under IFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

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

IFRS 15 Revenue from Contracts with Customers (continued)

Summary of nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, the Group's revenue arising from sale of goods was generally recognised at a point in time when the risk and rewards of ownership had passed to the customers. Upon adoption of IFRS 15, revenue is recognised when customer obtains control of the promised goods or services in the contract. This may be at a single point in time or over time. IFRS 15 identifies three situations where control of the promised goods or services is regarded as being transferred over time:

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

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

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

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

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

The adoption of IFRS 15 does not have a significant impact on adjusting the transaction price containing significant financing component on the financial statements as at date of initial application.

The Group has assessed that on-going contracts for sale of goods as at 1 January 2018 and 31 December 2018 do not fall into any of the 3 situations mentioned above and therefore the adoption of IFRS 15 has no impact to the Group's financial statements. However, future sales contracts entered by the Group may contain elements which will trigger revenue from sale of goods to be recognised over time and the Group will assess the contracts from time to time.

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

IFRS 15 Revenue from Contracts with Customers (continued)

Presentation of contract liabilities

Previously, contract balances relating to advance from customers were presented in the consolidated statement of financial position under "other payables".

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

In summary, the following reclassification was made to the amounts recognised in the 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

"Advance from customers" under "other payables" (note 30) amounting to RMB51,152,000 is now included under contract liabilities (note 31). 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 year ended 31 December 2018.

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

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

Issued but not yet effective IFRS

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRS 3	Definition of a Business[5]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet been determined
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

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

Issued but not yet effective IFRS (continued)

IFRS 16 Leases

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

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

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 and measure a lease liability at the present value of the minimum future lease payments and 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 and other comprehensive income over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, as disclosed in note 44, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,404,000, are payable within 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.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

3. STATEMENT OF COMPLIANCE

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation

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

The Group has net current liabilities of approximately RMB1,920,043,000 at 31 December 2018. The Directors have evaluated the relevant available information and key assumptions (see note 5 for more details) used in the cash flow projections for the twelve months since the reporting date. In addition, although most of the existing bank facilities will expire in 2019, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional borrowing facilities as necessary. Therefore, as stated in note 41(d) and 50, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by the banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation

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

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

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

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

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

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

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (capital reserve) and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary.

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

4.3 Business combinations

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Business combinations (continued)

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

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

4.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment loss and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Investment in joint venture

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

In consolidated financial statements, an investment in a joint venture is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the joint venture's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the joint venture for the year, including any impairment loss on the investment in joint venture recognised for the year. The Group's other comprehensive income for the year includes its share of the joint venture's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Where unrealised losses on assets sales between the Group and its joint venture are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the joint venture's accounting policies to those of the Group when the joint venture's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Investment in joint venture (continued)

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. At each reporting date, the Group determines whether there is any objective evidence that the investment in joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the joint venture, including cash flows arising from the operations of the joint venture and the proceeds on ultimate disposal of the investment.

4.6 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

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Revenue recognition (continued)

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 from financial assets measured at amortised cost that are not credit-impaired 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 gross 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.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in note 4.7 below.

4.7 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see note 4.9).

For sale and leaseback transaction that results in a finance lease, the Group continues to recognise the asset at its previous carrying amount. No adjustment is necessary if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset unless there has been impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36 Impairment of Assets.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Leasing (continued)

Leasehold land and building

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

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

4.8 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4.9 Borrowing costs

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

4.11 Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in the People's Republic of China (the "PRC"), are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based employee compensation

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Taxation (continued)

For the purpose of measuring deferred tax liabilities or deferred assets for investment property that are measured using the fair value model, the carrying amounts of such property are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred assets for such investment property are measured in accordance with the above general principles set out in IAS 12.

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

4.13 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

4.14 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including properties under construction for such purpose.

Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

Investment properties transferred from property, plant and equipment are initially measured at fair value, which is the deemed cost of the property. Subsequent to initial recognition, investment properties are measured at their fair values. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Impairment of tangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory comprises direct materials and, where applicable, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of inventory is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

4.17 Financial instruments — Policy applicable from 1 January 2018

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 of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Financial instruments — Policy applicable from 1 January 2018 (continued)

Financial assets

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, in case of a financial asset not at fair value through profit or loss ("FVTPL") adjusted for transaction costs that are directly attributable to the acquisition of the financial assets.

Financial assets are classified into the following categories:

— amortised cost

— 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 and other receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Debt instruments

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.

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 balance and cash fall into this category of financial instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Financial instruments — Policy applicable from 1 January 2018 (continued)

Financial liabilities

Classification and subsequent measurement of financial liabilities

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 and machinery and equipment.

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

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Other financial liabilities

The financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets — Policy applicable from 1 January 2018

IFRS 9's impairment requirements use more forward-looking information to recognise ECL — the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade receivables recognised and measured under IFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, 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.

'12-month ECL' are recognised for the Stage 1 category while 'lifetime ECL' are recognised for the Stage 2 category.

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

Trade receivables

For trade receivables, the Group applies a simplified model in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on share credit risks characteristics and the days past due.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets — Policy applicable from 1 January 2018 (continued)

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets — Policy applicable from 1 January 2018 (continued)

Other financial assets measured at amortised cost (continued)

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 41(c).

4.19 Financial instruments and impairment of financial assets — Policy applicable before 1 January 2018

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

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

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Financial instruments and impairment of financial assets – Policy applicable before 1 January 2018 (continued)

Financial assets (continued)

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables and other receivables, restricted bank deposits, bank balance and cash and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 45 days, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables' original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Financial instruments and impairment of financial assets — Policy applicable before 1 January 2018 (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including bank and other borrowings, discounted bills financing, trade payables, bills payables, other payables, corporate bond, payables for construction work, machinery and equipment) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 4.6). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 4.17).

4.21 Related parties

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

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

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

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

Going concern basis for preparation of the consolidated financial statements

As disclosed in note 4.1, the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration of all relevant available information about the future of the Group, including the proposed measures as described in note 4.1 and the cash flow projections for the next twelve months from the date of 31 December 2018. Such projections about the future inherently involve uncertainties in the sale prices of finished goods, the purchasing prices of the raw materials, and the renewal of banking facilities. The Directors have reviewed the relevant available information and key assumptions used in the cash flow projections for the twelve months after end of the reporting period, and have concluded that the use of going concern basis for preparation of the consolidated financial statements for the year ended 31 December 2018 remains proper.

Deferred taxation from the land appreciation tax on an investment property

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

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill has been impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Any change in the estimates would increase or decrease in the provision for impairment loss and affect the Group's results in future years. As at 31 December 2018, the carrying amount of goodwill is approximately RMB30,326,000 (2017: RMB30,326,000). No allowance for impairment has been provided for the goodwill. Details of the impairment of goodwill are disclosed in note 18.

Allowance of inventories

The Group makes allowance for inventories based on assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories required the use of judgment and estimates on the conditions and realisability of the inventories. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the inventories and allowance for inventories in the year in which such estimate has been changed. As at 31 December 2018, the carrying amount of inventories is approximately RMB756,442,000 (2017: RMB768,055,000) (note 21).

Deferred tax assets

As at 31 December 2018, deferred tax assets of RMB28,614,000 (2017: RMB11,498,000) in relation to tax losses and temporary differences set out in note 19 has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the remaining unused tax losses of RMB48,658,000 (2017: RMB66,512,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material adjustment of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such an adjustment takes place (note 19).

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

Key sources of estimation uncertainty (continued)

Estimation of impairment of trade receivables and other items within the scope of ECL upon application of IFRS 9

Since the initial adoption of IFRS 9, the Group makes allowances on items subjects to ECL (including trade receivables, bills receivables, other receivables and other receivables from a joint venture) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 4.18. The carrying amounts of trade receivables, bills receivables, other receivables and other receivables from a joint venture at the reporting date is set out in notes 22, 23, 24 and 20, respectively.

Before the adoption of IFRS 9, the Group's management determines the loss allowance of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition, and requires the use of judgments and estimates. It could change as a result of change in the financial position of customers and other debtors. Management reassesses the provision at each reporting date.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL upon application of IFRS 9/other financial instruments before application of IFRS 9 and credit losses in the periods in which such estimate has been changed.

Useful lives and residual values of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment, as disclosed in note 15. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual values or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

6. REVENUE

The Group is principally engaged in production/generation and sale of paper products, electricity and steam. The Group's revenue represents the amount received and receivable for sale of paper products, electricity and steam during the year.

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical market:

Segments	**For the year ended 31 December 2018**	
	Paper products	**Electricity and steam**
	RMB'000	RMB'000
Timing of revenue recognition		
— At a point in time	6,353,312	232,344
Geographical markets		
— PRC	6,257,753	232,344
— Oversea	95,559	—

7. SEGMENT INFORMATION

(a) Operating segments

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the Company's senior executive management, being the chief operating decision maker, in order to allocate resources to segments and assess their performance.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment for the year. Each of the operating segment represents a reportable segment of the Group.

For the year ended 31 December 2018

	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	**1,772,195**	**2,485,513**	**822,785**	**1,272,819**	**232,344**	**6,585,656**
Inter-segment revenue	**—**	**—**	**—**	**—**	**490,649**	**490,649**
Segment revenue	**1,772,195**	**2,485,513**	**822,785**	**1,272,819**	**722,993**	**7,076,305**
Segment profit	**242,166**	**472,100**	**224,490**	**116,506**	**97,169**	**1,152,431**
Other segment information: Impairment loss on property, plant and equipment	**—**	**—**	**—**	**(89,023)**	**—**	**(89,023)**

For the year ended 31 December 2017

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

* previously known as light-coated linerboard

7. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Segment revenue and results (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the gross profit earned by each paper product category and the profit before income tax earned by electricity and steam segment. The Group does not allocate certain other income, certain other gains or losses, distribution and selling expenses, certain administrative expenses, gain/(loss) on fair value changes of an investment property, certain finance costs, share of profit of a joint venture to paper product segment and does not allocate income tax expenses to both the paper product segment and electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

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

	2018 RMB'000	2017 RMB'000
Profit		
Segment profit	**1,152,431**	1,274,350
Unrealised profit on inter-segment sales	**(87,270)**	(92,634)
	1,065,161	1,181,716
Administrative expenses	**(260,261)**	(275,726)
Other income	**241,771**	164,949
Other gains or losses	**(74,541)**	(15,937)
Distribution and selling expenses	**(287,734)**	(269,171)
Finance costs	**(211,595)**	(215,076)
Gain/(Loss) on fair value changes of an investment property	**585**	(18,908)
Share of profit of a joint venture	**4,554**	12,695
Consolidated profit before income tax	**477,940**	564,542

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.

(b) Information about major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

(c) Geographical information

The Group's operations, assets and all the customers are substantially located in the PRC. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.

8. OTHER INCOME AND OTHER GAINS OR LOSSES

	2018 RMB'000	2017 RMB'000
Other income:		
Interest income on:		
Bank deposits	**27,230**	24,968
The balance with a third party	**2,343**	—
The balance with a joint venture (note i)	**11,195**	16,654
Total interest income	**40,768**	41,622
Rental income from an investment property and other properties	**1,098**	1,502
Government grants (notes ii)	**204,519**	123,968
	246,385	167,092
Other gains or losses:		
Net foreign exchange (losses)/gains	**(5,331)**	4,245
Gain from sale of scrap materials, net	**27,013**	15,627
Impairment loss on property, plant and equipment (note iii)	**(89,023)**	—
Loss on disposal and written off of property, plant and equipment	**(8,716)**	(49,733)
Reversal for impairment of trade and other receivables	**1,070**	781
Others	**4,387**	4,240
	(70,600)	(24,840)

Notes:

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

ii. During the year ended 31 December 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.), was granted and received unconditional government subsidy of approximately RMB200,925,000 and nil respectively, (2017: RMB82,768,000 and RMB41,065,000 respectively) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

iii. During the year ended 31 December 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.

9. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expenses on:		
Discounted bills financing	**76,001**	80,244
Bank and other borrowings wholly repayable within five years	**128,275**	121,030
Obligations under finance leases	**26,427**	15,032
Corporate bond	**28,665**	38,931
	259,368	255,237
Less: Interest capitalised in construction in progress	**(25,515)**	(2,624)
	233,853	252,613

Borrowing costs capitalised during the year ended 31 December 2018 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 5.12% to 5.22% (2017: 5.22% to 6.55%) per annum to expenditure on construction in progress.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Directors' emoluments, disclosed pursuant to the Listing Rules, Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Total emoluments RMB'000
2018					
Executive directors:					
Wang Dongxing	50	723	–	1,410	2,183
Shi Weixin	50	207	–	–	257
Zhang Zengguo	50	322	16	403	791
Wang Changhai (General Manager)	50	476	16	949	1,491
Non-executive directors:					
Li Hengwen	50	–	–	–	50
Xu Leihua	50	–	–	–	50
Independent non-executive directors:					
Wang Zefeng	50	–	–	–	50
Jiao Jie	175	–	–	–	175
Shan Xueyan	52	–	–	–	52
	577	1,728	32	2,762	5,099

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Directors (continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Performance related incentive payments RMB'000 (Note i)	Share-based compensation RMB'000	Total emoluments RMB'000
2017						
Executive directors:						
Wang Dongxing	50	779	–	1,587	21,837	24,253
Shi Weixin	50	68	–	–	–	118
Zhang Zengguo	50	317	13	378	–	758
Wang Changhai (General Manager)	42	545	13	1,041	5,493	7,134
Non-executive directors:						
Li Hengwen	50	–	–	–	–	50
Xu Leihua	50	–	–	–	–	50
Independent non-executive directors:						
Wang Zefeng	50	–	–	–	–	50
Jiao Jie	50	–	–	–	–	50
Shan Xueyan	50	–	–	–	–	50
	442	1,709	26	3,006	27,330	32,513

Notes:

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals of the Group during the year, including 2 directors (2017: 2 directors), details of their emoluments are set out above. The emoluments of the remaining 3 (2017: 3) individuals during the year are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other allowances	**3,313**	2,940
Retirement benefits schemes contributions	**38**	13
Share-based compensation	**–**	1,373
	3,351	4,326

The above employees' emoluments were within the following band:

	2018	2017
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	1
HK$3,000,001 to HK$3,500,000	**–**	1

During both years, no emoluments were paid by the Group to the Directors or the three highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the current year.

11. INCOME TAX EXPENSE

	2018 **RMB'000**	2017 RMB'000
Current tax		
PRC enterprise income tax	**154,930**	165,632
(Over)/Under-provision in previous year	**(975)**	2,795
	153,955	168,427
Deferred tax credit (note 19)	**(22,505)**	(5,509)
	131,450	162,918

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, other than those disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2017: 25%).

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 year ended 31 December 2018 and 2017 as the Group has no assessable profits subject to Hong Kong Profits Tax during both years.

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

	2018 **RMB'000**	2017 RMB'000
Profit before income tax	**477,940**	564,542
Tax at the applicable income tax rate of 25% (2017: 25%)	**119,485**	141,136
Tax effect of expenses not deductible	**16,212**	33,568
Tax effect of share of result of a joint venture	**(1,139)**	(3,174)
Effect of tax concession granted to certain subsidiaries	**—**	(20,691)
(Over)/Under provision in previous year	**(975)**	2,795
Utilisation of tax losses previously not recognised	**(2,789)**	—
Tax effect of tax losses not recognised	**656**	9,284
Tax charge for the year	**131,450**	162,918

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

12. PROFIT BEFORE INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Wages and salaries	**260,151**	212,504
Retirement benefits schemes contributions	**42,284**	33,320
Share-based compensation	**—**	28,703
Total staff costs (including the Directors' emoluments)	**302,435**	274,527
Cost of inventories recognised as an expense	**4,823,248**	4,225,875
Depreciation of property, plant and equipment	**253,397**	253,412
Reversal for impairment of trade and other receivables	**(1,070)**	(781)
Amortisation of prepaid lease payments (note 17)	**6,158**	7,550
Auditor's remuneration	**1,731**	1,492
Net foreign exchange losses/(gains)	**5,331**	(4,245)
Rental income from an investment property and other properties	**(1,098)**	(1,502)

13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividend declared for distribution during the year:		
2017 final dividend — HK$0.07 per share		
(2017: 2016 final dividend — HK$0.04 per share)	**48,356**	27,863

A final dividend of HK$0.04 per share in respect of the year ended 31 December 2018 has been proposed by the Directors and is subject to the approval of the Company's shareholders in the forthcoming annual general meeting. A final dividend of HK$0.07 per share in respect of the year ended 31 December 2017 amounting to a total of HK$57,355,000 (equivalent to approximately RMB48,356,000) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 8 June 2018.

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit of RMB332,951,000 (2017: RMB396,031,000) for the year attributable to owners of the Company, and the weighted average number of 819,362,000 (2017: 810,125,000) ordinary shares in issue during the year.

There are no dilutive potential ordinary shares in issue for the year ended 31 December 2018 and 31 December 2017. The basic earnings per share equals to the diluted earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost				
At 1 January 2017	1,005,858	3,697,546	86,521	4,789,925
Additions	12,701	50,352	299,383	362,436
Transfers	5,908	112,599	(118,507)	—
Acquisition of a subsidiary (note 47)	42,784	12,064	—	54,848
Disposals and written off	(21,735)	(100,662)	—	(122,397)
At 31 December 2017 and 1 January 2018	1,045,516	3,771,899	267,397	5,084,812
Additions	28,040	33,332	579,030	640,402
Transfers	61,606	56,403	(118,009)	—
Transfers from investment property (note 16)	—	—	42,790	42,790
Transfer to prepaid land lease (note 17)	—	—	(49,056)	(49,056)
Impairment (note 8 (iii))	—	(89,023)	—	(89,023)
Disposals and written off	(948)	(34,313)	—	(35,261)
At 31 December 2018	**1,134,214**	**3,738,298**	**722,152**	**5,594,664**
Depreciation				
At 1 January 2017	193,548	1,242,444	—	1,435,992
Provided for the year	34,600	218,812	—	253,412
Eliminated on disposals and written off	(13,812)	(51,763)	—	(65,575)
At 31 December 2017 and 1 January 2018	214,336	1,409,493	—	1,623,829
Provided for the year	35,731	217,666	—	253,397
Eliminated on disposals and written off	(13)	(17,426)	—	(17,439)
At 31 December 2018	**250,054**	**1,609,733**	**—**	**1,859,787**
Carrying amount				
At 31 December 2018	**884,160**	**2,128,565**	**722,152**	**3,734,877**
At 31 December 2017	831,180	2,362,406	267,397	3,460,983

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(i) The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

	Useful lives	Residual values
Buildings	20–30	4%—10%
Plant, machinery and equipment	5–20	4%—15%

(ii) The net book value of property, plant and equipment includes an amount of RMB823,238,000 (2017: RMB498,880,000) in respect of assets held under finance leases.

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

16. INVESTMENT PROPERTY

	Completed investment property RMB'000
Fair value	
At 1 January 2017	181,712
Additions	75
Net decrease in fair value recognised in profit or loss	(18,908)
At 31 December 2017 and 1 January 2018	162,879
Net increase in fair value recognised in profit or loss	585
Transfer to property, plant and equipment (note 15)	(42,790)
At 31 December 2018	**120,674**

The Group's investment property is commercial purpose unit located in Weifang, Shandong, the PRC, which were remeasured using significant unobservable inputs to fair value by reference to a valuation performed by Asia-Pacific Consulting and Appraisal Limited, independent qualified professional valuers as at 31 December 2018. Asia-Pacific Consulting and Appraisal Limited is a member of the Institute of Valuers. The Group's financial controller has discussions with the valuers on the valuation assumptions and valuation results for financial reporting purposes. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market, as appropriate. The valuation and all key assumptions used in the valuation reflect market conditions at the valuation date. The resulting increase in fair value of investment property of RMB585,000 has been recognised directly in profit or loss for the year ended 31 December 2018 (2017: decrease of RMB18,908,000).

16. INVESTMENT PROPERTY (continued)

The investment property with a fair value of RMB120,674,000 as at 31 December 2018 (2017: RMB162,879,000) is pledged for counter guarantee under the guarantee agreement of the corporate bond (note 37) entered by the Group and 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation Co. Ltd.) (the "SME Guarantee").

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

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

Investment property held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs for fair value
Certain office part of the property in Weifang, Shandong	Level 3	Comparison approach	Market unit sales rate, using market direct comparable at RMB4,774–5,038/sq.m (2017: RMB4,500–5,800/sq.m)	The increase in the market unit sales rate would result in an increase in fair value.
		The key inputs are: (1) Market unit sales rate; (2) Location markdown;	Location markdown, based on location and other individual adjustment factors at 2%–3% (2017: 5%–10%)	The increase in the location markdown would result in a decrease in fair value.
Certain retail part of the property in Weifang, Shandong	Level 3	Income method (term and reversionary approach)	No term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received, in 2018 (2017: nil)	The increase in the term yield would result in a decrease in fair value.
		The key inputs are: (1) Term yield; (2) Capitalisation rate or reversionary yield; and (3) Market unit rent of individual unit	Capitalisation rate, taking into account annual unit market rental income and unit market value of the comparable properties, of 5% (2017: Reversionary yield of 5%)	The increase in the capitalisation rate would result in a decrease in fair value.
			Market unit rent, using the unit price from the existing tenancy agreement and taking into account of other individual factors of range from RMB0.74 sq.m./day to RMB1.00 sq.m./day (2017: range from RMB0.69 sq.m./day to RMB0.94 sq.m./day)	The increase in the market unit rent would result in an increase in fair value.

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

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

17. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Prepaid lease payments related to land use rights are analysed for reporting purposes as:		
Non-current assets	**365,364**	327,046
Current assets	**8,567**	7,317
	373,931	334,363

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

	2018 RMB'000	2017 RMB'000
Opening net carrying amount	**334,363**	319,695
Acquisition of subsidiaries (note 47)	**—**	22,218
Transfer from property, plant and equipment (note 15)	**49,056**	—
Transfer to construction in progress during the year	**(3,330)**	—
Amortisation (note 12)	**(6,158)**	(7,550)
Closing net carrying amount	**373,931**	334,363

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

As at 31 December 2017, the Group was 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 was located in the PRC. The Directors are of the opinion that the Group is entitle to lawfully and validly occupy or use these land use rights. The Group has completed the application and obtained the title certificates of its land use rights which are located in the PRC during the year ended 31 December 2018.

Details of land use rights pledged are set out in note 42.

18. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost		
At 1 January	**30,326**	18,692
Arising from acquisition of a subsidiary (note 47)	**–**	11,634
At 31 December	**30,326**	30,326

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units ("CGUs"), including one subsidiary in electricity and steam segment ("CGU A") and two subsidiaries in Paper Products segment ("CGU B & CGU C"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2018 and 2017 allocated to these units are as follows:

	2018 RMB'000	2017 RMB'000
CGU A	**18,692**	18,692
CGU B	**4,720**	4,720
CGU C	**6,914**	6,914
At 31 December	**30,326**	30,326

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

CGU A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 12.51% (2017: 13.38%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 3% (2017: 3%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU A to exceed the aggregate recoverable amount of the CGU A.

18. GOODWILL (continued)

CGU B & C

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 12.51% (2017: 13.38%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 5% (2017: 5%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU B & C to exceed the aggregate recoverable amount of the CGU B & C.

19. DEFERRED TAXATION

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

Deferred tax assets

	Fair value adjustment on property, plant and equipment	Unrealised profit in inventories	Allowance for doubtful debts and inventories	Change in fair value of leasehold/ investment properties	Deferred income	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	—	509	3,683	—	3,690	302	8,184
Credited to profit or loss (note 11)	—	1,825	—	1,489	—	—	3,314
At 31 December 2017 and 1 January 2018	—	2,334	3,683	1,489	3,690	302	11,498
Credited/(charged) to profit or loss (note 11)	17,239	325	—	(146)	—	(302)	17,116
At 31 December 2018	**17,239**	**2,659**	**3,683**	**1,343**	**3,690**	**—**	**28,614**

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19. DEFERRED TAXATION (continued)

Deferred tax liabilities

	Fair value adjustment on property, plant and equipment RMB'000	Fair value adjustment on prepaid land lease RMB'000	Change in fair value of leasehold/ investment properties RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2017	(4,600)	–	(3,238)	(5,151)	(12,989)
(Charged)/Credited to profit or loss (note 11)	(765)	(278)	3,238	–	2,195
At 31 December 2017 and 1 January 2018	(5,365)	(278)	–	(5,151)	(10,794)
Credited to profit or loss (note 11)	5,365	24	–	–	5,389
At 31 December 2018	**–**	**(254)**	**–**	**(5,151)**	**(5,405)**

Unrecognised deductible unused tax losses:

	2018 RMB'000	2017 RMB'000
Deductible tax losses	**48,658**	68,524
Less: available for offset future profit	**–**	(2,012)
Unused tax losses for which no deferred tax assets have been recognised	**48,658**	66,512

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

Tax losses unrecognised will expire in:

	2018 RMB'000	2017 RMB'000
2019	**–**	9,387
2020	**–**	2,980
2021	**10,337**	17,009
2022	**35,694**	37,136
2023	**2,627**	–
	48,658	66,512

20. DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Other receivables from a joint venture (note 45(b))	**184,298**	142,847
Guarantee deposits for obligations under finance leases	**45,464**	42,140
Loan to a third party	**—**	53,916
	229,762	238,903
Less: ECL allowance	**(3,686)**	—
	226,076	238,903

The following are the movements of ECL allowance (2017: loss allowance) of other receivables during the year:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**—**	—
Adoption of IFRS 9 (note 2)	**2,857**	—
Adjusted balance	**2,857**	—
Allowance during the year (note 8)	**829**	—
At the end of the year	**3,686**	—

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**392,481**	334,300
Finished goods	**363,961**	433,755
	756,442	768,055

Details of inventories pledged are set out in note 42.

22. TRADE RECEIVABLES

An analysis of trade receivables, net of ECL allowance/loss allowance of trade receivables, is as follows:

	2018 **RMB'000**	2017 RMB'000
Trade receivables due from:		
— third parties	**499,725**	421,890
— joint venture (note 45(b))	**2,540**	—
— a related party (note 45(b))	**13,929**	13,216
	516,194	435,106
Less: ECL allowance	**(9,040)**	(9,530)
	507,154	425,576

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

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

The following is an ageing analysis of trade receivables net of ECL allowance of trade receivables presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised:

	2018 **RMB'000**	2017 RMB'000
0–30 days	**431,060**	379,432
31–90 days	**64,235**	40,711
91–365 days	**11,307**	5,360
Over 1 year	**552**	73
	507,154	425,576

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

22. TRADE RECEIVABLES (continued)

The following are the movements of ECL allowance (2017: loss allowance) of trade receivables during the year:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**9,530**	10,311
Adoption of IFRS 9 (note 2)	**319**	—
Adjusted balance	**9,849**	10,311
Reversal during the year (note 8)	**(809)**	(781)
At the end of the year	**9,040**	9,530

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Directors considered that the Group has no significant concentration of credit risk of trade receivables, with exposure spread over a large number of customers.

Details of the credit risks are set out in note 41(c).

23. BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Bills receivables	**679,101**	765,598

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

Included in the above balances, bills receivables of RMB189,619,000 (2017: RMB235,702,000) were discounted to banks with recourse. These bills receivables were not derecognised as the title of these bills receivables were not transferred to the banks. In the other hand, discounted bills financing of RMB189,619,000 (2017: RMB235,702,000) was recognised for the cash received from banks (note 34).

23. BILLS RECEIVABLES (continued)

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

	2018 RMB'000	2017 RMB'000
0–90 days	**265,417**	278,370
91–180 days	**219,858**	313,560
181–365 days	**193,826**	173,668
	679,101	765,598

Bills receivables endorsed

Not included in the period end balance, during the year, the Group has transferred bills receivables amounted to RMB503,105,000 (2017: RMB608,779,000) to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognised these bills receivables and the payables to suppliers in their entirety, as in the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills to the suppliers. The Group has limited exposure in respect of the settlement obligation of these bills receivables under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The maximum exposure to loss, which is same as the amount payable by the Group to the supplier in respect of the endorsed bills, should the issuing bank fail to settle the bills on maturity date amounted to RMB503,105,000 (2017: RMB608,779,000). All the bills receivables endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

24. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	2018 RMB'000	2017 RMB'000
Prepayments to suppliers	**123,680**	116,066
Other receivables	**167,270**	49,712
	290,950	165,778
Less: ECL allowance	**(25)**	—
	290,925	165,778

24. PREPAYMENTS AND OTHER RECEIVABLES (continued)

An analysis of other receivables is as follows:

	2018 RMB'000	2017 RMB'000
VAT recoverable	**121,330**	16,713
Deposits	**26,922**	16,863
Guarantee deposits for obligations under finance leases	**10,641**	—
Advance to employees	**4,938**	4,487
Interest receivable	**—**	3,974
Others	**3,414**	7,675
	167,245	49,712

The following are the movements of ECL allowance (2017: loss allowance) of other receivables during the year:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**—**	—
Adoption of IFRS 9 (note 2)	**1,115**	—
Adjusted balance	**1,115**	—
Reversal during the year (note 8)	**(1,090)**	—
At the end of the year	**25**	—

25. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Restricted bank deposits represent the Group's short-term bank deposits pledged to banks to secure certain bills facilities, finance leases and short-term bank borrowings granted to the Group.

The restricted bank deposits carry interest at market rates which range from 0.35% to 1.5% (2017: 0.35% to 1.5%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

Bank balances carry market interest rate of 0.35% per annum as at 31 December 2018 (2017: 0.35% per annum).

Bank balances and cash at 31 December 2018 were mainly denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

26. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

(a) Reconciliation of liabilities arising from financing activities

	Bank borrowings	Other borrowing	Corporate bond	Obligations under finance leases	Discounted bills financing	Amount due to a non-controlling shareholder of a subsidiary	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	1,834,150	11,000	496,250	183,284	1,989,892	–	4,514,576
Cash-flows:							
– Proceeds	3,484,159	–	–	347,600	–	–	3,831,759
– Repayment	(2,590,179)	(1,000)	(100,000)	(154,654)	(534,141)	–	(3,379,974)
Non-cash:							
– Acquisition of a subsidiary (note 47)	37,050	–	–	–	–	–	37,050
– Amortisation	–	–	1,071	–	–	–	1,071
At 31 December 2017 and 1 January 2018	2,765,180	10,000	397,321	376,230	1,455,751	–	5,004,482
Cash-flows:							
– Proceeds	2,994,378	–	–	374,000	460,999	78,502	3,907,879
– Repayment	(3,666,746)	(2,000)	(100,000)	(254,122)	–	–	(4,022,868)
Non-cash:							
– Amortisation	–	–	1,072	–	–	–	1,072
– Additions	–	–	–	41,650	–	–	41,650
At 31 December 2018	**2,092,812**	**8,000**	**298,393**	**537,758**	**1,916,750**	**78,502**	**4,932,215**

(b) Material non-cash transactions

(i) Interest income

The interest income received from a joint venture was settled through the current account of a joint venture.

(ii) Obligation under finances leases

During the year ended 31 December 2018, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB41,650,000 (2017: nil).

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27. INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Cost of investment in a joint venture		
Unlisted	**241,800**	241,800
Share of post-acquisition loss and other comprehensive losses	**(25,424)**	(29,426)
Recognition of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**552**	552
	216,928	212,926
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(8,832)**	(9,384)
	208,096	203,542

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

Name of entity	Form of entity	Principal place of operation and incorporation	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2018 %	2017 %	2018 %	2017 %	
Sunshine Oji	Limited incorporated	PRC	**60**	60	**60**	60	Special paper production

* Pursuant to the joint venture agreement of Sunshine Oji, Sunshine Oji has been owned as to 60% by Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine") and 40% by Oji F-Tex Co. Ltd ("Oji F-Tex Co"), a wholly owned subsidiary of Oji Holdings Corporation not connected to the Group. Since the governing board of Sunshine Oji is its board of directors which direct the relevant activities of Sunshine Oji, and the decisions about the relevant activities of Sunshine Oji require the unanimous consent in the board of directors of Sunshine Oji, the Directors are of the view that the Group will account for Sunshine Oji as a joint venture. Century Sunshine and Oji F-Tex Co have additionally invested RMB120,000,000 and RMB80,000,000 to Sunshine Oji by way of capital injection respectively during the year ended 31 December 2017.

27. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of Sunshine Oji

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

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

	2018 RMB'000	2017 RMB'000
Current asset	**370,725**	322,274
Non-current asset	**594,153**	371,130
Current liabilities	**(547,367)**	(339,447)
Non-current liabilities	**(56,884)**	—
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**81,246**	90,256
Current financial liabilities (excluding trade and other payables and provisions)	**(40,000)**	(13,921)

	2018 RMB'000	2017 RMB'000
Revenue	**559,542**	463,644
Profit and total comprehensive income for the year	**6,670**	20,238
The above loss for the year include the following:		
Depreciation and amortisation	**14,896**	14,331
Interest income	**(671)**	—
Interest expense	**15,840**	20,935

27. INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of Sunshine Oji (continued)

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

	2018 RMB'000	2017 RMB'000
Net assets of Sunshine Oji	**360,627**	353,957
Proportion of the Group's ownership interest in Sunshine Oji	**216,376**	212,374
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(8,280)**	(8,832)
Carrying amount of the Group's interest in Sunshine Oji	**208,096**	203,542

28. TRADE PAYABLES

An analysis of trade payables is as follows:

	2018 RMB'000	2017 RMB'000
Trade payables to third parties	**1,039,778**	853,282

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

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

	2018 RMB'000	2017 RMB'000
0–90 days	**876,641**	739,145
91–365 days	**151,169**	102,694
Over 1 year	**11,968**	11,443
	1,039,778	853,282

29. BILLS PAYABLES

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

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

	2018 RMB'000	2017 RMB'000
0–90 days	20,000	20,000
91–180 days	120,000	135,000
Over 180 days	182,000	90,000
	322,000	245,000

All the bills payables are of trading nature and will be expired within twelve months (2017: twelve months) from the issue date.

30. OTHER PAYABLES

An analysis of other payables is as follows:

	2018 RMB'000	2017 RMB'000
Other payables	47,715	41,226
Amount due to a non-controlling shareholder of a subsidiary (note)	78,502	—
Advance from customers (note 31)	—	51,152
VAT and other tax payable	34,913	22,661
Interest payable of corporate bond	12,285	16,380
Other interest payable	6,047	1,286
Accrued payroll and welfare	894	3,074
	180,356	135,779

Note: The amount due is unsecured, interest-free and repayable on demand.

31. CONTRACT LIABILITIES

	2018 RMB'000	2017 RMB'000
Amounts received in advance for sales of products expected to be recognised	**57,818**	–

The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of IFRS 15, amounts previously included as "advance from customers" under "other payables" were reclassified to contract liabilities.

When the Group receives a deposit from customers before the production activity commences, this will give rise to contract liabilities at the inception of a contract. The deposit will be reversed and recognised as revenue upon satisfying the performance obligation within the contract.

All deposits received are expected to be settled after one year.

Movements in contract liabilities:

	2018 RMB'000
Balance at the beginning of the year (upon adoption of IFRS 15)	**51,152**
Amounts recognised as revenue	**(51,152)**
Increase in contract liabilities as a result of amount received in advance from customers	**57,818**
Balance at the end of the year	**57,818**

32. OBLIGATIONS UNDER FINANCE LEASES

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**308,090**	165,571
Non-current liabilities	**229,668**	210,659
	537,758	376,230

During the year ended 31 December 2018, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB374,000,000 (2017: RMB347,600,000) for a period of 2–3 years (2017: 2–3 years). Upon maturity, the Group will be entitled to purchase the Secured Assets.

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

	Minimum lease payments		Present value of minimum lease payments	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Amounts payable under finance leases				
— Within one year	**334,339**	182,803	**308,090**	165,571
— In more than one year but not more than two years	**204,872**	153,518	**196,252**	144,909
— In more than two years but not more than five years	**34,244**	67,309	**33,416**	65,750
	573,455	403,630	**537,758**	376,230
Less: future finance charges	**(35,697)**	(27,400)	**—**	—
Present value of lease obligations (note 41(d))	**537,758**	376,230	**537,758**	376,230
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(308,090)**	(165,571)
Amount due for settlement after 12 months			**229,668**	210,659

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

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33. DEFERRED INCOME

Deferred income represents the connection fee income not yet recognised in relation to steam transmission services, the value-added tax refund obtained for the purchase of domestically manufactured equipment and the government grants obtained in relation to the acquisition of land use rights and certain equipment.

	Connection fee RMB'000	Value-added tax refund for the purchase of certain equipment RMB'000	Government grant related to land use rights RMB'000	Government grant related to certain equipment RMB'000	Total RMB'000
At 1 January 2017	841	14,037	2,327	6,598	23,803
Released to income	(496)	(1,513)	(61)	(663)	(2,733)
At 31 December 2017 and 1 January 2018	345	12,524	2,266	5,935	21,070
Addition	—	—	—	2,500	2,500
Released to income	(156)	(1,512)	(45)	(664)	(2,377)
At 31 December 2018	**189**	**11,012**	**2,221**	**7,771**	**21,193**

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

	2018 RMB'000	2017 RMB'000
Current portion	**2,405**	2,405
Non-current portion	**18,788**	18,665
	21,193	21,070

34. DISCOUNTED BILLS FINANCING

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

	2018 RMB'000	2017 RMB'000
Discounted bills receivables from third parties (note a)	**189,619**	235,702
Discounted bills receivables from a joint venture	**—**	32
Discounted bills receivables from subsidiaries of the Company (note b)	**1,727,131**	1,220,017
Total	**1,916,750**	1,455,751

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 23, since the title of receivables was not transferred to the lending banks.

b. These borrowings arose from discounting, with recourse, of intra-group bills receivables, from one component to another of the Group. The Group continues to recognise the carrying amount of the underlying bills receivables since the title of receivables was not transferred to the lending banks. However, the corresponding intra-group bills receivables were eliminated in consolidation against the original bills payables from the bill issuing component of the Group. The elimination is based on the Directors' judgment that the risk and reward associated with these intra-group bills receivables and bills payables remain within the Group. In obtaining the original intra-group bills, bank deposits of RMB1,137,500,000 (2017: RMB1,211,300,000) were pledged to the issuing banks.

35. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured bank borrowings	**500,691**	1,375,132
Unsecured bank borrowings	**1,592,121**	1,390,048
	2,092,812	2,765,180
The borrowings are repayable as follows:		
— Within one year	**2,045,566**	2,551,969
— In the second year	**34,965**	190,965
— In the third to fifth years inclusive	**12,281**	22,246
	2,092,812	2,765,180
Less: Amount due for settlement within one year and shown under current liabilities	**(2,045,566)**	(2,551,969)
Amount due after one year	**47,246**	213,211
Total borrowings		
— At fixed rates	**860,762**	2,185,680
— At floating rates	**1,232,050**	579,500
	2,092,812	2,765,180
Analysis of borrowings by currency:		
— Denominated in RMB	**2,092,812**	2,746,884
— Denominated in US$	**—**	18,296

Fixed-rate borrowings are charged at the rates ranging from 3.50% to 7.40% per annum as at 31 December 2018 (2017: 3.00% to 7.40% per annum).

Interests on RMB borrowings at floating rates are charged by reference to the borrowing rates announced by the People's Bank of China.

For all bank borrowings as above, the weighted average effective interest rate for the year ended 31 December 2018 was 4.91% per annum (2017: 4.91% per annum).

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

36. OTHER BORROWING

	2018 **RMB'000**	2017 RMB'000
Borrowing from Weifang City Investment Co., Ltd.* (濰坊市投資集團有限公司) ("Weifang City Investment")	**8,000**	10,000

The borrowing from Weifang City Investment, an unconnected third party, is unsecured and repayable on demand. The weighted average effective interest annual rate for the year ended 31 December 2018 was 6.65% per annum (2017: 6.65% per annum).

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

37. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was RMB500,000,000 with annual coupon rate of 8.19%. The corporate bond is guaranteed by SME Guarantee, and is with counter-guarantee arrangement with the Group's investment property and construction in progress of RMB120,674,000 and RMB42,790,000 respectively (2017: investment property of RMB162,879,000) (see note 16). RMB100,000,000 had been repaid during the year and the remaining balance will be repaid with 20% of offering size annually from the year 2019 to the year 2021.

38. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2017, 31 December 2017 and 31 December 2018	2,000,000,000	200,000

38. SHARE CAPITAL (continued)

	Number of shares	Share capital HK$'000	Shown in the consolidated financial statements RMB'000
Issued and fully paid:			
At 1 January 2017	802,588,000	80,258	72,351
Issue and allotment for the Share Award Scheme (note)	16,774,000	1,678	1,428
At 31 December 2017, and 1 January 2018 and 31 December 2018	**819,362,000**	**81,936**	**73,779**

Note:

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

39. RESERVES

Merger reserve

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

Capital reserve

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

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

39. RESERVES (continued)

Assets revaluation reserve

Included in the balance of assets revaluation reserve at 31 December 2018, amount of RMB4,196,000 is the fair value adjustment in respect of the interests previously held by the Group, arising on acquisition of 昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd)* ("Shengshi Thermoelectricity"). The remaining amount of RMB2,819,000 is the fair value adjustment resulted from the revaluation of leasehold properties at the time transferred to investment properties in the year 2012.

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

Statutory surplus reserve/discretionary surplus reserve

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

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

40. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the obligations under finance leases, discounted bills financing, bank borrowings, other borrowings and corporate bond disclosed in notes 32, 34, 35, 36 and 37 and equity attributable to owner of the Company, comprising issued share capital and reserves.

The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

41. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	3,377,135	–
Loans and receivables	–	3,419,079
	3,377,135	3,419,079
Financial liabilities		
Financial liabilities at amortised cost	5,909,859	5,823,218
Obligations under finance leases	537,758	376,230
	6,447,617	6,199,448

(b) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk management

PRC subsidiaries of the Company with functional currency of RMB have certain foreign currency sales, purchases, bank balances and cash and bank borrowings denominated in US$, HK$ and EURO, which expose the Group to foreign currency risk. The management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

41. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

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

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

	2018 RMB'000	2017 RMB'000
Assets		
US$		
Bank balances and cash	**27,662**	16,209
Trade receivables	**1,922**	21,954
Prepayment and other receivables	**4,258**	2,183
HK$		
Bank balances and cash	**646**	741
Prepayments and other receivables	**217**	—
EURO		
Bank balances and cash	**1,761**	80
Prepayments and other receivables	**271**	—
Liabilities		
US$		
Trade payables	**59,214**	50,831
Bank borrowings	**—**	18,296
Other payables	**568**	1,371
HK$		
Trade payables	**—**	1,218
Other payables	**35**	—
EURO		
Trade payables	**900**	—
Other payables	**—**	—

41. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis

The Group is mainly exposed to the fluctuation in US$, HK$, and EURO against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as disclosed above and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year where RMB strengthens against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	Impact of US$		Impact of HK$		Impact of EURO	
	2018 RMB'000 (a)	2017 RMB'000 (a)	**2018 RMB'000 (b)**	2017 RMB'000 (b)	**2018 RMB'000 (c)**	2017 RMB'000 (c)
Increase/(decrease) in post-tax profit for the year	**973**	1,131	**(31)**	18	**(42)**	(3)

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

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

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

41. FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) *Interest rate risk management*

The Group's fair value interest rate risk relates primarily to its obligations under finance leases, discounted bills financing, fixed-rate bank and other borrowings and corporate bond subject to negotiation on annual basis (see notes 32, 34, 35, 36 and 37 for details). The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see notes 35 for details), restricted bank deposits and bank balances (see note 25).

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

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, restricted bank deposits and bank balances, the analysis is prepared assuming the amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points (2017: 25 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 25 basis points (2017: 25 basis points) and all other variables were held constant, the Group's post-tax profit would increase (decrease) by approximately RMB1,288,000 for the year ended 31 December 2018 (2017: post-tax profit would increase (decrease) by approximately RMB1,876,000).

41. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivables, other receivables measured at amortised costs, bank balances and restricted bank deposits. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

Effective on 1 January 2018

(i) Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, as set out in note 4.18, the Group assesses ECL under IFRS 9 on trade receivables based on provision matrix. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period. Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

On the above basis, the ECL for trade receivables as at 31 December 2018 and 1 January 2018 was determined 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 31 December				
Expected loss rate	0.3%	1.0%	50%	
Gross carrying amount (excluding receivables assessed individually)	41,285	16,237	110	57,632
Loss allowance provision	124	162	55	341
Individually impaired receivables				8,699
				9,040

41. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

Effective on 1 January 2018 (continued)

(i) Trade receivables (continued)

	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				
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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, bills receivables, restricted bank deposits and bank balances and cash. In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. If the credit risk of debt instruments are considered to be high, collateral are required before granting the debts to debtors. In these regards, the credit risk of other receivables are considered to be low.

41. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

Effective on 1 January 2018 (continued)

(ii) Other financial assets at amortised cost (continued)

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 4.18 and, thus, ECL recognised is based on twelve-month ECL. The ECL rate applied for other receivables ranging from 0.3% to 2.0%.

The credit risks on bills receivables, restricted bank deposits and bank balances and cash are considered to be insignificant because these are placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

Effective before 1 January 2018

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as pertaining to the economic and business environment in which the counterparties operates. Monitoring procedures have been implemented to ensure the following-up action is taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual trade and other receivables balance at the end of each reporting periods to ensure adequate impairment losses are made for irrecoverable amounts. Given the constant repayment history, the directors are of the view that the risk of default by these counterparties is low.

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management

The responsibility for liquidity risk management rests with the management, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate liquid cash and banking and loan facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities from time to time.

As at 31 December 2018, the Group had net current liabilities of approximately RMB1,920,043,000 (2017: RMB1,503,564,000). In consideration of the short-term fund requirement, the management has carried out a detailed and careful review of the cash flow projection and cash requirement of the Group for the next twelve months from the date of 31 December 2018. The management considers using bank and other borrowings as a significant source of finance of the Group. Substantial portion of the facility lines will expire during the year 2019. The management believes that they can successfully renew these facility lines based on their experience in the previous years.

Also the management considers that certain banks agreed to extend one year for certain bank borrowings amounting to RMB623,804,000 originally with the expiration dates in the year 2019 (See note 50).

Taking into account the present available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks), and internal financial resources of the Group, the Group has adequate liquid funds to finance the working capital and capital expenditure requirements of the Group in next twelve months.

For the year ended 31 December 2018

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	Within 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2018						
Non-derivative financial liabilities						
Fixed-rate bank borrowings (*)	5.44	822,026	43,690	23,300	889,016	860,762
Variable-rate bank borrowings (*)	4.54	1,193,621	66,479	–	1,260,100	1,232,050
Other borrowings	6.55	8,524	–	–	8,524	8,000
Bills payables		322,000	–	–	322,000	322,000
Trade payables		1,039,778	–	–	1,039,778	1,039,778
Other payables		144,549	–	–	144,549	144,549
Payables for construction work		87,577	–	–	87,577	87,577
Discounted bills financing		1,916,750	–	–	1,916,750	1,916,750
Obligations under finance leases	6.28	334,339	204,872	34,244	573,455	537,758
Corporate bond	8.19	120,893	217,275	–	338,168	298,393
		5,990,057	532,316	57,544	6,579,917	6,447,617
At 31 December 2017						
Non-derivative financial liabilities						
Fixed-rate bank borrowings	5.03	2,065,250	165,605	16,242	2,247,097	2,185,680
Variable-rate bank borrowings	4.43	557,903	45,413	9,639	612,955	579,500
Other borrowings	6.55	10,655	–	–	10,655	10,000
Bills payables		245,000	–	–	245,000	245,000
Trade payables		853,282	–	–	853,282	853,282
Other payables		58,892	–	–	58,892	58,892
Payables for construction work		37,792	–	–	37,792	37,792
Discounted bills financing		1,455,751	–	–	1,455,751	1,455,751
Obligations under finance leases	5.95	182,803	153,518	67,309	403,630	376,230
Corporate bond	8.19	129,103	120,893	217,275	467,271	397,321
		5,596,431	485,429	310,465	6,392,325	6,199,448

* Subsequent to the year ended 31 December 2018, certain PRC banks agreed to extend the Group's RMB623,804,000 bank borrowings' expiration dates (originally to be repaid in year 2019) for one year (See note 50).

41. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk management (continued)

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

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

Included in above, discounted bills financing with carrying amount of approximately RMB189,619,000 (2017: RMB235,702,000) will be offset with corresponding bills receivables upon maturity.

(e) Fair value measurements

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost at 31 December 2018 and 2017 in the consolidated financial statements approximate their fair values.

42. PLEDGE OF ASSETS

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

	2018 RMB'000	2017 RMB'000
Buildings	**672,367**	563,737
Plant, machinery and equipment	**520,260**	977,194
Prepaid lease payments	**206,847**	319,660
Inventories	**—**	33,840
Bills receivables	**194,000**	348,000
Restricted bank deposits	**1,394,637**	1,481,484
	2,988,111	3,723,915

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

43. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**371,016**	207,765

44. OPERATING LEASES

The Group as lessee

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid for rented premises under operating leases during the year	**2,686**	2,876

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**1,068**	2,822
In the second to fifth year inclusive	**336**	5,055
	1,404	7,877

44. OPERATING LEASES (continued)

The Group as lessor

Property rental income earned during the year was RMB1,098,000 (2017: RMB1,502,000). All of the properties held have committed tenants for the next 1 to 6 years.

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

	2018 RMB'000	2017 RMB'000
Within one year	**1,104**	913
In the second to fifth year inclusive	**3,303**	4,499
After five years	**4**	448
	4,411	5,860

45. RELATED PARTY TRANSACTIONS

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

	2018 RMB'000	2017 RMB'000
Sales of electricity and steam to a non-controlling shareholder of a subsidiary (note i)	**127,958**	121,960
Interest income earned from a joint venture (note 8(i))	**11,195**	16,654
Sales of goods to a joint venture	**3,480**	—

Note:

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

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45. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	2018 RMB'000	2017 RMB'000
Trade receivables from a non-controlling shareholder of a subsidiary (note 22) (note i)	**13,929**	13,216
Trade payables due to a non-controlling shareholder of a subsidiary (note i)	**829**	—
Other payables due to a non-controlling shareholder of a subsidiary (note i)	**78,502**	—
Balance due from a joint venture (note ii)	**183,136**	142,847

Note:

(i) The balance will be repayable on demand.

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

(c) Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short term employee benefit	**9,510**	9,948
Retirement benefit scheme contributions	**94**	40
Share-based compensation	**—**	28,703
	9,604	38,691

46. SHARE AWARD SCHEME

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

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

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

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

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

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

No shares were awarded during the year ended 31 December 2018.

47. BUSINESS COMBINATION

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

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

47. BUSINESS COMBINATION (continued)

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

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

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

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

Impact of acquisition on the results of the Group

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

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

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

47. BUSINESS COMBINATION (continued)

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

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

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

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

48. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 18% to 36% of the employee's basic salaries during the year.

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

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49. PARTICULARS OF SUBSIDIARIES

49.1 General information of subsidiaries

The particulars of principal subsidiaries of the Company as at the end of the reporting period are set out as follows:

Name of company	Form of business structure	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid-in capital	Attributable equity interest and voting right held by the Company		Principal activities
				2018	2017	
Directly held						
China Sunshine Paper Group Limited 中國陽光紙業集團有限公司	Private limited company	British Virgin Islands	US$1	100.00%	100.00%	Investment holding
Indirectly held						
China Ramble Paper Company Limited 中國遠博紙業集團有限公司	Private limited company	Hong Kong	HK$1	100.00%	100.00%	Investment holding
Hong Kong Hao Mai Trading Co., Ltd. 香港豪邁貿易有限公司	Private limited company	Hong Kong	HK$1,000	100.00%	100.00%	Trading
Sunshine Concept Packaging Inc. 美國陽光概念包裝服務有限公司	Private limited company	United States of America	US$200,000	100.00%	100.00%	Trading
山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd.) (note i)	Sino-foreign equity joint venture	PRC	US$111,732,800	99.90%	99.90%	Manufacture of paper products
昌樂新邁紙業有限公司 (Changle Numat Paper Industry Co., Ltd.) (note i)	Private limited company	PRC	RMB500,000,000	100.00%	100.00%	Manufacture of paper products
山東陽光概念包裝有限公司 (Shandong Sunshine Concept Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB430,000,000	100.00%	100.00%	Manufacture of paper products
濰坊申易物流有限公司 (Weifang Shenyi Logistic Co.,Ltd.) (note i)	Private limited company	PRC	RMB23,320,000	100.00%	100.00%	Provision for transportation services
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.) (note i)	Private limited company	PRC	RMB239,250,000	80.00%	80.00%	Generation and supply of electricity and steam

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49. PARTICULARS OF SUBSIDIARIES (continued)

49.1 General information of subsidiaries (continued)

Name of company	Form of business structure	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid-in capital	Attributable equity interest and voting right held by the Company 2018	2017	Principal activities
Indirectly held (continued)						
潍坊大環再生資源有限公司 (Weifang Dahuan Waste Recovery Co., Ltd.) (note i)	Private limited company	PRC	RMB70,000,000	**100.00%**	100.00%	Waste materials trading
上海王的實業有限公司 (Shanghai Wangreat Industrial Co., Ltd.) (note i)	Private limited company	PRC	RMB578,000,000	**97.38%**	97.38%	Package design
上海王的網路科技有限公司 (Shanghai Wangreat Network Technology Co., Ltd.) (note i)	Private limited company	PRC	RMB50,000,000	**100.00%**	100.00%	Trading of paper products
遼寧陽光天澤包裝有限公司 (Liaoning Sunshine Tianze Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB75,000,000	**82.05%**	82.05%	Manufacture of paper products
通化鑫隆醫藥包裝彩印有限公司(Tonghua Xinlong Pharmaceutical Packaging Printing Co., Ltd.) (note i)	Private limited company	PRC	RMB55,000,000	**60.00%**	60.00%	Medicine packaging design
天津市鑫源包裝有限公司 (Tianjin Xin Yuan Packaging Co., Ltd.) (note i)	Private limited company	PRC	RMB73,470,000	**51.00%**	51.00%	Manufacture of paper products
山東華邁紙業有限公司 (Shandong Wamat Paper Co., Ltd.) (note i)	Private limited company	PRC	RMB500,000,000	**100.00%**	100.00%	Manufacture of paper products
深圳王的商業保理有限公司 (Shenzhen Wangreat Commercial Factoring Co., Ltd.) (note i)	Private limited company	PRC	RMB50,000,000	**100.00%**	100.00%	Provision of business factoring

Notes:

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

(ii) Newly established during the year ended 31 December 2018.

49. PARTICULARS OF SUBSIDIARIES (continued)

49.1 General information of subsidiaries (continued)

The above table lists the subsidiaries of the Company which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

49.2 Details of a non-wholly-owned subsidiary that has material non-controlling interests

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31.12.2018 %	31.12.2017 %	**31.12.2018 RMB'000**	31.12.2017 RMB'000	**31.12.2018 RMB'000**	31.12.2017 RMB'000
Shengshi Thermoelectricity	PRC	**20**	20	**14,188**	8,354	**185,624**	111,436
Individually immaterial subsidiaries with non-controlling interests						**101,406**	76,109
						287,030	187,545

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

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

	2018 RMB'000	2017 RMB'000
Current assets	**1,398,787**	1,399,465
Non-current assets	**508,708**	367,135
Current liabilities	**(943,226)**	(1,157,211)
Non-current liabilities	**(36,149)**	(52,210)
Equity attributable to owners of the Company	**742,496**	445,743
Non-controlling interests	**185,624**	111,436

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49. PARTICULARS OF SUBSIDIARIES (continued)

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

	2018 RMB'000	2017 RMB'000
Revenue	722,993	719,004
Expenses	652,051	677,234
Profit for the year	70,942	41,770
Profit attributable to owners of the Company	56,754	33,416
Profit attributable to the non-controlling interests	14,188	8,354
Profit for the year	70,942	41,770
Other comprehensive income attributable to owners of the Company	–	–
Other comprehensive income attributable to the non-controlling interests	–	–
Other comprehensive income for the year	–	–
Total comprehensive income attributable to owners of the Company	56,754	33,416
Total comprehensive income attributable to the non-controlling interests	14,188	8,354
Total comprehensive income for the year	70,942	41,770

49. PARTICULARS OF SUBSIDIARIES (continued)

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

	2018 RMB'000	2017 RMB'000
Net cash inflow/(outflow) from operating activities	**187,761**	(55,330)
Net cash inflow/(outflow) from investing activities	**104,697**	(54,544)
Net cash (outflow)/inflow from financing activities	**(308,073)**	82,057
Net cash outflow	**(15,615)**	(27,817)

50. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the year ended 31 December 2018, certain PRC banks agreed to extend the due dates of the Group's bank borrowings of approximately RMB623,804,000 for one year when they fall due in year 2019.

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

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

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	462,824	462,824
Amounts due from subsidiaries	700,694	680,663
	1,163,518	1,143,487
Current assets		
Prepayments and other receivables	2	2
Bank balances and cash	362	698
	364	700
Current liabilities		
Amounts due to subsidiaries	18,891	19,439
Other payables	–	308
	18,891	19,747
Net current liabilities	(18,527)	(19,047)
Total assets less current liabilities	1,144,991	1,124,440
Capital and reserves		
Share capital	73,779	73,779
Reserves (note)	1,071,212	1,050,661
Total equity	1,144,991	1,124,440

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

Note: Movement in equity

	Share capital	Share premium	Special reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	72,351	695,682	283,277	63,021	1,114,331
Issue and allotment for the Share Award Scheme (Note 46)	1,428	27,275	—	—	28,703
Profit and total comprehensive income for the year	—	—	—	9,269	9,269
Dividend paid	—	—	—	(27,863)	(27,863)
At 31 December 2017 and 1 January 2018	73,779	722,957	283,277	44,427	1,124,440
Profit and total comprehensive income for the year	—	—	—	68,907	68,907
Dividend paid	—	—	—	(48,356)	(48,356)
At 31 December 2018	**73,779**	**722,957**	**283,277**	**64,978**	**1,144,991**

Financial Summary

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Results					
Revenue	**6,585,656**	5,781,857	4,223,298	3,725,808	3,447,617
Profit/(Loss) before income tax	**477,940**	564,542	185,315	70,798	(16,921)
Taxation	**(131,450)**	(162,918)	(58,756)	(14,624)	(14,348)
Non-controlling interests	**(13,539)**	(5,593)	(3,448)	(4,916)	(6,697)
Profit/(Loss) attributable to owners of the Company	**332,951**	396,031	123,111	51,258	(37,966)
Assets					
Non-current assets	**5,006,467**	4,461,349	4,321,581	4,164,843	4,411,929
Current assets	**4,161,115**	4,088,640	3,410,091	3,330,645	3,485,528
Total assets	**9,167,582**	8,549,989	7,731,672	7,495,488	7,897,457
Liabilities					
Non-current liabilities	**499,500**	750,650	590,058	805,985	656,971
Current liabilities	**6,081,158**	5,592,204	5,373,661	5,070,883	5,678,036
Total liabilities	**6,580,658**	6,342,854	5,963,719	5,876,868	6,335,007
Equity and reserves					
Total equity	**2,586,924**	2,207,135	1,767,953	1,618,620	1,562,450
Non-controlling interests	**(287,030)**	(187,545)	(151,898)	(105,097)	(100,185)
Equity attributable to owners of the Company	**2,299,894**	2,019,590	1,616,055	1,513,523	1,462,265