



**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

## Interim Report 2020





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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang Dongxing (*Chairman*)  
Mr. Shi Weixin (*Vice Chairman*)  
Mr. Wang Changhai (*General Manager*)  
Mr. Zhang Zengguo (*Deputy General Manager*)  
Mr. Ci Xiaolei (*Deputy General Manager*)

### Non-Executive Director

Ms. Wu Rong

### Independent Non-Executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Chan Yee Ping, Michael

## AUTHORISED REPRESENTATIVES

Mr. Wang Dongxing  
Mr. Chan Yee Ping, Michael

## PRINCIPAL PLACE OF BUSINESS IN CHINA

Changle Economic Development Zone  
Weifang 262400  
Shandong  
China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen’s Road East  
Wanchai, Hong Kong

## AUDITOR

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

## LEGAL ADVISERS AS TO THE LAWS OF HONG KONG

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](http://www.sunshinepaper.com.cn)

# Operation Review and Outlook

## BUSINESS REVIEW

In the first half of 2020, the unexpected novel coronavirus pandemic aggravated the prolonged stagnation of the global economy, during which, the Group as a whole was exposed to enormous challenges against its productions and operations due to a large-scale suspension of work and production, decelerated logistics transportation, shrinking end-user demands, and other unfavorable factors. In the midst of such complicated and changing external economic conditions, the Group persisted its management philosophy of “quality and efficiency improvement” by adopting effective measures to continue with the consolidation of upstream and downstream resources, as well as the shift of growth drivers. Furthermore, the Group reinforced the foundation of lean management to advance forward against the trend, thereby maintaining a better profitability.

In response to the trajectory of weak market demand, fierce industry competition and sluggish downstream demand caused by the pandemic, the sales team of the Group carried out precisely targeted strategies of market development and maintenance to overcome numerous challenges, strengthen effective communications with end customers through multiple channels, and accommodate customer demand to the best of our ability. Despite a decrease in overall sales, we managed to maintain a relatively good market share. For the six months ended 30 June 2020, the Group reported 614,000 tonnes of machine-made paper (including 46,000 tonnes of corrugated paper from the new production lines), representing a decrease of 2.8% as compared to 632,000 tonnes for the corresponding period last year. The total revenue dropped to RMB2,837.2 million, representing a decrease of 6.8% as compared to that for the corresponding period last year.

Meanwhile, the Group continued to promote the group-based centralized procurement model, and stepped up efforts to identify suppliers. Benefiting from the enhanced measures to capitalize on the opportunities of making purchases, as well as continuous optimization of the product process ratio by production and research and development systems, the Group managed to maintain lower production costs of the products. Given the comparatively loose financial environment under the pandemic, the finance department further doubled down negotiations with banks and other financial institutions, and therefore finance costs were continuously reduced. By taking full advantage of various preferential policies promulgated by the government during the pandemic period, the Group proactively submit applications to enjoy the benefits of the relevant policies. Relying on the information technology, the Company has been continuously improved comprehensive management level. Driven by the combined factors, the Group achieved a profit attributable to the controlling shareholders of RMB206.3 million, representing a growth of approximately 68.0% as compared to that for the corresponding period last year.

## BUSINESS OUTLOOK

Despite the pandemic being brought under control in the PRC, the global economy suffered immeasurable adverse impact, among which, the downstream market, particularly export demand, is exposed to a great challenge. Amid the increasingly tightened environmental policy of wastepaper import, the upstream supply of the Group is expected to be susceptible to a great impact in the future.

In light of the complicated economic conditions at home and abroad, the Group will vigorously optimize and recalibrate the composition of raw materials, while identifying new alternatives to secure a sufficient supply. The Group continues to recognize packaging paper products as its major core product. Being committed to providing its customers with premium products, the Group persists in the practice of high-standard environmental operation, as well as the philosophy of nature, harmony, and unity. With the measures to conserve energy and reduce emissions in place, the Group will achieve a mutually beneficial relationship between economic development and a balanced ecosystem.

Following the commencement of the new corrugated paper production line, the Group has further diversified its product portfolio, and embraces greater development opportunities. By tapping to the internet of things and information-based platforms, the Group will provide its customers with more premium and efficient services, propelling our sustainable and robust business development. In the long run, the paper-making industry continues to enjoy great development room. In view of this, the Group shall seize opportunities, pursue innovative thinking, and proceed with appropriate market expansion. These initiatives will help enhance our comprehensive competitive strengths in the market.

# Management Discussion and Analysis

## REVENUE

For the six months ended 30 June 2020 ("1H 2020"), our Group's total revenue was RMB2,837.2 million, representing a decrease of 6.8% as compared to that of RMB3,044.1 million for the six months ended 30 June 2019 ("1H 2019").

As a result of the market demand pressure, average selling price of paper products of our Group decreased during 1H 2020, and the sales volume also decreased. Sales of paper products decreased by 7.0% to RMB2,722.7 million for 1H 2020 with sales volume of around 614,000 tonnes, as compared to that of RMB2,926.7 million and around 632,000 tonnes for 1H 2019.

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

	1H 2020			RMB'000	1H 2019	
	RMB'000	GP margin (%)	% of total revenue		RMB'000	GP margin (%)
White top linerboard	677,924	26.4	23.9	773,440	14.7	25.4
Coated-white top linerboard	913,256	24.2	32.2	1,207,247	22.0	39.7
Core board	308,177	23.6	10.9	343,323	21.5	11.3
Specialised paper products	823,331	13.5	29.0	602,697	11.9	19.8
Subtotal of sales of paper products	2,722,688	21.5	96.0	2,926,707	17.9	96.2
Sales of electricity and steam	113,237	21.1	3.9	117,413	13.9	3.8
Others	1,229	86.6	0.1	—	—	—
Total revenue	2,837,154	21.5	100	3,044,120	18.1	100.0

## COST OF SALES

Cost of sales was RMB2,227.2 million for 1H 2020, representing a decrease of 10.6% as compared to that of RMB2,492.5 million for 1H 2019. The decrease in cost of sales was consistent with the decrease in revenue, but higher than the decrease in revenue.

## GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit of our Group increased from RMB551.6 million for 1H 2019 to RMB610.0 million for 1H 2020. The profit margin of the Group also increased during the period as compared to the corresponding period last year, from 18.1% for 1H 2019 to 21.5% for 1H 2020.

## OTHER PROFIT AND LOSS ITEMS

Other income of RMB90.5 million for 1H 2020 (1H 2019: RMB101.5 million) mainly consisted of interest income on bank deposits of RMB15.1 million, interest income earned from a joint venture of RMB6.5 million, government grants of RMB67.6 million and rental income of RMB1.3 million.

Other gains of RMB7.4 million for 1H 2020 (1H 2019: RMB8.0 million) mainly consisted of gain from sale of scrap materials of RMB13.5 million, loss of disposal of property, plant and equipment of RMB4.8 million, net foreign exchange losses of RMB0.8 million, allowance for impairment of trade receivables RMB1.8 million and other gains of RMB1.3 million.

Distribution and selling expenses was RMB136.1 million for 1H 2020, as compared to RMB138.7 million for 1H 2019. As a percentage against revenue, it increased from 4.6% for 1H 2019 to 4.8% for 1H 2020.

Administrative expenses was RMB154.0 million for 1H 2020, representing a decrease of 29.5% as compared to RMB218.3 million for 1H 2019. As a percentage against revenue, it decreased from 7.2% for 1H 2019 to 5.4% for 1H 2020. The decrease was mainly due to the decrease in research and development expenses.

Finance costs was RMB98.4 million for 1H 2020, representing a decrease of 13.4% as compared to RMB113.6 million for 1H 2019. As a percentage against revenue, it decreased from 3.7% for 1H 2019 to 3.5% for 1H 2020. The decrease was mainly due to the decrease in weighted average borrowing rate of bank loans and discounted bills financing.

During 1H 2020, there was a share of loss of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB4.4 million (1H 2019: RMB11.0 million).



### INCOME TAX EXPENSE

Our income tax expense increased from RMB55.1 million for 1H 2019 to RMB98.3 million for 1H 2020. The applicable enterprise income tax rate for our subsidiaries for both 1H 2020 and 1H 2019 were roughly the same. Effective tax rate for 1H 2020 and 1H 2019 was 31.3% and 30.3%, respectively.

### PROFIT AND TOTAL COMPREHENSIVE INCOME

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of RMB206.3 million for 1H 2020 (1H 2019: RMB122.8 million).

### LIQUIDITY AND FINANCIAL RESOURCES

#### Working capital, gearing and financial resources

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

As at 30 June 2020, our Group had restricted bank deposits, cash and bank balances of RMB2,479.4 million (31 December 2019: RMB2,111.7 million). The debt of our Group comprised of bank and other borrowings, lease liabilities and corporate bond total RMB3,254.7 million as at 30 June 2020 (31 December 2019: RMB2,655.3 million). Net gearing ratio increased from 18.6% as at 31 December 2019 to 24.7% as at 30 June 2020.

Inventories increased from RMB565.7 million as at 31 December 2019 to RMB640.6 million as at 30 June 2020. Inventory turnover was 49 days for 1H 2020, as compared to 46 days for 1H 2019.

Trade receivables increased from RMB519.6 million as at 31 December 2019 to RMB573.7 million as at 30 June 2020. Trade receivables turnover was 35 days for 1H 2020, as compared to 31 days for 1H 2019. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded a decrease from RMB982.2 million as at 31 December 2019 to RMB932.2 million as at 30 June 2020. Trade payable turnover was 78 days for 1H 2020, as compared to 74 days for 1H 2019.

Current ratio increased from 0.62 times as at 31 December 2019 to 0.68 times as at 30 June 2020.

#### Notes to financial ratios

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

### **Capital expenditure**

For 1H 2020, our capital expenditure was approximately RMB95.9 million, which mainly involves the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

### **Capital commitments and contingent liabilities**

As at 30 June 2020, our Group had capital commitments, which were contracted but not provided for acquisition of property, plant and equipment of RMB203.0 million.

There was no contingent liabilities as at 30 June 2020.

### **Pledge of assets**

As at 30 June 2020, the carrying amount of our assets of RMB3,148.9 million and the fair value of our investment property of RMB88.4 million were pledged as collateral or security for our Group's bank loans, lease liabilities and corporate bond.

### **Foreign exchange risks**

As the functional and reporting currency of our Group is Renminbi, there are no foreign exchange differences arising from the translation of financial statements. In addition, as our Group conducts business transactions principally in Renminbi and has immaterial amount of bank balances denominated in foreign currencies, the exchange rate risk at our Group's operational level is not significant.

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

# Corporate Governance and Other Information

## CORPORATE GOVERNANCE

Our Company is committed to achieve a high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout 1H 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by our Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code throughout 1H 2020.

## AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our Company's financial reporting process, internal control and risk management system and to provide advice and comments to our Board. The audit committee consists of three independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie. Ms. Shan Xueyan is the chairlady of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for 1H 2020 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated financial statements of our Group for 1H 2020 have been reviewed by the Company's auditor, Grant Thornton Hong Kong Limited, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

## EMPLOYEES AND REMUNERATION POLICIES

Our Group had approximately 4,300 employees as at 30 June 2020. The staff costs for 1H 2020 were RMB167.5 million (1H 2019: RMB160.1 million). The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to set performance-based remuneration which reflects market standards. Employees' remuneration packages are generally determined based on job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

## INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for 1H 2020 (1H 2019: nil).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of Company's shares.

## SUFFICIENCY PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required under the Listing Rules throughout 1H 2020.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2020, the Directors listed below had the following interests and short positions in the Shares, underlying Shares and debentures of our Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code:

### (a) Long positions in our Company:

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of share</b>	<b>Approximate percentage of shareholding</b>
Mr. Wang Dongxing	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	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 <sup>(2)</sup>	3,840,000	0.47%
Mr. Shi Weixin	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(2)</sup>	22,265,500	2.72%
Mr. Zhang Zengguo	Interest of a party to an agreement to acquire interest in our Company <sup>(1)</sup>	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(2)</sup>	22,265,500	2.72%

## Corporate Governance and Other Information

Name of Director	Nature of interest	Number of share	Approximate percentage of shareholding
Mr. Wang Changhai	Interest of a party to an agreement to acquire interests in our Company <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(1)</sup>	321,687,052	39.26%
	Interest of a party to an agreement to acquire interests in our Company apart from such agreement <sup>(2)</sup>	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 Paper Investments Limited ("China Sunshine"), China Sunrise Paper Holdings Limited ("China Sunrise") and any members of our Group (with China Sunshine and China Sunrise, collectively, the "Target Entities") and participated in the management of the business of the Target Entities, each of them has been actively cooperating with each other and has been acting in concert (for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")), with an aim to achieve consensus and concerted action on major affairs relating to the business of the Target Entities. In addition, each of the members of the Controlling Shareholders Group has also agreed to keep the other members informed of their direct or indirect interest in the Target Entities or changes to such interest, so as to ensure due and prompt compliance of all applicable laws and regulations on disclosure of securities interests by shareholders. As China Sunrise is wholly-owned by China Sunshine, and China Sunshine is wholly-owned by the Controlling Shareholders Group, each of China Sunshine and members of the Controlling Shareholders Group (for the purpose of the Takeovers Code), including Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Zhang Zengguo and Mr. Wang Changhai, is deemed to be interested in the 321,687,052 Shares held by China Sunrise.
2. Under section 318 of the SFO, Mr. Shi Weixin and Mr. Zhang Zengguo, as parties to the Concert Parties Agreement, are deemed to be interested in the 22,265,500 Shares held by Mr. Wang Dongxing and Mr. Wang Changhai; Mr. Wang Dongxing is deemed to be interested in the 3,840,000 Shares held by Mr. Wang Changhai; and Mr. Wang Changhai is deemed to be interested in the 18,425,500 Shares held by Mr. Wang Dongxing.

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

So far as we, the Directors, are aware, as at 30 June 2020, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of our Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

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

*Notes:*

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

Except as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of our Company as at 30 June 2020.

## SHARE OPTION SCHEME

The share option scheme (the “2007 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 2007 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.



## Corporate Governance and Other Information

An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of 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 7 years and 9 months.

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

No option was granted, exercised, cancelled or lapsed during 1H 2020.

## 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 6 years and 10 months.

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

No Awards were granted during 1H 2020.

# Independent Auditor's Report on Review of Condensed Consolidated Interim Financial Information



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

## INTRODUCTION

We have reviewed the condensed consolidated interim financial statements of China Sunshine Paper Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 20 to 40, which comprise the condensed consolidated statement of financial position as at 30 June 2020, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

28 August 2020

**Kwong Kam Wing Kelvin**

Practising Certificate No.: P05373

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Unaudited Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	4&5	<b>2,837,154</b>	3,044,120
Cost of sales		<b>(2,227,194)</b>	(2,492,503)
Gross profit		<b>609,960</b>	551,617
Other income	6	<b>90,472</b>	101,451
Other gains or losses	6	<b>7,376</b>	7,989
Distribution and selling expenses		<b>(136,119)</b>	(138,650)
Administrative expenses		<b>(153,961)</b>	(218,304)
(Loss)/Gain on fair value changes of an investment property		<b>(418)</b>	2,081
Finance costs	7	<b>(98,358)</b>	(113,570)
Share of loss of a joint venture		<b>(4,374)</b>	(11,015)
Profit before income tax	9	<b>314,578</b>	181,599
Income tax expense	8	<b>(98,348)</b>	(55,068)
Profit and total comprehensive income for the period		<b>216,230</b>	126,531
Profit and total comprehensive income attributable to:			
Owners of the Company		<b>206,344</b>	122,793
Non-controlling interests		<b>9,886</b>	3,738
		<b>216,230</b>	126,531
Earnings per share for profit attributable to the owners of the Company during the period			
Basic and diluted (RMB)	11	<b>0.25</b>	0.15

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	4,494,943	4,192,405
Investment property	12	88,393	143,684
Prepaid lease payments		393,665	397,324
Goodwill		25,606	25,606
Deferred tax assets		55,958	54,209
Interest in a joint venture		180,615	184,989
Deposits and other receivables		207,557	214,116
Deposits for acquisition for property, plant and equipment		349,294	377,914
		<b>5,796,031</b>	5,590,247
<b>Current assets</b>			
Inventories		640,635	565,709
Trade receivables	13	573,722	519,591
Bills receivables	14	294,666	373,356
Prepayments and other receivables		323,397	259,677
Income tax recoverable		37	37
Restricted bank deposits		1,673,570	1,392,414
Bank balances and cash		805,804	719,314
		<b>4,311,831</b>	3,830,098
<b>Current liabilities</b>			
Contract liabilities		79,381	119,478
Trade payables	15	932,200	982,248
Bills payables	15	352,571	303,620
Other payables		185,457	259,014
Payable for construction work, machinery and equipment		151,108	167,870
Income tax payables		44,686	73,335
Lease liabilities	16	192,364	258,258
Deferred income		15,268	14,842
Discounted bills financing	17	1,888,407	1,885,628
Bank borrowings	18	2,369,198	1,987,039
Other borrowing		56,000	56,000
Corporate bond	19	100,000	100,000
		<b>6,366,640</b>	6,207,332
<b>Net current liabilities</b>		<b>(2,054,809)</b>	(2,377,234)
<b>Total assets less current liabilities</b>		<b>3,741,222</b>	3,213,013

## Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
<b>Capital and reserves</b>			
Share capital		73,779	73,779
Reserves		2,753,625	2,547,281
<hr/>			
Equity attributable to owners of the Company		2,827,404	2,621,060
Non-controlling interests		306,521	296,634
<hr/>			
<b>Total equity</b>		<b>3,133,925</b>	2,917,694
<hr/>			
<b>Non-current liabilities</b>			
Lease liabilities	16	141,752	142,477
Bank borrowings	18	295,799	12,281
Corporate bond	19	99,605	99,265
Deferred income		33,991	35,913
Deferred tax liabilities		36,150	5,383
<hr/>			
		607,297	295,319
<hr/>			
<b>Total equity and non-current liabilities</b>		<b>3,741,222</b>	3,213,013

The condensed consolidated interim financial statements on pages 20 to 40 were approved by the board of directors on 28 August 2020 and are signed on its behalf by:

\_\_\_\_\_  
**Wang Dongxing**  
*Director*

\_\_\_\_\_  
**Wang Changhai**  
*Director*

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Capital redemption reserve	Share premium	Merger reserve	Capital reserve	Assets revaluation reserve	Statutory surplus reserve	Discretionary surplus reserve	Retained earnings	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 (audited)	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
Dividend paid to owners of the Company (note 10)	—	—	—	—	—	—	—	—	(28,832)	(28,832)	—	(28,832)
Dividend paid to non-controlling interests of a subsidiary of the Company	—	—	—	—	—	—	—	—	—	—	(32)	(32)
Transactions with owners	—	—	—	—	—	—	—	—	(28,832)	(28,832)	(32)	(28,864)
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	122,793	122,793	3,738	126,531
<b>At 30 June 2019 (unaudited)</b>	<b>73,779</b>	<b>610</b>	<b>722,957</b>	<b>(2,776)</b>	<b>86,656</b>	<b>7,015</b>	<b>198,541</b>	<b>1,078</b>	<b>1,305,995</b>	<b>2,393,855</b>	<b>290,736</b>	<b>2,684,591</b>
At 31 December 2019 (audited)	73,779	610	722,957	(2,776)	86,656	7,015	247,685	1,078	1,484,056	2,621,060	296,634	2,917,694
Capital contribution by non-controlling interests of a newly incorporated subsidiary	—	—	—	—	—	—	—	—	—	—	1	1
Transactions with owners	—	—	—	—	—	—	—	—	—	—	1	1
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	206,344	206,344	9,886	216,230
<b>At 30 June 2020 (unaudited)</b>	<b>73,779</b>	<b>610</b>	<b>722,957</b>	<b>(2,776)</b>	<b>86,656</b>	<b>7,015</b>	<b>247,685</b>	<b>1,078</b>	<b>1,690,400</b>	<b>2,827,404</b>	<b>306,521</b>	<b>3,133,925</b>



# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
<b>Operating activities</b>		
Cash generated from operations	395,721	892,681
Tax paid	(97,979)	(28,937)
<i>Net cash from operating activities</i>	<b>297,742</b>	863,744
<b>Investing activities</b>		
Interest received	15,051	13,345
Proceeds from disposal of property, plant and equipment	813	11,082
Purchase of property, plant and equipment	(95,870)	(245,808)
Advance to a joint venture	(212,709)	(74,096)
Repayment from a joint venture	221,370	—
Additions of deposits on property, plant and equipment	(265,229)	(170,116)
Increase in guarantee deposits for lease liabilities	(1,000)	(14,710)
Return of guarantee deposits for lease liabilities	11,000	8,640
Increase in restricted bank deposits	(281,156)	(310,929)
<i>Net cash used in investing activities</i>	<b>(607,730)</b>	(782,592)
<b>Financing activities</b>		
Interest paid	(94,431)	(132,150)
Government grants received	—	22,362
(Decrease)/Increase in amount due to a non-controlling shareholder of a subsidiary	(114,628)	39,747
Advance from a director	3,833	—
New bank borrowings raised	2,243,014	1,497,380
Repayment of bank borrowings	(1,577,337)	(1,406,053)
Increase in discounted bills financing	2,779	249,157
Proceeds from sale and lease back transactions	100,000	160,000
Repayment of lease liabilities	(166,753)	(146,933)
Dividend paid to non-controlling interests of a subsidiary of the Company	—	(32)
Dividend paid to owners of the Company	—	(28,832)
Proceeds from capital contribution of non-controlling interests of a newly incorporated subsidiary	1	—
<i>Net cash from financing activities</i>	<b>396,478</b>	254,646
<b>Net increase in cash and cash equivalents</b>	<b>86,490</b>	335,798
Cash and cash equivalents at beginning of the period, represented by bank balances and cash	719,314	524,252
<b>Cash and cash equivalents at end of the period</b>	<b>805,804</b>	860,050

# Notes to the Condensed Consolidated Interim Financial Statements

*For the six months ended 30 June 2020*

## 1. GENERAL INFORMATION

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

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

## 2. BASIS OF PREPARATION

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

The Group has net current liabilities of approximately RMB2,054,809,000 as at 30 June 2020. The directors of the Company (the “Directors”) have evaluated the relevant available information and key assumptions used in the cash flow projections for the twelve months since the reporting date. In addition, although most of the existing bank facilities will expire within twelve months, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional bank borrowing facilities as necessary. Therefore, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

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

## Notes to the Condensed Consolidated Interim Financial Statements

*For the six months ended 30 June 2020*

### 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

In the current interim period, the Group has applied for the first time, all amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's consolidated financial statements for accounting period beginning on 1 January 2020.

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

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

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4. REVENUE

#### 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 markets:

Segments	Unaudited For the six months ended 30 June 2020			
	Paper products RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
<b>Timing of revenue recognition</b>				
— At a point in time	2,722,688	113,237	110	2,836,035
— Over time	—	—	1,119	1,119
<b>Geographical markets</b>				
— PRC	2,651,415	113,237	1,229	2,765,881
— Oversea	71,273	—	—	71,273

Segments	Unaudited For the six months ended 30 June 2019			
	Paper products RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
<b>Timing of revenue recognition</b>				
— At a point in time	2,926,707	117,413	—	3,044,120
<b>Geographical markets</b>				
— PRC	2,859,240	117,413	—	2,976,653
— Oversea	67,467	—	—	67,467

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 5. SEGMENT INFORMATION

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

#### (a) Segment result

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

	Unaudited						
	For the six months ended 30 June 2020						
	Paper products						Total RMB'000
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	Others RMB'000		
Revenue from external customers	677,924	913,256	308,177	823,331	113,237	1,229	2,837,154
Inter-segment revenue	—	—	—	—	242,671	—	242,671
Segment revenue	677,924	913,256	308,177	823,331	355,908	1,229	3,079,825
Segment profit	179,288	221,363	72,669	111,003	75,019	1,064	660,406

	Unaudited						
	For the six months ended 30 June 2019						
	Paper products						Total RMB'000
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	Others RMB'000		
Revenue from external customers	773,440	1,207,247	343,323	602,697	117,413	—	3,044,120
Inter-segment revenue	—	—	—	—	237,543	—	237,543
Segment revenue	773,440	1,207,247	343,323	602,697	354,956	—	3,281,663
Segment profit	113,801	266,043	73,699	71,694	49,158	—	574,395

## 5. SEGMENT INFORMATION (CONTINUED)

### (b) Reconciliation of segment profit

Segment profit represents the gross profit earned by each paper product category and the profit before income tax earned by electricity and steam segment. The Group does not allocate certain other income, certain other gains or losses, distribution and selling expenses, certain administrative expenses, (loss)/gain on fair value changes of an investment property, certain finance costs and share of loss 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.

	Unaudited	
	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
<b>Profit</b>		
Segment profit	660,406	574,395
Unrealised profit on inter-segment sales	(60,037)	(38,556)
	<b>600,369</b>	535,839
Other income	88,977	99,437
Other gains or losses	(175)	6,289
Distribution and selling expenses	(136,119)	(138,650)
Administrative expenses	(146,000)	(210,257)
Finance costs	(87,682)	(102,125)
(Loss)/Gain on fair value changes of an investment property	(418)	2,081
Share of loss of a joint venture	(4,374)	(11,015)
<b>Consolidated profit before income tax</b>	<b>314,578</b>	181,599

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.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 6. OTHER INCOME AND OTHER GAINS AND LOSSES

	Unaudited	
	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest income on:		
Bank deposits	15,051	13,648
The balance with a joint venture (note i) (note 21(a))	6,503	6,861
<b>Total interest income</b>	<b>21,554</b>	20,509
Government grants (note ii)	67,644	79,799
Rental income from an investment property and other properties	1,274	1,143
	<b>90,472</b>	101,451
Other gains or losses:		
Gain from sale of scrap materials, net	13,539	14,278
Loss on disposal of property, plant and equipment	(4,805)	(3,045)
Net foreign exchange losses	(783)	(4,516)
Allowance for impairment of trade receivables	(1,821)	(98)
Others	1,246	1,370
	<b>7,376</b>	7,989

Notes:

- i. During the six months ended 30 June 2020, the Group earned interest income from 陽光王子（壽光）特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd ("Sunshine Oji")), a joint venture of the Group, at a weighted average effective interest rate of 4.75% per annum (six months ended 30 June 2019: 6.18% per annum).
- ii. During the six months ended 30 June 2020, the Company's subsidiary, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine")) was granted and received unconditional government subsidy from local government of approximately RMB62,800,000, the amounts of which were determined by reference to the amount of value-added tax paid (six months ended 30 June 2019: RMB72,103,000).

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 7. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest expenses on:		
Discounted bills financing	41,643	41,804
Bank and other borrowings	58,235	60,201
Lease liabilities	10,810	12,766
Corporate bond	8,530	13,063
	<b>119,218</b>	127,834
Less: Interest capitalised in construction in progress	<b>(20,860)</b>	(14,264)
	<b>98,358</b>	113,570

Borrowing costs capitalised during the six months ended 30 June 2020 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 4.55% to 5.22% (six months ended 30 June 2019: 5.02 to 5.22%) per annum to expenditure on construction in progress.

### 8. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	69,330	53,261
Deferred tax expense	29,018	1,807
Charge for the period	<b>98,348</b>	55,068

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

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong profits tax has not been provided for the six months ended 30 June 2020 and 2019 as the Group had no assessable profits for the periods.



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Wages and salaries	150,981	137,857
Retirement benefits schemes contributions	16,567	22,272
<b>Total staff costs (including directors' emoluments)</b>	<b>167,548</b>	160,129
Amortisation of prepaid lease payments	2,767	2,807
Cost of inventories recognised as an expense	2,187,253	2,244,705
Depreciation of property, plant and equipment		
— right-of-use assets	36,942	193
— owned	105,152	126,066
Research and development expenses	236,261	211,601

### 10. DIVIDENDS

During the current interim period, no final dividend in respect of the year ended 31 December 2019 (six months ended 30 June 2019: HK\$0.04 per share representing approximately HK\$32,774,000 (equivalent to approximately RMB28,832,000) in aggregate) was approved and paid to the equity shareholders of the Company.

The board of directors resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2020 was based on the profit of RMB206,344,000 (six months ended 30 June 2019: RMB122,793,000) for the period attributable to owners of the Company, and the weighted average number of 819,362,000 (six months ended 30 June 2019: 819,362,000) ordinary shares in issue during the six months ended 30 June 2020.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2020 and 2019. The basic earnings per share equals to the diluted earnings per share.

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

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB5,618,000 (six months ended 30 June 2019: RMB14,127,000) for proceeds of RMB813,000 (six months ended 30 June 2019: RMB11,082,000), resulting in a loss on disposal RMB4,805,000 (six months ended 30 June 2019: RMB3,045,000). No construction in progress (six months ended 30 June 2019: RMB22,415,000) has transferred to prepaid land lease after the constructions has completed and title certificates of land use right have obtained.

In addition, during the current interim period, the Group acquired approximately RMB30,872,000 (six months ended 30 June 2019: RMB39,686,000) of property, plant and equipment, approximately RMB364,505,000 (six months ended 30 June 2019: RMB366,118,000) on construction in progress and transferred approximately RMB54,873,000 from investment property in order to maintain its manufacturing capabilities, which included interest capitalisation of approximately RMB20,860,000 (six months ended 30 June 2019: RMB14,264,000).

The Group's investment property as at the end of the current interim period was remeasured to fair value by reference to a valuation performed by Asia-Pacific Consulting and Appraisal Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market, as appropriate. During the current interim period, decrease in fair value of investment property of RMB418,000 has been recognised directly in profit or loss for the six months ended 30 June 2020 (six months ended 30 June 2019: increase in fair value of RMB2,081,000).

The investment property located in Weifang, Shandong, the PRC and certain property, plant and equipment and construction in progress were pledged for counter guarantee under the guarantee agreement of the corporate bond (note 19) 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") (note 19).

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 13. TRADE RECEIVABLES

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

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
0–30 days	469,828	474,076
31–90 days	82,883	28,493
91–365 days	18,635	15,667
Over 1 year	2,376	1,355
	<b>573,722</b>	519,591

The following are the movements of expected credit loss allowance of trade receivables during the period:

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
At the beginning of the period/year	10,674	9,040
Written off during the period/year	(800)	(617)
Allowance during the period/year	1,821	2,251
<b>At the end of the period/year</b>	<b>11,695</b>	10,674

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 14. BILLS RECEIVABLES

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

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
0-90 days	190,417	204,907
91-180 days	101,144	85,515
181-365 days	3,105	82,934
	<b>294,666</b>	373,356

As at 30 June 2020, the Group has discounted bills receivables of RMB10,307,000 (31 December 2019 (Audited): RMB49,128,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivables and has recognised the cash received upon the discounting as discounted bills financing (note 17).

### 15. TRADE AND BILLS PAYABLES

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

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
0-90 days	1,046,693	1,073,234
91-365 days	219,647	203,527
Over 1 year	18,431	9,107
	<b>1,284,771</b>	1,285,868

All the bills payables as at 30 June 2020 and 31 December 2019 are trading nature and will mature within twelve months respectively. At the end of the reporting period, certain of the Group's bank deposits were pledged to secure bills payable granted to the Group.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 16. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Within one year	209,443	276,212	192,364	258,258
In more than one year but not more than two years	96,762	105,102	90,183	98,107
In more than two years but not more than five years	39,459	35,059	35,617	30,293
After five years	21,474	17,689	15,952	14,077
	<b>367,138</b>	434,062	<b>334,116</b>	400,735
Future finance charges on lease liabilities	<b>(33,022)</b>	(33,327)	—	—
Present value of lease liabilities	<b>334,116</b>	400,735	<b>334,116</b>	400,735
Less: Amount due for settlement within 12 months (shown under current liabilities)			<b>(192,364)</b>	(258,258)
Amount due for settlement after 12 months			<b>141,752</b>	142,477

The Group's lease liabilities are secured by the lessor's charge over certain property, plant and equipment amounting to RMB737,301,000 (31 December 2019 (Audited): RMB774,109,000).

During the current interim period, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB100,000,000 (31 December 2019 (Audited): RMB176,000,000). Upon maturity, the Group will be entitled to purchase the Secured Assets.

During the current interim period, the total cash outflows for the leases are RMB179,417,000.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 17. DISCOUNTED BILLS FINANCING

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Discounted bills receivables from third parties (note a)	7,519	49,128
Discounted bills receivables from a joint venture	—	500
Discounted bills receivables from subsidiaries of the Company (note b)	1,880,888	1,836,000
	<b>1,888,407</b>	1,885,628

Notes:

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

At the end of the reporting period, certain of the Group's bank deposits were pledged to secure discounted bills financing granted to the Group.

### 18. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB2,243,014,000 (six months ended 30 June 2019: RMB1,497,380,000), and repaid loans amounting to RMB1,577,337,000 (six months ended 30 June 2019: RMB1,406,053,000). The newly raised loans bear interest from 2.00% to 7.51% per annum (six months ended 30 June 2019: 3.50% to 7.13%). At the end of the reporting period, certain of the Group's property, plant and equipment and land use rights of RMB3,074,223,000 (31 December 2019 (Audited): RMB2,763,852,000) were pledged to secure bank borrowings granted to the Group.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 19. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was RMB500,000,000 with annual coupon rate of 8.19% per annum. The corporate bond is guaranteed by SME Guarantee, and is with counter-guarantee arrangement with the Group's investment property, property, plant and equipment and construction in progress of RMB88,393,000, RMB19,761,000 and RMB54,873,000 respectively (31 December 2019 (Audited): investment property and property, plant and equipment of RMB143,684,000 and RMB19,892,000 respectively) (note 12), and the remaining balance will be repaid with 20% of offering size annually from the year 2020 to year 2021.

### 20. CAPITAL COMMITMENTS

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated interim financial statements in respect of:		
— acquisition of property, plant and equipment	203,028	342,347

### 21. RELATED PARTY TRANSACTIONS

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

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Sales of electricity and steam to a non-controlling shareholder of a subsidiary	59,337	60,224
Interest income earned from a joint venture (note 6)	6,503	6,861

## 21. RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Balance with related parties

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Trade receivables and other receivables from a non-controlling shareholder of a subsidiary (note i)	17,555	13,647
Balance due from a joint venture (note ii)	195,267	196,645
Balance due to a director (note i)	3,833	—

Notes:

- i) The balance is unsecured, interest-free and repayable on demand.
- ii) The balance will be collected after 12 months from the end of the reporting period, see note 6 (i) for more details.

## (c) Compensation of key management personnel

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

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Short term employee benefit	2,089	1,774
Retirement benefit scheme contributions	92	60
	2,181	1,834



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 22. LEASE COMMITMENTS

#### The Group as lessee

At the reporting date, the lease commitments for short-term leases are as follows:

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Within one year	203	269

#### The Group as lessor

Property rental income earned during the period was RMB1,274,000 (six months ended 30 June 2019: RMB1,143,000). All of the properties held have committed tenants for the next 1 to 3 years.

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

	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Within one year	1,114	1,052
In the second to fifth years	1,913	2,351
	<b>3,027</b>	3,403