China Sunshine Paper Holdings Company Limited

中國陽光紙業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2002

*For identification purposes only

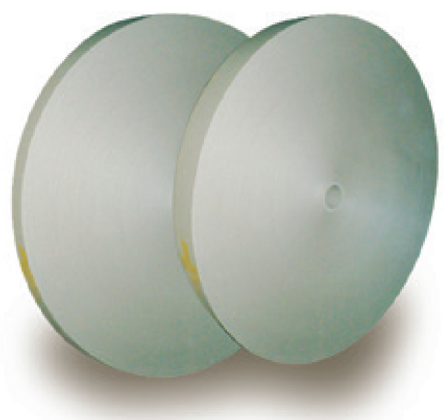
Contents

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.



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)*
Mr. Wang Dongxing
Ms. Shan Xueyan

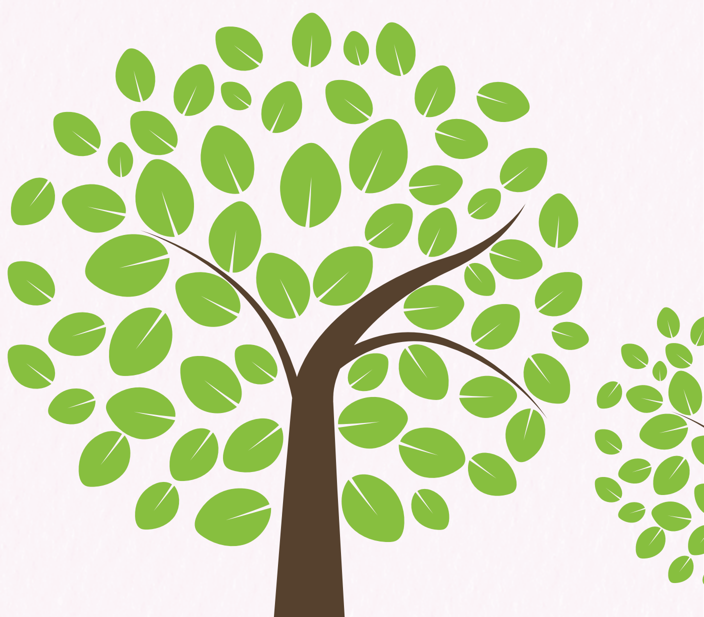
NOMINATION COMMITTEE
Ms. Jiao Jie *(Chairlady)*
Mr. Wang Dongxing
Mr. Wang Zefeng

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

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
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

Morgan, Lewis & Bockius
Suites 1902–09, 19th Floor
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15 Queen's Road Central
Hong Kong

STOCK CODE

2002

WEBSITE

www.sunshinepaper.com.cn

Chairman's Statement


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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 2020 ("FY2020").

BUSINESS REVIEW

In 2020, the global impact of coronavirus disease ("COVID-19") and the continuation of U.S.-China trade tension imposed severe challenges to the entire paper manufacturing industry and even the global economy. In the midst of such complicated and changing external environment, the Group closely focused on its philosophy of "quality and efficiency improvement", and made unswerving efforts to develop the market, improve efficiency and reduce costs, to reinforce the foundation of lean management. We have integrated internal and external resources by adopting effective measures, thereby achieving satisfactory performance growth.

Confronted with fierce industry competition caused by the pandemic, the sales team of the Group carried out precisely targeted domestic market development and maintenance strategies, maintained the stability of overseas markets, strengthened cooperation and communication with end customers, and continuously explored new markets for the launch of new products, to maintain a good market share. In 2020, the Group reported a high sales volume of approximately 1,450,000 tonnes of machine-made paper (including approximately 180,000 tonnes of corrugated paper from the new production line), representing an increase of approximately 10.7% as compared to 1,310,000 tonnes for last year.

Meanwhile, the Group continued to promote the group-based centralized procurement model, safeguarded the supply share of suppliers with competitive advantages in the regions where we have advantages, stepped up efforts to identify suppliers, and continuously adjusted and optimized its product process to reduce its production costs. Leveraging the comparatively loose financial policies during the pandemic, we doubled down negotiations with banks and other financial institutions, to continuously reduce finance costs. Relying on the information-based tools, we constantly improved our management standard and work efficiency. In 2020, the Group achieved a net profit attributable to the controlling shareholders of RMB497.7 million, representing a growth of approximately 42.2% as compared to RMB350.0 million for the corresponding period last year.

BUSINESS OUTLOOK

The PRC's packaging and papermaking industry will continue to suffer from the ongoing adverse impact of the pandemic on the global economy, and the gradual tightening of environmental protection policies by the PRC such as zero imports of waste paper and plastic bag ban. The Group will actively expand and diversify its upstream business and seek alternative raw materials to continuously reduce production costs while ensuring product quality. Meanwhile, we will continue to strengthen our safety and environmental protection management and fulfill our corporate social responsibilities to achieve green and sustainable development.

Following the commencement of the new corrugated paper production line, the Group will constantly provide its customers with diversified products and the information-based tools will promote the steady development of enterprises. Given the development room for the paper-making industry in the long run, the Group shall seize development opportunities and proceed with appropriate expansion, to continually enhance our comprehensive competitiveness.

Wang Dongxing
Chairman

Shandong, China
26 March 2021

Management Discussion and Analysis

TOTAL REVENUE

Our Group's total revenue for FY2020 was approximately RMB6,673.4 million, representing an increase of approximately RMB362.2 million or 5.7% as compared to that of approximately RMB6,311.2 million for FY2019. The increase in revenue mainly resulted from the growth in sales quantity.

Sales of electricity and steam continued to account for a low single digit percentage of our Group's total revenue for FY2020.

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

	FY2020 RMB'000	FY2020 %	FY2019 RMB'000	FY2019 %
Sales of paper products				
White top linerboard	**1,594,691**	**23.9**	1,604,714	25.4
Coated-white top linerboard	**2,134,681**	**32.0**	2,369,807	37.5
Core board	**666,557**	**10.0**	698,675	11.1
Specialised paper products	**2,049,741**	**30.7**	1,406,669	22.3
Sub-total of paper products	**6,445,670**	**96.6**	6,079,865	96.3
Sales of electricity and steam	**227,765**	**3.4**	230,732	3.6
Other	**—**	**—**	603	0.1
	6,673,435	**100.0**	6,311,200	100.0

COST OF SALES

Our cost of sales was around RMB5,236.9 million for FY2020, whereas the cost of sales for FY2019 was approximately RMB5,047.9 million. Cost of sales for FY2020 was in line with the increasing trend of total revenue in general.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased from approximately RMB1,263.3 million for FY2019 to approximately RMB1,436.5 million for FY2020. Gross profit margin for FY2020 was around 21.5%, representing a 1.5 percentage point increase as compared to that of 20.0% for FY2019.

OTHER PROFIT AND LOSS ITEMS

Other income of approximately RMB218.4 million for FY2020 (FY2019: approximately RMB203.5 million) mainly comprised interest income of approximately RMB43.6 million (FY2019: approximately RMB44.0 million), rental income from an investment property and other properties of approximately RMB1.8 million (FY2019: approximately RMB1.5 million), government grants of approximately RMB160.9 million (FY2019: approximately RMB158.0 million), hotel and catering services income of approximately RMB3.6 million (FY2019: nil) and logistics services income of approximately RMB8.5 million (FY2019: nil).

Other losses of approximately RMB28.5 million for FY2020 (FY2019: approximately RMB69.2 million) mainly consisted of provision for expected credit loss on trade receivables of RMB7.1 million, gain from sale of scrap materials of RMB27.5 million, loss on disposal and written off of property, plant and equipment of RMB23.5 million, net foreign exchange losses of RMB3.7 million, impairment loss on property, plant and equipment of RMB27.6 million and other gains of RMB5.9 million.

Distribution and selling expenses recorded RMB306.7 million for FY2020 as compared to RMB287.9 million for the corresponding period last year. For FY2020, such expenses represented approximately 4.6% of the total revenue, as compared with approximately 4.6% of the total revenue for FY2019.

Administrative expenses recorded RMB424.5 million for FY2020 as compared to RMB396.5 million for the corresponding period last year. For FY2020, it accounted for approximately 6.4% of the total revenue, as compared with approximately 6.3% of the total revenue for FY2019.

Finance costs recorded approximately RMB161.0 million for FY2020 as compared to approximately RMB202.4 million for the corresponding period last year. For FY2020, it accounted for approximately 2.4% of the total revenue, as compared with approximately 3.2% of the total revenue for FY2019. The decrease was mainly due to the reduction in borrowing interest rate and the discount rate.

During 2020, there was a share of profit of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB3.5 million (FY2019: share of loss of a joint venture of RMB23.1 million). The main reasons for the improvement of the profitability of the joint venture are the operation technology of the new production line and the gradual stability of the market.

INCOME TAX EXPENSES

Income tax expenses were approximately RMB219.7 million for FY2020 as compared to approximately RMB128.1 million for FY2019.

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 RMB497.7 million for FY2020, representing an increase of approximately RMB147.7 million from approximately RMB350.0 million for FY2019.

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 FY2020, 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 were approximately RMB1,800.5 million as at 31 December 2020, as compared to approximately RMB2,377.2 million as at 31 December 2019. Current ratio was 0.65 times and 0.62 times, respectively, as at 31 December 2020 and 31 December 2019.

Bank balances and cash, and restricted bank deposits were approximately RMB1,753.7 million as at 31 December 2020, as compared to approximately RMB2,111.7 million as at 31 December 2019.

Inventories were approximately RMB635.7 million as at 31 December 2020, as compared to approximately RMB565.7 million as at 31 December 2019. Inventory turnover was 42 days for FY2020, as compared to 48 days for FY2019.

Trade receivables were approximately RMB513.3 million as at 31 December 2020, as compared to approximately RMB519.6 million as at 31 December 2019. Trade receivables turnover for FY2020 was 28 days as compared to 30 days for FY2019.

Trade payables were approximately RMB814.3 million as at 31 December 2020, as compared to approximately RMB982.2 million as at 31 December 2019. Trade payables turnover for FY2020 was 63 days, as compared to 73 days for FY2019.

Cashflow

Net cash from operating activities amounted to approximately RMB936.8 million for FY2020 (FY2019: approximately RMB1,472.8 million).

Net cash used in investing activities amounted to approximately RMB363.2 million for FY2020 (FY2019: approximately RMB771.1 million), primarily representing the purchase of property, plant and equipment and prepaid lease payment of RMB423.2 million and RMB55.5 million, and additions of deposits for acquisition of property, plant and equipment of RMB227.0 million, etc.

Net cash used in financing activities amounted to approximately RMB679.6 million for FY2020 (FY2019: approximately RMB506.7 million), primarily attributable to interest paid of RMB198.4 million, the repayment of bank and other borrowings of RMB3,327.6 million, offset in part by the net proceeds from other borrowings of RMB174.9 million and new bank borrowings raised of RMB3,515.2 million, etc.

The combined effect of the above resulted in a net decrease in cash and cash equivalents of RMB106.0 million for FY2020 (FY2019: Net increase in cash and cash equivalents of RMB195.1 million).

Gearing ratio

Our net gearing ratio increased from approximately 18.6% as at 31 December 2019 to approximately 33.9% as at 31 December 2020. The increase in net gearing ratio was mainly driven by the increase in bank borrowings.

Capital expenditure

During FY2020, our capital expenditure was approximately RMB478.6 million (FY2019: RMB315.3 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

For FY2020, the aggregate carrying amount of our assets pledged was approximately RMB2,347.5 million. (FY2019: approximately RMB2,763.9 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 RMB207.1 million as at 31 December 2020 (FY2019: RMB342.3 million).

In accordance with the Limited Partnership Agreement and Equity Investment Agreement, which were duly passed by way of poll at the extraordinary general meeting of the Company held on 28 December 2020 (the "EGM"), the Group would contribute up to RMB395.0 million in total to 濰坊市世紀陽光新舊動能轉換股權投資基金合夥企業(有限合夥) (Weifang City Century Sunshine Old-to-New Momentum Conversion Equity Investment Fund Partnership (Limited Partnership)*) (the "Partnership"), while the Partnership would contribute up to RMB500.0 million into the Group in exchange for a subsidiary's equity. Details of the transaction are set out in the Company's circular dated 10 December 2020. As at the year ended 31 December 2020, the Group has contributed RMB1,185,000 to the Partnership, which recorded under other receivables in note 24. Subsequent to the reporting date, the Group has contributed RMB197.5 million to the Partnership, while the Partnership has contributed RMB251.5 million to the Group.

As at 31 December 2020, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 4,520 full-time employees in the PRC and Hong Kong as at 31 December 2020 (4,430 as at 31 December 2019). The staff costs for FY2020 were approximately RMB377.5 million, representing an increase of RMB3.5 million over FY2019 of approximately RMB374.0 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 to 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.

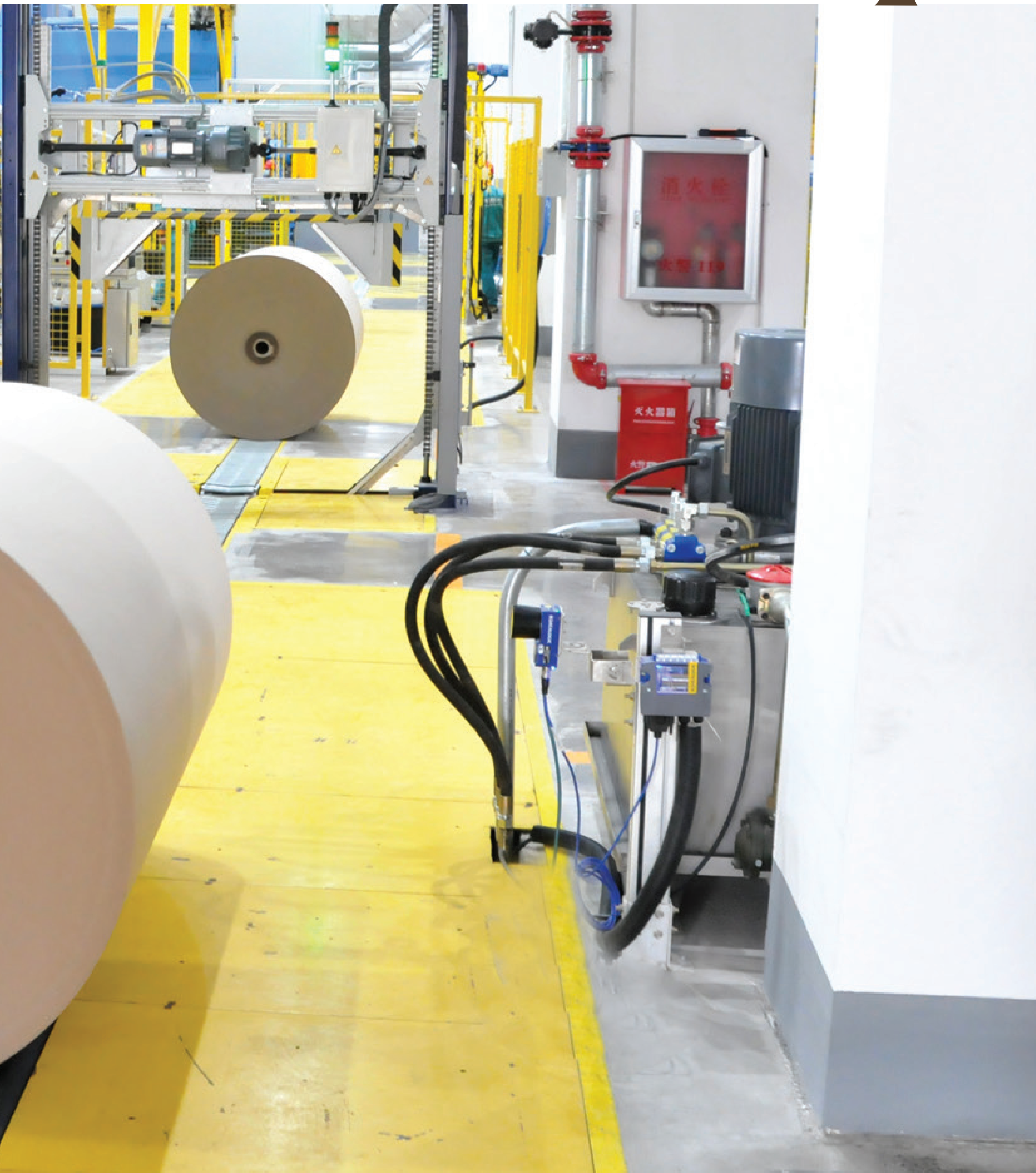
(2) Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant year divided by turnover of the relevant year and multiplied by 365 days.

(3) Trade payables turnover days equal to 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 leases liabilities, net of bank balances and cash, and restricted bank deposits divided by total equity as of the end of the year.

Corporate Governance Report



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Code on Corporate Governance Practices

Our Company is committed to achieve high standard of corporate governance. 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 FY2020.

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 FY2020.

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 FY2020 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
Non-executive Director:	Ms. Wu Rong
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 "Reports of the Directors — 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 (the "Articles"), one third (or if their number is not a multiple of three, the number nearest to but not less than one-third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Pursuant to Article 87 of the Articles, Mr. Wang Changhai, Mr. Zhang Zengguo and Mr. Ci Xiaolei shall retire from office at the forthcoming annual general meeting of the Company to be held on 28 May 2021 (the "AGM") and being eligible for re-election, will offer themselves for re-election at the AGM.

Mr. Wang Zefeng has been serving as an independent non-executive Director for more than nine years since November 2007. Pursuant to code provision A.4.3 of the CG Code, (a) serving more than nine years could be relevant to the determination of a non-executive director's independence; and (b) if an independent non-executive director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, Mr. Wang Zefeng will be subject to retirement by rotation and re-election by way of separate resolutions to be approved by the shareholders of the Company in 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 FY2020 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 FY2020, our Company held a total of four Board meetings, one annual general meeting and one extraordinary 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	2/2
Mr. Shi Weixin	4/4	2/2
Mr. Wang Changhai	4/4	2/2
Mr. Zhang Zengguo	4/4	2/2
Mr. Ci Xiaolei	4/4	2/2
Non-executive Director		
Ms. Wu Rong	4/4	2/2
Independent Non-executive Directors		
Ms. Shan Xueyan	4/4	2/2
Mr. Wang Zefeng	4/4	2/2
Ms. Jiao Jie	4/4	2/2

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 FY2020:

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	A
Non-executive Director	
Ms. Wu Rong	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 49 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 FY2020, our audit committee held two meetings to review our annual results for FY2019 and interim results for the six months ended 30 June 2020, 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 FY2020, 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 FY2020, 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 FY2020, 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 FY2020.

Board committees meetings

Our audit committee, remuneration committee and nomination committee held meetings during FY2020. 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	—	—	—
Non-executive Director			
Ms. Wu Rong	—	—	—
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 FY2020, 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 FY2020, 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 FY2020. 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 FY2020, 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 RMB1.3 million and RMB0.2 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 FY2020, 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 FY2020 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 FY2020, 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 61 to 66 of this annual report.

SHAREHOLDERS' RIGHTS

Under Article 58 of the Articles, 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 FY2020.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

The Group focuses on producing high-quality and multipurposed packaging paper, including white top linerboard, coated-white top linerboard and core board. 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 ("Reporting Guide") 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 2020 to 31 December 2020.

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 raw 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 and we have obtained the Environmental Management System Certificate (00219E32663R2L), 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 good implementation of the environmental management requirements stipulated in the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Law of the People's Republic of China on the Prevention and Control of Air Pollution and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, as well as other regional laws and regulations and emission standards, we have become a resource- and environmental-friendly corporation.

A. ENVIRONMENTAL

A1. Emissions

In order to comply with the national and local environmental management regulations, the Company has established an environmental management leading group headed by the general manager and comprising of environmental engineers, sewage treatment workers, environmental monitoring personnel and other technical backbones. Based on the principle of "protection and prevention first, comprehensive management, public participation, accountability", an accountability system for environmental protection has been established to clarify the responsibilities of the Company and relevant responsible personnel. In order to respond to environmental emergencies, the Company has formulated the environmental emergency response plan, pursuant to which, we regularly organize inspections on environmental safety hazards, conduct emergency drills and arrange sessions 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. In addition, the Group has a comprehensive emission monitoring and control system in place and has formulated a self-monitoring program for pollutants to regularly monitor pollutants such as waste water, exhaust gas and noise generated by the Group to ensure the up-to-standard discharge of all pollutants and to reduce the impact on the environment. During the year, the Group was not aware of any violation of laws or regulations related to environmental protection.

Sewage Discharge

As for sewage treatment, the Group adopts internationally leading production technologies for paper making to control the volume of wastewater generated at source. Each of the production lines is installed with an advanced water recycling system which can effectively reduce a large amount of wastewater generated and discharged.

As for sewage treatment, the establishment of two water treatment engineering, designed by Paques of the Netherlands, was completed by the Group; 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.

In 2020, Environmental indicators in discharged wastewater (including chemical oxygen demand (COD), ammonia nitrogen, total suspended matter (SS), total nitrogen, chroma, biochemical oxygen demand, the potential of hydrogen (pH), etc.) have met the emission standards. The Group's discharge is indirect, and the wastewater is discharged into downstream sewage treatment plants through the municipal pipe network for further treatment. During the reporting period, the main discharge indicators were as follows:

Indicators for discharged wastewater	Volume of discharged wastewater for FY2020 (tons)	Volume of discharged wastewater per ton of paper (tons/10 thousand tons of paper)
COD	464.75	3.66
Ammonia nitrogen	1.79	0.02
Total nitrogen	36.47	0.29

In the future, the Group will continue to comply with the requirements of the pollutant discharge license and the Confirmation Letter on Control Indicators for Total Amount of Major Pollutants of the Ministry of Environmental Protection to ensure that environmental indicators in discharged wastewater (including chemical oxygen demand (COD), ammonia nitrogen, total suspended matter (SS), total nitrogen, chroma, biochemical oxygen demand, the potential of hydrogen (pH), etc.) meet 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", with an actual desulfurization efficiency of over 99% 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. In 2019, the thermal power station upgraded the denitrification technology SNCR and adopted the most advanced domestic spray technology to further increase the contact area of flue gas and denitration agent, as a result of which, the denitration efficiency was increased from 75% to 90% and the emission concentration of nitrogen oxides could continuously maintain at below 40mg/m^3, which completely complied with the requirement of the emission concentration of nitrogen oxides of less than 50mg/m^3 stipulated in Shandong Province Air Pollutants Discharge Standards for Coalburned Power Plant (DB37/664–2019) implemented on 1 January 2020. For particulates, we applied "electrostatic dedusting + wet electrostatic dedusting method", resulting in a substantially lower emission concentration as compared to the national standard of 5mg/m^3.

During the reporting period, the expansion project of the new 2*B30MW heat and electricity co-generation units was partially put into operation, and the efficiency of the new units was improved, which reduced the unit consumption rate effectively and realized the reduction of energy consumption and carbon dioxide equivalent while external demand continued to increase.

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 during the reporting period was 588,153 tonnes of standard coal, translated into 1,646,000 tonnes of CO_2.

SO_2

Total SO_2 emission amount during the reporting period was 37.2 tonnes and the measured concentration of emission was 6.36mg/m^3.

NO_x

Total NO_x emission amount during the reporting period was 238.1 tonnes and the measured concentration of emission was 40.74mg/m^3.

Particulate

Total particulate emission amount during the reporting period was 5.02 tonnes and the measured concentration of emission was 0.9mg/m^3.

Solid Waste

The solid waste generated in the course of operation of the Group is mainly non-hazardous waste generated during paper manufacturing and domestic waste generated by daily administrative work. Based on the principles of detoxification treatment, reduction and resource recycling, the generated solid waste has been classified in detail, stored in designated location and transferred in a standardized manner. The disposal measures of the four main types of solid wastes generated are as follows:

1. Sludge: Sludge is mainly generated in the process of sewage treatment, and 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, realizing the reutilization of sludge.

2. Coal ash: Coal ash and cinder are mainly produced by thermal power station and will be sold to qualified units as raw materials for building materials.

3. Waste plastic: Some waste plastics and iron nails sorted out in the process of waste paper pulping will be used for comprehensive utilization in the Group's the comprehensive utilisation projects of solid waste treatment with annual capacity of 120,000 tons to realize the reutilization of solid waste.

4. Hazardous waste: Some hazardous waste generated from equipment maintenance, forklift trucks and other processes in the operation of the Group will be regulated and managed in strict compliance with State's laws and regulations on hazardous waste management. The storage location, account book, transfer and disposal complied with the requirements of the "Hazardous Waste Standardized Management Indicator System". We appoint qualified units to carry out detoxification treatments on a regular basis.

A2. Use of Resources

Under the energy policy of "implementing clean production in compliance with laws and regulations; optimizing energy structure to achieve comprehensive process control; developing green paper industry to realize scientific circular development (遵守法律法規，推行清潔生產；優化能源結構，全面過程控制；科學循環發展，建設綠色紙業)", the Group actively promotes circular economy and improves the utilization of resources by virtue of advancement in technology and system innovation. The Group makes good use of reclaimed water recycle and residual heat utilization to realize the graded utilization of energy while implementing "waste treatment by waste" and "waste reuse" to reduce the amount of external waste discharge and to build an ecological friendly first-class international papermaking enterprise with sustainable development.

In order to reduce the energy consumption in the production process, in 2014, our group companies implemented an energy system optimization project for the production line, which mainly adopted energy-saving and consumption reduction measures such as eliminating energy-consuming equipment (e.g. replacing inefficient motors with inverter motors, replacing energy-saving lighting fixtures, eliminating refrigeration equipment, replacing vacuum pumps with turbine fans, etc.), and recycling residual heat from dry section to further reduce the energy consumption of tons of products. The project was unanimously recognized by the relevant authorities of the PRC and selected as a key project of energy conservation and a major demonstration project of circular economy and resource conservation in 2014. In 2019, the Group has also obtained ISO50001 Energy Management System.

Water is the source of life and a resource that must be used in the paper-making process. In order to reduce the waste of water resources, the Group actively promotes reclaimed water recycle technology and installs an advanced water recycling system in each production line to reduce wastewater generation from the source. In addition, the Company has built a domestic advanced wastewater treatment facility for effective treatment of generated wastewater and most of the wastewater is recycled for production after being treated, with a recycling rate of more than 75%, effectively reducing the consumption of fresh water. In 2020, the Group's consumption of fresh water per ton of paper was less than 4m^3 per ton of paper, which has reached the 1st grade standard according to the requirement of the Evaluation Indicator System for Clean Production in Pulp and Paper Industry (紙漿造紙行業清潔生產評價指標體系).

A3. Environment and Natural Resources

The Group's business activities are closely related to the environment and natural resources. As a recycled papermaking company that uses waste paper as its main raw material, the Group focuses on the recycling of waste paper, which can greatly reduce deforestation and the impact of man-made activities on the natural environment, so as to make outstanding contributions to the protection of forest resources.

Playing an active role in promoting environmental protection and efficient use of resources, the Group monitored the potential impacts of our business operations on the environment on a real-time basis and promoted green office and production in adherence to four basic principles, namely, "reduce", "reuse", "recycle" and "replace", in order to minimize the impact of our operations on the environment.

A4. Climate Change

With the increasing global greenhouse effect, the trend of global warming is becoming increasingly apparent, and natural disasters such as rainstorm, floods and earthquakes are frequent worldwide, which are potential risks to the Group's business activities. To cope with the increasingly serious climate threats, the management of the Group regularly assesses the potential risks that may result from climate change in its production and operation and takes preventive and contingency measures.

The plant is strategically located and designed in accordance with national safety requirements such as earthquake prevention and lightning protection, which can effectively copy with extreme weather conditions. An extreme weather emergency response leadership team has been established and an extreme weather emergency response plan has been formulated, which stipulates the functions of each member, early warning actions and emergency measures. In daily activities, we organize regular training and drills for employees to improve their alertness and ability to respond to disasters. We assess the impact of extreme weather such as typhoon, rainstorm, lightning, hail and flood, and take appropriate safety measures and provide safe places for our employees to take shelter temporarily, so as to ensure the safety of our employees and avoid the loss of production machinery. At the same time, each plant is equipped with thermal power stations and backup power supply to ensure continuous stability of the plant and reduce the risk of production suspension due to regional power outages.

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 determine the employees' remuneration according to their job positions and performance, 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 "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, longevity pay 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, pregnancy or other prohibited factors stipulated in relevant laws that they are vulnerable to discrimination or being deprived of equal opportunities. Our Group also thoroughly recognizes the importance of recruiting employees of different age, gender and race in corporate development.

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

B2. Health and Safety

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.

The Group has taken up social insurance including work injury insurance for all employees in accordance with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and the Regulations on Work Injury Insurance. Furthermore, relevant departments such as the safety department and the security department are established to strictly implement the relevant safety regulations and codes formulated by the Group, including Safety Accident Management System, Fire Safety Management System, Hazardous Chemical Safety Management System, and Special Operator Management System.

Data on occupational safety	2020	2019	2018
Number of work-related fatalities	0	0	0
Lost days due to work injury	356	1105	1409

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.

The Group continues to implement the talent development strategy. Adhering to the principle of "external recruitment and internal cultivation", with internal cultivation as the main, supplemented by external recruitment, the Group integrates existing training resources, to carry out a number of education and teaching activities in terms of professional knowledge, quality development, skill training, technology research and development, business management, etc., to enhance the personal education and vocational skills of employees. The Group also strengthens the cultivation of technical talents and skilled talents, stimulates the innovative vitality and high-quality development of the Company, and promotes technological progress and industrial upgrading and transformation, to achieve a win-win situation in the development of employees and the Company.

In order to support the realization of the talent strategy, the Company will strengthen its remuneration management, and to be more specific, establish a competitive and motivating remuneration management system, with the remuneration policy being tilted to key positions and core positions; establish a staff performance management system to achieve the reform on performance management system, which will highlight the evaluation of personal performance and personal contribution; establish and improve career development channels for employees to create a platform for the development of employees; establish a complete talent echelon system through systematic talent training. Based on different professions and levels, the Company establishes a systematic and perfect training system to fully empower employees. The Company will integrate its existing training resources and set up a "Sunshine Training School" to promote the improvement of employees'skills and abilities through training, and promote and guide employees to improve work efficiency and work enthusiasm through systems such as remuneration, performance, and career development.

In terms of personal career development of employees, the Company offers management development channels, professional technology promotion channels, and craftsman promotion development channels, to provide employees with a variety of personal promotion development paths, and encourage the improvement and development of employees.

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 employee skills competition, 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.

External training includes papermaking process training, middle-level and reserve cadre training, team leader training, intelligent manufacturing training and professional skills training. During the year, a total of 1,518 participants from the Group joined the external trainings. Total funding provided by the Company was approximately RMB0.45 million.

During the year, the Group organized a total of 615 internal trainings, and a total of 36,358 participants joined such trainings, among which 435 were senior management; 1,889 were middle-level management.

In terms of training hours, the Group carried out 3,356 hours of training in total during the year, with average training hours of 5.46 hours per employee, among which average training hours of male employees were 5.46 hours, average training hours of female employees were 5.46 hours; 1,340 hours were attended by senior management; 2,025 hours were attended by middle-level management.

In terms of the types of training carried out by the Group, 12,341 participants joined professional skills training; 15,213 participants joined safety training; 9,410 participants joined general management training; 6,394 participants joined conceptual guidance and professional ethics training; and 2,410 participants joined other types of training during the year.

In 2020, we have our own Sunshine Network Academy to carry out online course learning, so that more employees can enjoy the Company's training benefits.

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.

Supplier Engagement Process: technical exchange and trial. When new materials are introduced or existing materials are optimized, the production technology function department is first informed to contact the suppliers for technical exchange, and the procurement technology department cooperates with the promotion of trial work according to the exchange results and the requirements of the production technology function department.

Supplier's factory audit: Prior to the trial production of the materials, factory audit shall be carried out in accordance with relevant standards and only suppliers who pass the factory audit are qualified for trial use. The procurement technology department, the production technology function department and the application department will conduct on-site evaluation and scoring on the supplier in terms of the corporation profile, production equipment and operation condition, quality control, research and development capability and actual conditions of products according to the evaluation requirements. After the procurement technology department, the production technology function department and the application department complete the factory audit evaluation report on supplier respectively, the procurement technology department will uniformly integrate the factory audit evaluation report for submission to the supplier evaluation process.

Supplier registration management: Suppliers who pass the factory audit are required to register with SRM (Supplier Relationship Management), the URL of which will be emailed by the procurement technology department to the suppliers for their registration. The procurement technology department will submit the application for approval of supplier or exemption from on-site evaluation process after it conducts and approves qualification review. Once process approval is obtained, the supplier is successfully registered with a unique supplier code for such supplier.

In 2020, 1,003 new suppliers were admitted and 963 suppliers were evaluated on site. In 2020, we have cooperated with 2,107 project suppliers, among which 1,721 suppliers have entered into long-term cooperation framework contracts with us.

On-site assessments are performed at the time of initial engagement of supplier. After the procurement technology department, the production technology function department and the application department complete the factory audit evaluation report on supplier respectively, the procurement technology department will uniformly integrate and make scores on the factory audit evaluation report and submit it to the supplier evaluation process for approval and confirmation by the head of the purchasing director.

The production technology function department will first communicate with the supplier on about safety and quality considerations during cooperation when engaging a supplier. Before the registration of suppliers, professionals will be assigned to conduct on-site assessment on suppliers, and make comprehensive scores in the aspects of environmental protection, resource consumption and waste, safety management, and technical capability. The suppliers will be required to upload safety and environmental protection certificates during registration. Upon the formal cooperation, the requirements and constraints on the supplier's supply capacity, safety and environmental management capabilities will be put forward in the contract, inspection and acceptance, the quality control and supplier performance evaluation.

When introducing new products or new suppliers, we will conduct assessment on the technical capability of suppliers and whether their products are environmentally-friendly and efficient in the stage of technology exchange, and offer preferential policies to those suppliers with good performance in environmental protection, such as priority trial and priority use of their products in the case of the same performance-to-price ratio.

We will make scores on the supplier's ecological performance in supplier assessment, including environmental certification, environmental protection, resource consumption, hazardous materials, etc. During the cooperation, we will visit the supplier regularly and put forward the requirements on the environmental protection of suppliers' products in supply and use in the contracts and technical agreements, and will conduct inspection in the process of acceptance and use.

B6. Product Responsibility

The products of the Group are subject to the regulation by the Product Quality Law of the People's Republic of China and other laws, regulations and standards on product safety and quality, which require enterprises to bear product quality responsibilities and ensure that products meet quality and safety standards. There were no products that must be recalled for health and safety reasons.

The Group has established a specialised department — Quality Control Department for quality management to formulate testing items, testing standards and testing frequency for semi-finished and finished paper. Each workshop has a quality control room and a laboratory equipped with a full set of testing equipment for on-site product quality tracking and control with testing data inputting sap system, to form a quality management network covering the Company, which not only achieve effective communication with production, but also guaranteeing the timeliness and smoothness of quality information and stable product quality. It is deeply recognized by customers. The Group has a customer-oriented focus and strives to provide quality services to customers and maintain good relationship with customers. The Group has maintained good after-sales service since the beginning of its business to fulfill the Group's commitment to the customers in terms of the quality, safety and security of its products and to satisfy customers' needs to the maximum extent. The customer complaint rate is kept below 0.015% and the return rate is below 0.01%.

The product recall process of the Group: customer return request→on-site investigation by sales executives→analysis and confirmation by quality and technical personnel→confirmation by production manager→confirmation by general manager→completion of oa return process→return of goods→judgement and treatment decision on the return by quality supervisor.

Subject to our main business requirements, the Group will in the first instance engage professional agencies to submit applications for intellectual property rights that may have a significant impact on the Company, including trademark rights and patent rights, so as to protect the Company's interests to the fullest extent. In collaboration with other entities or individuals, we are required to establish detailed provisions on the ownership, scope of use, duration, and distribution of subsequent research and development results of the intellectual property rights involved, and enter into relevant legal instruments. Upon licensing the intellectual property rights, our technical department will keep abreast of our competitors' products and ensure effective analysis over patent infringements in order to defend our patents rights and carry out effective patent strategies. In case of any infringement, our legal department will take responsibility for negotiating or initiating litigation to claim compensation, and end infringements.

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.

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 and effective reporting channels have been established 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.

The Group strictly complies with the Law of the People's Republic of China on Anti-Unfair Competition, the Criminal Law of the People's Republic of China, and other laws and regulations and regulatory documents related to commercial bribery.

During the year, the Group did not find anything which constituted a breach of the aforesaid and other local laws and regulations related to anti-corruption or anti-money laundering.

Community

With continuous growth and development, the Group makes contribution to fiscal revenues and drives surrounding employment. It also promotes economic development and fulfills social responsibilities. 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.

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 2020, 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 FY2020 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 FY2020 and up to the date of this report:

- reviewed the consolidated financial statements for FY2019;
- reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2020;
- reviewed the external auditor's audit plan, letter of representation and audit engagement letter for FY2020;
- considered and approved the external audit fees for FY2020;
- reviewed our Company's internal control and risk management systems; and
- reviewed the "Connected Transactions" set out on pages 58 to 59 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 2021.

For FY2020, 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 RMB1.3 million and RMB0.2 million, respectively.

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	Deputy general manager of our Group
Non-executive Director	
Ms. Wu Rong	
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 58, 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 64, 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 design 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 50, 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 about 20 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 54, is an executive Director and the deputy general manager of our Group and is responsible for the operation of Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, a joint venture of the Group. 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 45, is an executive Director and the deputy general manager 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 DIRECTOR

Ms. Wu Rong, aged 57, 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 60, 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 Vice President of China Paper Association. He previously served as the principal of Shandong Papermaking Industry Research and Design Institute and the chairman of Shangdong Paper Manufacturing Industry Association, the deputy general manager, chief engineer and senior engineer of Shandong Paper Industry Group.

Ms. Jiao Jie, aged 40, is an independent non-executive Director. Ms. Jiao first joined our Group in 2007 and subsequently left our Group in 2010. The last position held by Ms. Jiao was as a joint company secretary of our Company and the special assistant to the chairman of our Board. Ms. Jiao rejoined our Group in January 2014 and was appointed as a Director on 27 January 2014. Ms. Jiao is currently the chief financial officer of Play for Dream, Inc. 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 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. Since June 2019, she was appointed as independent director of China Index Holdings Limited, a company listed on Nasdaq (stock code: CIH). Ms. Jiao joined the board of MOG Holdings Limited, a company listed on the Stock Exchange(stock code: 1942) as an independent non-executive director since April 2020. She was appointed as independent director of Quhuo Limited, a company listed on Nasdaq (stock code: QH) since July 2020.

Ms. Shan Xueyan, aged 43, 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 52, 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 49, 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 49, 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 44, 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 Wah Yan Healthcare Limited (Stock Code: 648), StarGlory Holdings Company Limited (Stock Code: 8213) and Beijing Media Corporation Ltd. (Stock Code: 1000). 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) from September 2017 to December 2018 and Champion Alliance International Holdings Limited (Stock Code: 1629) from November 2018 to January 2020, both shares are listed on the Main Bord of the Stock Exchange.

Report of the Directors

We, the Directors, present the annual report together with the audited consolidated financial statements of our Group for FY2020.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE INDICATORS

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

RESULTS AND APPROPRIATIONS

The consolidated results of our Group for FY2020 are set out in the consolidated financial statements on page 67.

DIVIDEND

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2020 (FY2019: Nil).

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 2020, 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

The register of members of our Company will be closed from 24 May 2021 to 28 May 2021, 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 21 May 2021.

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.

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.

RELATIONSHIP WITH EMPLOYEES

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 FY2020 are set out in the consolidated financial statements on page 70.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserve available for cash distribution and/or distribution in specie, representing the retained earnings, amounted to approximately RMB113.5 million.

DONATIONS

During the financial year ended 31 December 2020, our Group made donation of RMB1 million for charitable purpose (2019: Nil).

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 FY2020 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 FY2020 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 152.

SUBSIDIARIES

Particulars of the subsidiaries of our Company are set out in note 47 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 FY2020, 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 FY2020 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 *(Deputy general manager of our Group)*

Non-executive Director

Ms. Wu Rong

Independent non-executive Directors

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

In accordance with the articles of association of our Company, one third (or if their number is not a multiple of three, the number nearest to but not less than one third) in number of our Directors shall retire from office by rotation at each annual general meeting of our Company and provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors are eligible to offer themselves for re-election at such annual general meeting. Pursuant to Article 87 of the Articles, Mr. Wang Changhai, Mr. Zhang Zengguo and Mr. Ci Xiaolei shall retire from office at the forthcoming annual general meeting of the Company to be held on 28 May 2021 (the "AGM") and being eligible for re-election, will offer themselves for re-election at the AGM.

Mr. Wang Zefeng has been serving as an independent non-executive Director for more than nine years since November 2007. Pursuant to code provision A.4.3 of the CG Code, (a) serving more than nine years could be relevant to the determination of a non-executive director's independence; and (b) if an independent non-executive director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by the shareholders of the Company. Accordingly, Mr. Wang Zefeng will be subject to retirement by rotation and re-election by way of separate resolutions to be approved by the shareholders of the Company in 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 2020 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 Mr. Wang Dongxing, Mr. Shi Weixin and Mr. Zhang Zengguo has entered into a service contract dated 19 November 2019 with our Company for a term of three years commencing on 19 November 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. 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 2019 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 2019, 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 2020 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 2020, 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 2019 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 2019, unless terminated in accordance with the terms and conditions specified in such letter.

Details of directors' emolument for each of our Directors for FY2020 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.

COMPETITION AND CONFLICT OF INTERESTS

During the year of 2020, none of the Directors or substantial shareholders of the Company or their respective associates had engaged in any business which competes or may compete, either directly or indirectly, with the businesses of the Group or has any conflict of interests with the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2020 and up to the date of this annual report.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2020, 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 17 individuals comprising Mr. Chen Xiaojun, Mr. Guo Jianlin, 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 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 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 2020.

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 7 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 FY2020.

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 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 2020.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme and the Share Award Scheme as disclosed in this annual report, no equity-linked agreement that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during FY2020 or subsisted at the end of FY2020.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year 2020. The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors of the Company and its subsidiaries.

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.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2020 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

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 31 December 2018 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 31 December 2018 was entered 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 2019 to 31 December 2021, 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 2020, the aggregate sale of steam by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB71.5 million, which was below the annual cap of RMB111.2 million for the year ended 31 December 2018 under the steam supply agreement dated 31 December 2020.

(b) An electricity supply agreement dated 31 December 2018 was entered 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 2019 to 31 December 2021, 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. Our Directors consider that the price of electricity is fair and reasonable and on normal commercial terms.

    For the year ended 31 December 2020, the aggregate sale of electricity by Shengshi Thermoelectricity to Shengtai Medicine amounted to RMB38.8 million, which was below the annual cap of RMB61.3 million for the year ended 31 December 2020 under the electricity supply agreement dated 31 December 2018.

    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.

Save as disclosed above, details of the related party transactions entered into by the Group during the year ended 31 December 2020 are set out in Note 45 to the consolidated financial statements. The transactions as set out therein do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. During FY2020, as far as the Directors are aware, there was no material non-compliance with applicable laws and regulations by the Group that has a significant impact on the Group's business and operations.

EVENTS AFTER THE REPORTING PERIOD

On 15 March 2021, two subsidiaries of the Group (as the lessees) entered into a finance lease agreement with Minsheng Financial Leasing Co., Ltd.* (民生金融租賃股份有限公司) (as the lessor), pursuant to which, the latter has agreed to, among other things, (i) acquire the certain leased assets from the lessees for an aggregate consideration of RMB150,000,000 and (ii) lease the leased assets to the lessees for a lease term of 3 years. Details of the transaction are set out in the announcement of the Company dated 15 March 2021. At the expiry of the lease term, the Lessees shall obtain the ownership of the leased assets from the Lessor at no consideration.

Saved as disclosed above, no significant events affecting the Company occurred since 1 January 2021 and up to the date of this report.

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.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

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 2019 and 2020 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

Shangdong, China
26 March 2021

Grant Thornton
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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 67 to 151, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 notes 4.5, 20, 22, 27 and 45(b) to consolidated financial statements.

The Key Audit Matters	How the matter was addressed in our audit
The Group has joint interest in Sunshine Oji (Shouguang) Specialty Paper Co., Ltd (the "JV") and it is carried at RMB188,485,000 in the consolidated financial position at reporting date. The Group also has receivables totalling RMB193,522,000 from the JV, resulting a collective financial interest in the JV of RMB382,007,000 at reporting date, which represents 11.1% of net assets value (RMB3,431,684,000) of the Group. The JV recorded a profit for the current year of RMB4,907,000. Except for the expected credit loss allowance amounting to RMB81,362,000 on trade and other receivable balances, 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 the materiality of the balances and the extent of management judgment exercised.	We reviewed management's assessment of the indicators of impairment 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 notes 4.1 and 5 to consolidated financial statements.

The Group recorded net current liabilities of RMB1,800,496,000 at reporting date. The Group employs high level of debt financing in its operations including bank borrowings, other borrowings, lease liabilities, discounted bills financing and corporate bond of RMB2,516,212,000, RMB280,376,000, RMB20,975,000, RMB1,245,217,000 and RMB99,803,000 respectively at reporting date. RMB3,485,094,000 of these debts is repayable within one year.

All these factors draw attention to 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 also 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 RMB682,245,000 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; and

— compared prior year's 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 2020 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, actions taken to eliminate threats or safeguards applied.

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

26 March 2021

Kwong Kam Wing Kelvin
Practising Certificate No.: P05373

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	6 & 7	**6,673,435**	6,311,200
Cost of sales		**(5,236,892)**	(5,047,897)
Gross profit		**1,436,543**	1,263,303
Other income	8	**218,421**	203,530
Other gains or losses	8	**(28,505)**	(69,205)
Distribution and selling expenses		**(306,728)**	(287,893)
Administrative expenses		**(424,503)**	(396,546)
(Loss)/Gain on fair value changes of an investment property	16	**(4,055)**	112
Share of profit/(loss) of a joint venture	27	**3,496**	(23,107)
Finance costs	9	**(160,986)**	(202,449)
Profit before income tax	12	**733,683**	487,745
Income tax expense	11	**(219,694)**	(128,111)
Profit and total comprehensive income for the year		**513,989**	359,634
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**497,710**	349,998
Non-controlling interests		**16,279**	9,636
		513,989	359,634
Earnings per share for profit attributable to owners of the Company during the year			
Basic and diluted (RMB)	14	**0.61**	0.43

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	15	4,679,607	4,192,405
Investment property	16	71,976	143,684
Prepaid lease payments	17	468,946	397,324
Goodwill	18	25,606	25,606
Deferred tax assets	19	51,755	54,209
Interest in a joint venture	27	188,485	184,989
Deposits for acquisition for property, plant and equipment		302,322	377,914
Deposits and other receivables	20	206,779	214,116
		5,995,476	5,590,247
Current assets			
Inventories	21	635,650	565,709
Trade receivables	22	513,349	519,591
Bills receivables	23	283,255	373,356
Prepayments and other receivables	24	198,996	259,677
Income tax recoverable		37	37
Restricted bank deposits	25	1,140,427	1,392,414
Bank balances and cash	25	613,268	719,314
		3,384,982	3,830,098
Current liabilities			
Contract liabilities	31	121,761	119,478
Trade payables	28	814,320	982,248
Bills payables	29	282,613	303,620
Other payables	30	209,460	259,014
Payables for construction work, machinery and equipment		207,397	167,870
Income tax payable		61,924	73,335
Lease liabilities	32	877	1,092
Deferred income	33	2,909	14,842
Discounted bills financing	34	1,245,217	1,885,628
Bank borrowings	35	1,972,696	1,987,039
Other borrowings	36	166,501	313,166
Corporate bond	37	99,803	100,000
		5,185,478	6,207,332
Net current liabilities		(1,800,496)	(2,377,234)
Total assets less current liabilities		4,194,980	3,213,013

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Capital and reserves			
Share capital	38	73,779	73,779
Reserves	39	3,044,991	2,547,281
Equity attributable to owners of the Company		3,118,770	2,621,060
Non-controlling interests		312,914	296,634
Total equity		3,431,684	2,917,694
Non-current liabilities			
Lease liabilities	32	20,098	20,868
Bank borrowings	35	543,516	12,281
Other borrowings	36	113,875	121,609
Corporate bond	37	—	99,265
Deferred income	33	46,096	35,913
Deferred tax liabilities	19	39,711	5,383
		763,296	295,319
Total equity and non-current liabilities		4,194,980	3,213,013

Approved and authorised for issue by the board of directors on 26 March 2021.

Wang Dongxing	**Wang Changhai**
Director	*Director*

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company											
	Share capital	**Capital redemption reserve**	**Share premium**	**Merger reserve**	**Capital reserve**	**Assets revaluation reserve**	**Statutory surplus reserve**	**Discretionary surplus reserve**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	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
Capital contribution by non-controlling interests of subsidiaries of the Company	–	–	–	–	–	–	–	–	–	–	8	8
Dividend paid to owners of the Company (note 13)	–	–	–	–	–	–	–	–	(28,832)	(28,832)	–	(28,832)
Dividend paid to non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	(40)	(40)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	49,144	–	(49,144)	–	–	–
Transactions with owners	–	–	–	–	–	–	49,144	–	(77,976)	(28,832)	(32)	(28,864)
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	349,998	349,998	9,636	359,634
At 31 December 2019	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
At 1 January 2020	**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 subsidiaries of the Company	–	–	–	–	–	–	–	–	–	–	454	454
Dividend paid to non-controlling interests of a subsidiary of the Company	–	–	–	–	–	–	–	–	–	–	(453)	(453)
Appropriation to statutory surplus reserve	–	–	–	–	–	–	64,636	–	(64,636)	–	–	–
Transactions with owners	–	–	–	–	–	–	64,636	–	(64,636)	–	1	1
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	497,710	497,710	16,279	513,989
At 31 December 2020	**73,779**	**610**	**722,957**	**(2,776)**	**86,656**	**7,015**	**312,321**	**1,078**	**1,917,130**	**3,118,770**	**312,914**	**3,431,684**

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before income tax	733,683	487,745
Adjustments for:		
Interest income	(43,598)	(44,024)
Finance costs	160,986	202,449
Depreciation of property, plant and equipment		
— right-of-use assets	73,871	74,305
— owned assets	229,274	180,537
Depreciation of prepaid lease payments	5,534	5,534
Loss on disposal and written off of property, plant and equipment	23,430	10,304
Release of deferred income	(2,956)	(3,336)
Loss/(Gain) on fair value change of an investment property	4,055	(112)
Provision for expected credit loss ("ECL") on:		
— trade receivables	7,083	2,251
— other receivables	—	77,589
Bad debt on other receivables	—	3,126
Impairment of property, plant and equipment	27,642	—
Impairment on goodwill	—	4,720
Share of (profit)/loss of a joint venture	(3,496)	23,107
Operating cash flows before movements in working capital	1,215,508	1,024,195
(Increase)/Decrease in inventories	(69,941)	190,733
Increase in trade receivables	(841)	(14,688)
Decrease in bills receivables	90,101	305,745
Decrease in prepayments and other receivables	34,798	58,276
Decrease in trade payables	(167,928)	(57,530)
Decrease in bills payables	(21,007)	(18,380)
Increase in other payables	48,118	15,991
Increase in contract liabilities	2,283	61,660
Cash generated from operations	1,131,091	1,566,002
Income tax paid	(194,323)	(93,211)
Net cash from operating activities	936,768	1,472,791
Investing activities		
Interest received	30,725	29,662
Proceeds from disposal of property, plant and equipment	13,069	8,577
Purchase of property, plant and equipment	(423,190)	(282,628)
Additions of prepaid lease payments	(55,456)	(32,646)
Decrease in restricted bank deposits	251,987	2,223
Advance to a joint venture	(363,793)	(376,169)
Proceeds from a joint venture	380,421	301,280
Decrease/(Increase) in guarantee deposits for lease liabilities	30,003	(5,660)
Additions of deposits for acquisition property, plant and equipment	(226,987)	(415,696)
Net cash used in investing activities	(363,221)	(771,057)

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Financing activities		
Interest paid	**(198,373)**	(237,185)
Government grants received	**1,206**	32,898
Proceed from a director	**4,283**	—
Proceed from a non-controlling shareholder of a subsidiary	**121,128**	54,127
Repayment to a non-controlling shareholder of a subsidiary	**(229,257)**	—
Proceed from a controlling shareholder	**456**	1,165
Proceed from a related party	**—**	10,000
Repayment of bank borrowings	**(2,998,310)**	(3,143,564)
Repayment of other borrowings	**(329,288)**	(336,983)
Repayment of lease liabilities	**(1,119)**	(3,216)
Repayment of corporate bond	**(100,000)**	(100,000)
Proceeds from capital contribution of non-controlling interests of a subsidiary of the Company	**1**	—
New bank borrowings raised	**3,515,202**	3,050,072
Other borrowings raised	**174,889**	226,000
Decrease in discounted bills financing	**(640,411)**	(31,122)
Dividend paid to owners of the Company	**—**	(28,832)
Dividend paid to non-controlling interests of a subsidiary of the Company	**—**	(32)
Net cash used in financing activities	**(679,593)**	(506,672)
Net (decrease)/increase in cash and cash equivalents	**(106,046)**	195,062
Cash and cash equivalents at beginning of the year	**719,314**	524,252
Cash and cash equivalents at end of the year, representing bank balances and cash	**613,268**	719,314

The notes on pages 73 to 151 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"), which is the same as the currency of the primary economic environment in which the Company and its subsidiaries operate (i.e. 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 and electricity and steam.

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

The International Accounting Standards Boards (the "IASB") has issued a number of revised IFRSs. The Group has adopted all these revised IFRSs, which are effective for the accounting period beginning on or after 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material

The adoption of the amended IFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

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

Issued but not yet effective IFRSs

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 17	Insurance Contracts and related amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[5]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[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 IFRS 16	Covid-19-Related Rent Concessions[6]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 Effective date not yet determined
5 Effective for business combination for which the acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
6 Effective for annual periods beginning on or after 1 June 2020

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform — Phase 2"

These amendments address the accounting issues that arise when existing interbank offered rates included in financial instruments are replaced with alternative benchmark risk-free rates.

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

Issued but not yet effective IFRSs (Continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform — Phase 2" (Continued)

The amendments mainly affect the following areas:

- Financial instruments (measured at amortised costs) where the basis for determining the contractual cash flows changes as a result of the interest rate benchmark reform — providing a practical expedient that an entity will not have to derecognise the carrying amount of financial instruments and recognise an immediate gain or loss for changes solely arose from the interest rate benchmark reform, but will instead revise the effective interest rate of the financial instruments;

- Modifications of lease liabilities as a result of the interest rate benchmark reform — providing a similar practical expedient that lessee will remeasure the lease liability by discounting the revised lease payments using a discount rate that reflects the change in the interest rate, instead of applying the original lease modification guidance in IFRS 16;

- Hedge accounting requirements — permitting changes required by the Reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. In addition, it also provides a temporary relief to entities from having to meet the separately identifiable requirement when an alternative benchmark risk-free rate is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expect the alternative benchmark risk-free rate risk component to become separately identifiable within the next 24 months; and

- Additional disclosures — an entity will be required to disclose information about new risks arising from the interest rate benchmark reform and how it manages those risks as well as additional disclosure requirements for transitioning from interbank offered rates to alternative benchmark risk-free rates.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are effective for the annual period beginning on or after 1 January 2021 and apply retrospectively. Earlier application is permitted. As at 31 December 2020, the Group has several bank borrowings carrying interests at prime rates which may be subject to interest rate benchmark reform. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

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 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

These 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 RMB1,800,496,000 at 31 December 2020. 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 2021, 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 notes 41(d) and 48(a), the Directors are of the opinion that, 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 the banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

4.2 Basis of consolidation

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Basis of consolidation (Continued)

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

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

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

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

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Basis of consolidation (Continued)

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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

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 assets or liabilities 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;

- 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; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for lease for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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 amounts of the identifiable assets acquired and the liabilities assumed as at the acquisition date. 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' fair value or at their 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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when 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 on a pro rata based on 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.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a small loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

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 a 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 a 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 interests in its joint venture. At each reporting date, the Group determines whether there is any objective evidence that the interests 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, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Revenue recognition (Continued)

Sales of electricity and steam

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

Hotel and catering services

Revenue from hotel services mainly comprises of room, food and beverage and ancillary services. Except for the revenue from food and beverage which is recognised at a point of time when the services are rendered, revenue from other hotel operation services is recognised over time in the accounting period in which the services are rendered.

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 proportion 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.

Logistics services

Revenues is recognised over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services and uses the benefits simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Lease

(a) *Definition of a lease and the Group as a lessee*

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Lease (Continued)

(a) *Definition of a lease and the Group as a lessee* (Continued)

Measurement and recognition of leases as a lessee (Continued)
Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the consolidated statement of financial position, right-of-use assets that do not meet the definition of investment property have been included in “Property, plant and equipment”, the same line as it presents the underlying assets of the same nature that it owns.

The prepaid lease payments (which meet the definition of right-of-use assets) for leasehold land are presented as “Prepaid lease payments” under non-current assets. It represents the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the term of the lease/right-of-use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

Refundable rental deposits paid are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Lease (Continued)

(b) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

(c) Sale and leaseback transactions

The Group as a seller-lessee

For a transfer that does not satisfy requirements as a sale in accordance with IFRS 15, the transaction are in substance a financing arrangement under IFRS 9. Therefore, the Group as a seller-lessee accounts for the proceeds received as other borrowings within the scope of IFRS 9.

4.8 Foreign currencies translation

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 that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

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 income 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.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

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 on a straight-line basis 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 deferred tax 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 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 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 and cost of right-of-use assets as described in note 4.7) 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, if any, 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.

Accounting policy for depreciation of right-of-use assets is set out in note 4.7.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4.15 Impairment of tangible assets and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and right-of-use 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. The recoverable amount of tangible assets and right-of-use assets are estimated individually. In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Impairment of tangible assets and right-of-use assets (Continued)

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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.

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

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 (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 provision for expected credit losses ("ECL") of trade and other receivables which is presented within other gains or losses.

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. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade receivables, bills receivables, other receivables, other receivables from a joint venture, 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 (Continued)

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include bank and other borrowings, leases liabilities, discounted bills financing, trade payables, bills payables, other payables, corporate bond, payables for construction work and machinery and equipment.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction cost.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs.

Accounting policies of lease liabilities are set out in note 4.7.

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.

4.18 Impairment of financial assets

IFRS 9's impairment requirements use 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Impairment of financial assets (Continued)

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 with appropriate groupings and/or individually assessed for debtors with significant balances, 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Impairment of financial assets (Continued)

Other financial assets measured at amortised cost (Continued)

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 regulatory, business, financial, economic conditions, or technological environment 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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 (i) 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); (ii) the financial asset is 90 days past due.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 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).

4.20 Related parties

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the senior executive management of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

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 2020. 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 2020 remains proper.

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

Critical judgments in applying accounting policies (Continued)

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 tax from the land appreciation tax on change in fair value of an investment property.

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 2020, the carrying amount of goodwill is approximately RMB25,606,000 (2019: RMB25,606,000). No impairment loss has been recognised (2019: RMB4,720,000) on goodwill during the year ended 31 December 2020 to reduce the carrying amount of goodwill to its recoverable amount. 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 2020, the carrying amount of inventories is approximately RMB635,650,000 (2019: RMB565,709,000) (note 21).

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

Key sources of estimation uncertainty (Continued)

Deferred tax assets

As at 31 December 2020, deferred tax assets of RMB51,755,000 (2019: RMB54,209,000) 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 RMB134,316,000 (2019: RMB71,774,000) 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).

Estimation of impairment of trade receivables and other items within the scope of ECL under 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.

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 under 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 from these activities.

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 2020			
	Paper products RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
Timing of revenue recognition				
— At a point in time	6,445,670	227,765	—	6,673,435
Geographical markets				
— PRC	6,294,791	227,765	—	6,522,556
— Overseas	150,879	—	—	150,879

Segments	For the year ended 31 December 2019			
	Paper products RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
Timing of revenue recognition				
— At a point in time	6,079,865	230,732	42	6,310,639
— Over time	—	—	561	561
Geographical markets				
— PRC	5,929,487	230,732	603	6,160,822
— Overseas	150,378	—	—	150,378

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 2020

	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	Other RMB'000	Total RMB'000
Revenue from external customers	1,594,691	2,134,681	666,557	2,049,741	227,765	–	6,673,435
Inter-segment revenue	–	–	–	–	527,556	–	527,556
Segment revenue	1,594,691	2,134,681	666,557	2,049,741	755,321	–	7,200,991
Segment profit	469,763	575,626	145,898	170,456	159,608	–	1,521,351
Other segment information: Impairment loss on property, plant and equipment	–	–	–	(27,642)	–	–	(27,642)

For the year ended 31 December 2019

	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	Other RMB'000	Total RMB'000
Revenue from external customers	1,604,714	2,369,807	698,675	1,406,669	230,732	603	6,311,200
Inter-segment revenue	–	–	–	–	508,876	–	508,876
Segment revenue	1,604,714	2,369,807	698,675	1,406,669	739,608	603	6,820,076
Segment profit	342,183	502,206	169,943	193,688	104,752	385	1,313,157
Other segment information: Impairment loss on goodwill	–	–	–	(4,720)	–	–	(4,720)

7. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

Segment revenue and results (Continued)

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

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

	2020 RMB'000	2019 RMB'000
Profit		
Segment profit	1,521,351	1,313,157
Unrealised profit on inter-segment sales	(97,826)	(83,539)
	1,423,525	1,229,618
Administrative expenses	(411,444)	(381,148)
Other income	215,850	200,374
Other gains or losses	(45,329)	(67,427)
Distribution and selling expenses	(306,728)	(287,893)
Finance costs	(141,632)	(182,784)
(Loss)/Gain on fair value changes of an investment property	(4,055)	112
Share of profit/(loss) of a joint venture	3,496	(23,107)
Consolidated profit before income tax	733,683	487,745

The Group does not allocate depreciation of property, plant and equipment (including right-of-use assets) and depreciation 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.

7. SEGMENT INFORMATION (Continued)

(c) Geographical information

The information on the geographical locations of the Group's revenue determined based on geographical region of the customers is described in note 6.

The Group's operations and non-current assets are substantially located in the PRC. Accordingly, no further analysis on non-current assets by geographical location is presented.

8. OTHER INCOME AND OTHER GAINS OR LOSSES

	2020 RMB'000	2019 RMB'000
Other income:		
Interest income on:		
Bank deposits	30,725	29,720
The balance with a joint venture (note i)	12,873	14,304
Total interest income	43,598	44,024
Rental income from an investment property and other properties	1,848	1,477
Hotel and catering services income	3,567	—
Logistics services income	8,536	—
Government grants (note ii)	160,872	158,029
	218,421	203,530
Other gains or losses:		
Bad debt for other receivable	—	(3,126)
Gain from sale of scrap materials, net	27,524	34,586
Impairment loss on goodwill	—	(4,720)
Impairment loss on property, plant and equipment (note 15(iii))	(27,642)	—
Loss on disposal and written off of property, plant and equipment	(23,430)	(10,304)
Net foreign exchange losses	(3,737)	(7,413)
Provision for expected credit loss ("ECL") on:		
— trade receivables	(7,083)	(2,251)
— other receivables	—	(77,589)
Others	5,863	1,612
	(28,505)	(69,205)

8. OTHER INCOME AND OTHER GAINS OR LOSSES (Continued)

Notes:

i. During the year ended 31 December 2020, the Group earned interest income from other receivable 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 4.75% per annum (2019: 5.94% per annum).

ii. During the year ended 31 December 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 of approximately RMB148,347,000 (2019: RMB154,091,000) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

9. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expenses on:		
Discounted bills financing	53,839	74,846
Bank and other borrowings wholly repayable within five years	136,915	137,947
Lease liabilities	10	25
Corporate bond	12,288	20,275
	203,052	233,093
Less: Interest capitalised in construction in progress	(42,066)	(30,644)
	160,986	202,449

Borrowing costs capitalised during the year ended 31 December 2020 arose from the general borrowing pool and were calculated by applying a capitalisation rate ranging from 4.06% to 5.22% (2019: 4.99% to 5.22%) 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
2020					
Executive directors:					
Wang Dongxing *(Chairman)*	50	972	63	1,649	2,734
Shi Weixin	50	221	–	–	271
Zhang Zengguo	50	336	18	232	636
Wang Changhai *(General Manager)*	50	554	17	1,099	1,720
Ci Xiaolei	36	433	17	656	1,142
Non-executive directors:					
Wu Rong	36	–	–	–	36
Independent non-executive directors:					
Wang Zefeng	50	–	–	–	50
Jiao Jie	84	–	–	–	84
Shan Xueyan	84	–	–	–	84
	490	2,516	115	3,636	6,757

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)	Total emoluments RMB'000
2019					
Executive directors:					
Wang Dongxing *(Chairman)*	90	797	107	1,514	2,508
Shi Weixin	90	229	–	–	319
Zhang Zengguo	90	306	18	437	851
Wang Changhai *(General Manager)*	90	531	18	961	1,600
Ci Xiaolei (Appointed on 15 April 2019)	50	430	18	855	1,353
Non-executive directors:					
Li Hengwen (Resigned on 15 April 2019)	90	–	–	–	90
Xu Leihua (Resigned on 15 April 2019)	90	–	–	–	90
Wu Rong (Appointed on 15 April 2019)	50	–	–	–	50
Independent non-executive directors:					
Wang Zefeng	90	–	–	–	90
Jiao Jie	90	–	–	–	90
Shan Xueyan	90	–	–	–	90
	910	2,293	161	3,767	7,131

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 4 directors (2019: 3 directors), details of their emoluments are set out above. The emoluments of the remaining 1 individual (2019: 2 individuals) during the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other allowances	1,295	1,988
Retirement benefits schemes contributions	18	36
	1,313	2,024

The above employees' emoluments were within the following band:

	2020	2019
HK$1,000,001 to HK$1,500,000	1	2

During both years, no emoluments were paid by the Group to the Directors or the one (2019: two) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the current year.

11. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax		
PRC enterprise income tax	182,788	151,707
Under provision in previous year	124	2,021
	182,912	153,728
Deferred tax expenses/(credit) (note 19)	36,782	(25,617)
	219,694	128,111

11. INCOME TAX EXPENSE (Continued)

Under the Law of the People's Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2019: 25%).

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2020 as the Group sustained a loss for tax purpose (2019: No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2019 as the Group did not have any assessable profits subject to Hong Kong Profits Tax.).

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

	2020 RMB'000	2019 RMB'000
Profit before income tax	733,683	487,745
Tax at the applicable income tax rate of 25% (2019: 25%)	183,421	121,936
Tax effect of expenses not deductible	15,644	8,438
Tax effect of share of result of a joint venture	(874)	5,777
Tax effect of non-taxable income	(18)	(7,430)
Under provision in previous year	124	2,021
Tax effect of deductible temporary difference not recognised	5,762	(8,410)
Utilisation of tax losses previously not recognised	(2,148)	—
Tax effect of tax losses not recognised	17,783	5,779
Tax charge for the year	219,694	128,111

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 charging:

	2020 RMB'000	2019 RMB'000
Wages and salaries	340,089	324,518
Retirement benefits schemes contributions (note)	37,431	49,461
Total staff costs (including the Directors' emoluments)	377,520	373,979
Auditor's remuneration	1,950	1,535
Bad debt on other receivable	—	3,126
Cost of inventories recognised as an expense	3,683,070	4,435,040
Depreciation of prepaid lease payments (note 17)	5,534	5,534
Depreciation of property, plant and equipment		
— right-of-use assets	73,871	74,305
— owned assets	229,274	180,537
Lease charges on short term leases	2,796	2,015
Net foreign exchange losses	3,737	7,413
Provision for expected credit loss ("ECL") on:		
— trade receivables	7,083	2,251
— other receivables	—	77,589

Note:

Due to the impact of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain retirement benefits schemes contributions for the year ended 31 December 2020.

13. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividend declared for distribution during the year:		
2019 final dividend — Nil		
(2019: 2018 final dividend — HK$0.04 per share)	—	28,832

The Board resolved not to declare the payment of final dividends for the year ended 31 December 2020 (2019: nil).

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the years is based on the consolidated profit of RMB497,710,000 (2019: RMB349,998,000) for the year attributable to owners of the Company, and the weighted average number of 819,362,000 (2019: 819,362,000) ordinary shares in issue during the year.

There are no dilutive potential ordinary shares in issue for the years ended 31 December 2020 and 31 December 2019. The diluted earnings per share equals to the basic earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
As at 1 January 2019	–	1,134,822	3,738,298	722,152	5,595,272
Additions	24,411	18,583	45,291	665,256	753,541
Transfers	–	99,237	102,898	(202,135)	–
Transfers to investment property (note 16)	–	–	–	(22,898)	(22,898)
Disposals and written off	–	(352)	(44,728)	(428)	(45,508)
At 31 December 2019 and 1 January 2020	24,411	1,252,290	3,841,759	1,161,947	6,280,407
Additions	134	16,456	101,024	669,221	786,835
Transfers	–	343,613	848,788	(1,192,401)	–
Transfers from investment property (note 16)	–	–	–	67,653	67,653
Impairment (note iii)	–	(8,468)	(19,157)	(17)	(27,642)
Disposals and written off	–	(9,033)	(97,512)	–	(106,545)
At 31 December 2020	**24,545**	**1,594,858**	**4,674,902**	**706,403**	**7,000,708**
Depreciation					
At 1 January 2019	–	250,054	1,609,733	–	1,859,787
Provided for the year	1,645	41,521	211,676	–	254,842
Eliminated on disposals and written off	–	(227)	(26,400)	–	(26,627)
At 31 December 2019 and 1 January 2020	1,645	291,348	1,795,009	–	2,088,002
Provided for the year	1,225	48,324	253,596	–	303,145
Eliminated on disposals and written off	–	(1,250)	(68,796)	–	(70,046)
At 31 December 2020	**2,870**	**338,422**	**1,979,809**	**–**	**2,321,101**
Carrying amount					
At 31 December 2020	**21,675**	**1,256,436**	**2,695,093**	**706,403**	**4,679,607**
At 31 December 2019	22,766	960,942	2,046,750	1,161,947	4,192,405

Notes:

(i) The above items of owned 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%

The right-of-use assets are depreciated as a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the respective right-of-use assets or the end of the lease terms.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

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

(iii) The building with the amount of RMB87,178,000 as at 31 December 2020 (2019: The buildings with the amount of RMB19,892,000) 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").

(iv) During the year ended 31 December 2020, the Group carried out impairment assessments of the recoverable amount of certain cash-generating units, which are subsidiaries involved in specialised paper products under paper products segment, 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. Property, plant and equipment with the net carrying amount of RMB190,433,000 (before the impairment assessment) are attributable to these cash-generating units. The impairment assessments led to the recognition of an impairment loss on property, plant and equipment of RMB27,642,000 that has been recognised in the "other gains or losses" in the Group's profit or loss. After the impairment loss recognised, the recoverable amount of the related assets was approximately RMB162,791,000, it has been determined by reference to a valuation performed by an independence qualified professional valuer not connected with the Group. The valuation was determined based on a fair value less cost of disposal calculation in which on the basis of making reference to its business value. Fair value less cost of disposal of the mineral asset falls within level 3 of the fair value hierarchy.

As at 31 December 2020 and 2019, included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	Carrying amount		Depreciation
	As at 31 December 2020 RMB$'000	As at 1 January 2020 RMB$'000	**For the year ended 31 December 2020 RMB$'000**
Leasehold land	**21,675**	22,766	**1,225**
Building carried at cost	**79**	415	**336**
Plant, machinery and equipment	**678,618**	750,928	**72,310**
	700,372	774,109	**73,871**

	Carrying amount		Depreciation
	As at 31 December 2019 RMB$'000	As at 1 January 2019 RMB$'000	For the year ended 31 December 2019 RMB$'000
Leasehold land	22,766	—	1,645
Building carried at cost	415	608	350
Plant, machinery and equipment	750,928	823,238	72,310
	774,109	823,846	74,305

During the year ended 31 December 2020, the total additions to right-of-use assets included in leasehold land and building, amounting to RMB134,000 and nil (2019: RMB24,411,000 and RMB157,000), respectively. The details in relation to these leases are set out in note 32.

16. INVESTMENT PROPERTY

	Completed investment property RMB'000
Fair value	
At 1 January 2019	120,674
Net increase in fair value recognised in profit or loss	112
Transfer from property, plant and equipment (note 15)	22,898
At 31 December 2019 and 1 January 2020	143,684
Net decrease in fair value recognised in profit or loss	(4,055)
Transfer to property, plant and equipment (note 15)	(67,653)
At 31 December 2020	**71,976**

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 2020. Asia-Pacific Consulting and Appraisal Limited is a member of the Institute of Valuers. The Group's financial controller has discussion with the valuers on the valuation assumptions and valuation results for financial reporting purposes. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market, as appropriate. The valuation and all key assumptions used in the valuation reflect market conditions at the valuation date. The resulting decrease in fair value of investment property of RMB4,055,000 has been recognised directly in profit or loss for the year ended 31 December 2020 (2019: increase of RMB112,000).

The investment property with a fair value of RMB71,976,000 as at 31 December 2020 (2019: RMB143,684,000) 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.

16. INVESTMENT PROPERTY (Continued)

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

Investment property held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation techniques(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs for fair value
Certain office part of the property in Weifang, Shandong	Level 3	Comparison approach	Market unit sales rate, using market direct comparable at RMB4,400–5,400/sq.m. (2019: RMB4,444–5,310/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% (2019: 2%)	The increase in the location markdown would result in a decrease in fair value.
Certain retail part of the property in Weifang, Shandong	Level 3	Income method (term and reversionary approach)	Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received, of 4.5% in 2020 (2019: 4.5%)	The increase in the term yield would result in a decrease in fair value.
		The key inputs are: (1) Term yield; (2) Capitalisation rate or reversionary yield; and (3) Market unit rent of individual unit	Capitalisation rate, taking into account annual unit market rental income and unit market value of the comparable properties, of 5% (2019: 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 RMB0.88sq.m./day to RMB1.01sq.m./day (2019: range from RMB0.80 sq.m./day to RMB1.11 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 owned property interest to earn rental is measured using the fair value model and is classified and accounted for as investment property.

17. PREPAID LEASE PAYMENTS

The prepaid lease payments represent prepayments in relation to leases of land in the PRC under medium-term leases for 10–50 years. The prepaid lease payments fall into the scope of IFRS 16 as it meet the definition of right-of-use assets. The movements in their net carrying amounts are analysed as follows:

	2020 RMB'000	2019 RMB'000
Opening net carrying amount	**397,324**	373,931
Additions	**80,393**	32,646
Capitalise in construction in progress during the year	**(3,237)**	(3,719)
Depreciation (note 12)	**(5,534)**	(5,534)
Closing net carrying amount	**468,946**	397,324

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

18. GOODWILL

	2020 RMB'000	2019 RMB'000
Cost		
At 1 January	**25,606**	30,326
Impairment loss (note 8)	**—**	(4,720)
At 31 December	**25,606**	25,606

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 2020 and 2019 allocated to these units are as follows:

	2020 RMB'000	2019 RMB'000
CGU A	**18,692**	18,692
CGU B	**—**	—
CGU C	**6,914**	6,914
At 31 December	**25,606**	25,606

18. GOODWILL (Continued)

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% (2019: 12.45%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 2% (2019: 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.

CGU B

The recoverable amount of CGU B has been reduced to nil as at 31 December 2020 and 2019. An goodwill impairment loss amounting to RMB4,720,000 was recognised and included under "other gains or losses" in the consolidated statement of profit or loss and other comprehensive income and attributed to the Group's specialised paper product segment for the year ended 31 December 2019.

CGU 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% (2019: 12.45%). The CGU's cash flow beyond the 5-year period is extrapolated using a steady growth rate of 3% (2019: 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 C to exceed the aggregate recoverable amount of the CGU 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 RMB'000	Unrealised profit in inventories RMB'000	Allowance for doubtful debts and inventories RMB'000	Change in fair value of leasehold/ investment properties RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2019	17,239	2,659	3,683	1,343	3,690	28,614
Credited/(Charged) to profit or loss (note 11)	(6)	(1,023)	19,812	(28)	6,840	25,595
At 31 December 2019 and 1 January 2020	17,233	1,636	23,495	1,315	10,530	54,209
(Charged)/Credited to profit or loss (note 11)	(3,989)	(291)	993	1,014	(181)	(2,454)
At 31 December 2020	**13,244**	**1,345**	**24,488**	**2,329**	**10,349**	**51,755**

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on prepaid land lease RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2019	—	(254)	(5,151)	(5,405)
Credited to profit or loss (note 11)	—	22	—	22
At 31 December 2019 and 1 January 2020	—	(232)	(5,151)	(5,383)
(Charged)/Credited to profit or loss (note 11)	(34,547)	219	—	(34,328)
At 31 December 2020	**(34,547)**	**(13)**	**(5,151)**	**(39,711)**

19. DEFERRED TAXATION (Continued)

Deferred tax liabilities (Continued)

Unrecognised deductible unused tax losses:

	2020 RMB'000	2019 RMB'000
Deductible tax losses	134,316	71,774
Less: available for offset future profit	—	—
Unused tax losses for which no deferred tax assets have been recognised	134,316	71,774

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

	2020 RMB'000	2019 RMB'000
2021	1,745	10,337
2022	35,694	35,694
2023	2,627	2,627
2024	23,116	23,116
2025	71,134	—
Total deductible tax losses	134,316	71,774

20. DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Other receivables from a joint venture (note 45(b))	269,736	273,491
Guarantee deposits for sales and leaseback obligations	18,319	21,901
	288,055	295,392
Less: ECL allowance	(81,276)	(81,276)
	206,779	214,116

20. DEPOSITS AND OTHER RECEIVABLES (Continued)

The following are the movements of ECL allowance of other receivables based on the lifetime ECL (stage 2) during the year:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	81,276	3,686
Allowance during the year (note 8)	—	77,590
At the end of the year	81,276	81,276

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

21. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	424,978	394,717
Finished goods	210,672	170,992
	635,650	565,709

22. TRADE RECEIVABLES

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

	2020 RMB'000	2019 RMB'000
Trade receivables due from:		
— third parties	516,800	512,153
— a joint venture (note 45(b))	5,148	4,462
— a related party (note 45(b))	8,377	13,650
	530,325	530,265
Less: ECL allowance	(16,976)	(10,674)
	513,349	519,591

22. TRADE RECEIVABLES (Continued)

The Group normally allows a credit period of 30 to 45 days (2019: 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:

	2020 RMB'000	2019 RMB'000
0—30 days	**426,951**	474,076
31–90 days	**70,642**	28,493
91–365 days	**15,756**	15,667
Over 1 year	**—**	1,355
	513,349	519,591

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

The following are the movements of ECL allowance of trade receivables during the year:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	**10,674**	9,040
Written off during the year	**(781)**	(617)
Allowance during the year (note 8)	**7,083**	2,251
At the end of the year	**16,976**	10,674

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

	2020 RMB'000	2019 RMB'000
Bills receivables	**283,255**	373,356

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 RMB9,217,000 (2019: RMB49,128,000) 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. On the other hand, discounted bills financing of RMB9,217,000 (2019: RMB49,128,000) was recognised for the cash received from banks (note 34).

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

	2020 RMB'000	2019 RMB'000
0–90 days	**189,852**	204,907
91–180 days	**55,860**	85,515
181–365 days	**37,543**	82,934
	283,255	373,356

Bills receivables endorsed

Not included in the period end balance, during the year, the Group has transferred bills receivables amounted to RMB514,638,000 (2019: RMB525,971,000) 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 RMB514,638,000 (2019: RMB525,971,000). 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.

Details of bills receivables pledged are set out in note 42.

24. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

	2020 RMB'000	2019 RMB'000
Prepayments	109,881	87,875
Other receivables	89,139	171,826
	199,020	259,701
Less: ECL allowance	(24)	(24)
	198,996	259,677

An analysis of other receivables is as follows:

	2020 RMB'000	2019 RMB'000
VAT recoverable	55,308	108,694
Deposits	13,704	15,101
Guarantee deposits for sales and leaseback obligations	13,443	39,864
Advance to employees	1,532	2,357
Others	5,152	5,810
	89,139	171,826

The following are the movements of ECL allowance of other receivables (stage 1) during the year:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	24	25
Reversal during the year (note 8)	—	(1)
At the end of the year	24	24

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 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% (2019: 0.35% to 1.5%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills facilities and bank borrowings.

25. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH (Continued)

Bank balances carry market interest rate of 0.35% per annum as at 31 December 2020 (2019: 0.35% per annum).

Bank balances and cash at 31 December 2020 and 2019 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 STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

	Bank borrowings	Other borrowing	Corporate bond	Lease liabilities	Discounted bills financing	Amount due to a non-controlling shareholder of a subsidiary (Note 45(b))	Amount due to a controlling shareholder (Note 45(b))	Amount due to a related party (Note 45(b))	Amount due to a director (Note 45(b))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	2,092,812	545,758	298,393	608	1,916,750	78,502	–	–	–
Cash-flows:									
– Proceeds	3,050,072	226,000	–	–	–	54,127	1,165	10,000	–
– Repayment	(3,143,564)	–	(100,000)	–	(31,122)	–	–	–	–
– Capital element of lease rentals paid	–	(336,983)	–	(3,216)	–	–	–	–	–
– Interest element of lease rentals paid	–	(29,805)	–	(1,492)	–	–	–	–	–
Non-cash:									
– Amortisation	–	–	872	–	–	–	–	–	–
– Entering into new lease	–	–	–	24,568	–	–	–	–	–
– Interest expense	–	29,805	–	25	–	–	–	–	–
– Capitalisation	–	–	–	1,467	–	–	–	–	–
At 31 December 2019 and 1 January 2020	1,999,320	434,775	199,265	21,960	1,885,628	132,629	1,165	10,000	–
Cash-flows:									
– Proceeds	3,515,202	174,889	–	–	–	121,128	456	–	4,283
– Repayment	(2,998,310)	–	(100,000)	–	(640,411)	(229,257)	–	–	–
– Capital element of lease rentals paid	–	(329,288)	–	(1,119)	–	–	–	–	–
– Interest element of lease rentals paid	–	(19,421)	–	(1,049)	–	–	–	–	–
Non-cash:									
– Amortisation	–	–	538	–	–	–	–	–	–
– Entering into new leases	–	–	–	134	–	–	–	–	–
– Interest expenses	–	19,421	–	10	–	–	–	–	–
– Capitalisation	–	–	–	1,039	–	–	–	–	–
At 31 December 2020	**2,516,212**	**280,376**	**99,803**	**20,975**	**1,245,217**	**24,500**	**1,621**	**10,000**	**4,283**

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Material non-cash transaction

(i) Interest income

During the year ended 31 December 2020, the interest income received from a joint venture was settled through the current account of a joint venture amounted to RMB12,873,000 (2019: RMB14,304,000).

(ii) Lease liabilities

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of leasehold land for twenty years. On the lease commencement, the Group recognised right-of-use assets and lease liabilities of approximately RMB134,000 (2019: RMB24,568,000) respectively.

27. INTEREST IN A JOINT VENTURE

	2020 RMB'000	2019 RMB'000
Cost of investment in a joint venture		
Unlisted	241,800	241,800
Share of post-acquisition loss and other comprehensive losses	(46,139)	(49,083)
Recognition of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	552	552
	196,213	193,269
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	(7,728)	(8,280)
	188,485	184,989

27. INTEREST IN A JOINT VENTURE (Continued)

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

Name of entity	Form of entity	Principal place of operation and incorporation	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2020 %	2019 %	**2020 %**	2019 %	
Sunshine Oji	Limited incorporated	PRC	**60**	60	**60**	60	Special paper production

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.

	2020 RMB'000	2019 RMB'000
Current asset	**421,848**	426,570
Non-current asset	**563,958**	584,288
Current liabilities	**(579,547)**	(658,907)
Non-current liabilities	**(80,157)**	(30,756)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**73,075**	78,417
Current financial liabilities (excluding trade and other payables and provisions)	**(50,000)**	(30,000)

* 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.

27. INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of Sunshine Oji (Continued)

	2020 RMB'000	2019 RMB'000
Revenue	**778,363**	683,826
Profit/(Loss) and total comprehensive income/(loss) for the year	**4,907**	(39,432)
The above profit/(loss) for the year include the following:		
Depreciation and amortisation	**27,760**	27,132
Interest income	**(780)**	(1,437)
Interest expense	**20,743**	25,329

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

	2020 RMB'000	2019 RMB'000
Net assets of Sunshine Oji	**326,102**	321,195
Proportion of the Group's ownership interest in Sunshine Oji	**195,661**	192,717
Less: Effect of unrealised profit arising from sales of production facilities and equipment from the Group to Sunshine Oji	**(7,176)**	(7,728)
Carrying amount of the Group's interest in Sunshine Oji	**188,485**	184,989

28. TRADE PAYABLES

An analysis of trade payables is as follows:

	2020 RMB'000	2019 RMB'000
Trade payables due to:		
— third parties	**814,195**	982,193
— a joint venture	**125**	55
	814,320	982,248

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are settled in accordance with agreed terms with customers.

28. TRADE PAYABLES (Continued)

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

	2020 RMB'000	2019 RMB'000
0–90 days	779,352	918,114
91–365 days	23,995	55,027
Over 1 year	10,973	9,107
	814,320	982,248

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:

	2020 RMB'000	2019 RMB'000
0–90 days	113,253	155,120
91–180 days	139,360	68,500
Over 180 days	30,000	80,000
	282,613	303,620

All the bills payables are of trading nature and will be expired within twelve months (2019: twelve months) from the issue date.

30. OTHER PAYABLES

An analysis of other payables is as follows:

	2020 RMB'000	2019 RMB'000
Other payables	59,045	52,541
Other payables due to related parties (note 45(b))	40,404	143,794
VAT and other tax payable	84,016	45,619
Interest payable of corporate bond	4,095	8,190
Other interest payable	17,330	7,517
Accrued payroll and welfare	4,570	1,353
	209,460	259,014

31. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Amounts received in advance for sales of paper products	121,761	119,478

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 within one year. The increase in contract liabilities during the year was mainly due to the growth of the businesses.

Revenue amounting to RMB119,478,000 (2019: RMB57,818,000) recognised during the year ended 31 December 2020 relates to carried-forward contract liabilities.

32. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under lease liabilities				
— Within one year	**1,880**	2,139	**877**	1,092
— In more than one year but not more than two years	**1,824**	3,704	**863**	1,752
— In more than two years but not more than five years	**5,500**	9,118	**2,889**	5,040
— After five years	**21,473**	17,689	**16,346**	14,076
	30,677	32,650	**20,975**	21,960
Less: future finance charges	**(9,702)**	(10,690)	**—**	—
Present value of lease obligations	**20,975**	21,960	**20,975**	21,960
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(877)**	(1,092)
Amount due for settlement after 12 months			**20,098**	20,868

As at 31 December 2020, lease liabilities amounting to RMB20,975,000 (2019: RMB21,960,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2020, the total cash outflows for the leases are RMB4,964,000 (2019: RMB6,723,000).

32. LEASE LIABILITIES (Continued)

Details of the lease activities

As at 31 December 2020 and 2019, the Group has entered into leases for an office, certain residential properties and land use right.

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Office	Buildings carried at cost in "property, plant and equipment"	1 (2019: 2)	0.25 year (2019: 0.9 to 1.25 years)	• No option to renew the lease after the end of the contract
Residential properties	Buildings carried at cost in "property, plant and equipment"	2 (2019: 3)	0.2 to 0.5 year (2019: 0.25 to 1.5 years)	• No option to renew the lease after the end of the contract
Leasehold land	Leasehold land carried at cost in "property, plant and equipment"	3 (2019: 2)	17 to 19 years (2019: 18 to 19 years)	• No option to renew the lease after the end of the contract
Land use right	Prepaid lease payments	39 (2019: 33)	18 to 49.8 years (2019: 19 to 49.8 years)	• No option to renew the lease after the end of the contract

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 2019	189	11,012	2,221	7,771	21,193
Addition	—	—	30,898	2,000	32,898
Released to income	(141)	(1,512)	(1,020)	(663)	(3,336)
At 31 December 2019 and 1 January 2020	48	9,500	32,099	9,108	50,755
Addition	—	—	—	1,206	1,206
Released to income	(48)	(1,512)	(713)	(683)	(2,956)
At 31 December 2020	**—**	**7,988**	**31,386**	**9,631**	**49,005**

33. DEFERRED INCOME (Continued)

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

	2020 RMB'000	2019 RMB'000
Current portion	2,909	14,842
Non-current portion	46,096	35,913
	49,005	50,755

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:

	2020 RMB'000	2019 RMB'000
Discounted bills receivables from third parties (note a)	9,217	49,128
Discounted bills receivables from a joint venture	–	500
Discounted bills receivables from subsidiaries of the Company (note b)	1,236,000	1,836,000
Total	1,245,217	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 23 above, 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 RMB790,500,000 (2019: RMB1,206,840,000) were pledged to the issuing banks.

35. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Secured bank borrowings	560,781	273,100
Unsecured bank borrowings	1,955,431	1,726,220
	2,516,212	1,999,320
The borrowings are repayable as follows:		
— Within one year	1,972,696	1,987,039
— In the second year	255,165	1,965
— In the third to fifth years inclusive	288,351	10,316
	2,516,212	1,999,320
Less: Amount due for settlement within one year and shown under current liabilities	(1,972,696)	(1,987,039)
Amount due after one year	543,516	12,281
Total borrowings		
— At fixed rates	1,727,731	727,575
— At floating rates	788,481	1,271,745
	2,516,212	1,999,320
Analysis of borrowings by currency:		
— Denominated in RMB	2,516,212	1,999,320

Fixed-rate borrowings are charged at the rates ranging from 2.00% to 7.80% per annum as at 31 December 2020 (2019: 4.07% to 6.53% 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 2020 was 4.70% per annum (2019: 5.13% per annum).

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

36. OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Current:		
Borrowings from		
— Weifang City Investment Co., Ltd.* (note i)		
(濰坊市投資集團有限公司) ("Weifang City Investment")	–	6,000
— Shandong Lehua Group Co., Ltd.* (note ii)		
(山東樂化集團有限公司) ("Shandong Lehua Group")	–	50,000
— Sale and leaseback obligations (note iii)	**166,501**	257,166
	166,501	313,166
Non-current:		
Borrowings from		
— Sale and leaseback obligations (note iii)	**113,875**	121,609
	280,376	434,775

Notes:

i. The borrowing from Weifang City Investment, an unconnected third party, is unsecured and repayable on demand. The effective interest annual rate for the year ended 31 December 2019 was 6.65% per annum.

ii. The borrowing from Shandong Lehua Group, an unconnected third party, is unsecured and repayable for one year. The effective interest annual rate for the year ended 31 December 2019 was 7.00% per annum.

iii During the year ended 31 December 2020, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB174,889,000 (2019: RMB176,000,000) for a period of 2–3 years (2019: 2–3 years). Upon maturity, the Group will be entitled to purchase the Secured Assets.

Nominal interest rates underlying all these contracts are at respective contract dates ranging from 4.69% to 7.16% (2019: 4.75% to 7.43%) per annum.

Sale and leaseback obligations of RMB280,376,000 (2019: RMB378,775,000) as at 31 December 2020 were secured by certain of the Group's machineries, the total carrying amount of which at 31 December 2020 was RMB770,119,000 (2019: RMB750,928,000) (note 15).

* 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 property, plant and equipment of RMB71,976,000 and RMB87,178,000 respectively (2019: investment property and property, plant and equipment of RMB143,684,000 and RMB19,892,000) (see note 16 and note 15). RMB100,000,000 had been repaid during the year and the remaining balance will be repaid in the year 2021.

38. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,000,000,000	200,000

	Number of shares	**Share capital**	**Shown in the consolidated financial statements**
		HK$'000	RMB'000
Issued and fully paid:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	819,362,000	81,936	73,779

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.

39. RESERVES (Continued)

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.

Assets revaluation reserve

Included in the balance of assets revaluation reserve at 31 December 2020, 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 lease liabilities, discounted bills financing, bank borrowings, other borrowings and corporate bond disclosed in notes 32, 34, 35, 36 and 37 respectively and equity attributable to owner of the Company, comprising issued share capital and reserves.

40. CAPITAL RISK MANAGEMENT (Continued)

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

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost	2,790,909	3,281,923
	2,790,909	3,281,923
Financial liabilities		
Financial liabilities at amortised cost	5,566,812	6,184,768
Lease liabilities	20,975	21,960
	5,587,787	6,206,728

(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 and bank balances denominated in US$, HK$, EURO and AUD, 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 at the end of the reporting period are as follows:

	2020 RMB'000	2019 RMB'000
Assets		
US$		
Bank balances and cash	39,030	71,661
Trade receivables	1,138	13,057
Prepayment and other receivables	3,606	8,448
HK$		
Bank balances and cash	19	1,241
Prepayments and other receivables	—	51
EURO		
Bank balances and cash	1,846	1,891
Prepayments and other receivables	113	271
Liabilities		
US$		
Trade payables	33,855	86,304
Other payables	3,383	2,823
HK$		
Trade payables	—	16
EURO		
Trade payables	283	—
Other payables	—	544
AUD		
Other payables	—	60

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 number below indicates an increase 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**	
	2020 RMB'000 (a)	2019 RMB'000 (a)	**2020 RMB'000 (b)**	2019 RMB'000 (b)	**2020 RMB'000 (c)**	2019 RMB'000 (c)
Increase in post-tax profit for the year	**245**	151	**1**	48	**63**	61

a. This is mainly attributable to the exposure outstanding on receivables, bank balances and cash and payables 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 lease liabilities, 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 note 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 (2019: 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 (2019: 25 basis points) and all other variables were held constant, the Group's post-tax profit would increase (decrease) by approximately RMB4,767,000 for the year ended 31 December 2020 (2019: RMB1,593,000).

(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 cash 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.

41. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk (Continued)

(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 and an individual assessment. The historical rates are adjusted to reflect current and forward 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. In applying the forward-looking information, the Group has taken into account of the possible impacts associated with the overall change in the economic environment arising from COVID-19. Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

The Group applies the IFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables using a provision matrix. The ECL rate of collectively assessed trade receivables according to the follow table:

	2020	2019
Less than 31 days past due	**0.3%**	0.3%
31–365 days past due	**1.9%**	1.0%
Over 365 days past due	**100%**	50%

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.

41. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk (Continued)

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

After considering the factors as set out in note 4.18 and with reference to the discount rate of 2.9% (2019: 2.9%) and default rate of 60.0% (2019: 59.7%), which both rates have been determined by reference to a valuation performed by an independent qualified professional valuer not connected with the Group, the management is of opinion that there has been a significant increase in credit risk on other receivables from a joint venture. Therefore, the Group recognises ECL amounted to RMB81,276,000 in relation to the other receivables from a joint venture based on lifetime ECL (stage 2) for the years ended 31 December 2020 and 2019. For remaining other receivables, there is no significant increase in credit risk since initial recognition as the risk of default is low and, thus, ECL recognised is based on 12-month ECL.

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.

(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-term, medium-term 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 2020, the Group had net current liabilities of approximately RMB1,800,496,000 (2019: RMB2,377,234,000). 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 2020. The management considers using bank and other borrowings as a significant source of finance of the Group. Although most of the existing bank facilities will expire in 2021, 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 RMB682,245,000 originally with the expiration dates in the year 2021 (See note 48(a)).

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

41. FINANCIAL INSTRUMENTS (Continued)

(d) Liquidity risk management (Continued)

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

	Weighted average interest rate	Within 1 year	1–2 years	2–5 years	After 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020							
Non-derivative financial liabilities							
Fixed-rate bank borrowings (*)	4.72	1,639,334	19,250	128,333	–	1,786,917	1,727,731
Variable-rate bank borrowings (*)	4.65	365,001	255,490	226,937	–	847,428	788,481
Other borrowings	6.18	179,699	95,829	22,891	–	298,419	280,376
Bills payables		282,613	–	–	–	282,613	282,613
Trade payables		814,320	–	–	–	814,320	814,320
Other payables		120,874	–	–	–	120,874	120,874
Payables for construction work, machinery and equipment		207,397	–	–	–	207,397	207,397
Discounted bills financing		1,245,217	–	–	–	1,245,217	1,245,217
Lease liabilities	4.88	1,880	1,824	5,500	21,473	30,677	20,975
Corporate bond	8.19	107,977	–	–	–	107,977	99,803
		4,964,312	372,393	383,661	21,473	5,741,839	5,587,787
At 31 December 2019							
Non-derivative financial liabilities							
Fixed-rate bank borrowings (*)	5.29	749,088	–	–	–	749,088	727,575
Variable-rate bank borrowings (*)	5.06	1,282,807	2,587	11,845	–	1,297,239	1,271,745
Other borrowings	6.22	333,966	101,398	25,941	–	461,305	434,775
Bills payables		303,620	–	–	–	303,620	303,620
Trade payables		982,248	–	–	–	982,248	982,248
Other payables		212,042	–	–	–	212,042	212,042
Payables for construction work, machinery and equipment		167,870	–	–	–	167,870	167,870
Discounted bills financing		1,885,628	–	–	–	1,885,628	1,885,628
Lease liabilities	4.78	2,139	3,704	9,118	17,689	32,650	21,960
Corporate bond	8.19	120,893	108,190	–	–	229,083	199,265
		6,040,301	215,879	46,904	17,689	6,320,773	6,206,728

* Subsequent to the year ended 31 December 2020, certain PRC banks agreed to extend the Group's RMB682,245,000 bank borrowings' expiration dates (originally to be repaid in year 2021) for one year (See note 48(a)).

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

41. FINANCIAL INSTRUMENTS (Continued)

(d) Liquidity risk management (Continued)

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

Included in above, discounted bills financing with carrying amount of approximately RMB9,217,000 (2019: RMB49,128,000) 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 2020 and 2019 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:

	2020 **RMB'000**	2019 RMB'000
Buildings	**498,963**	723,852
Plant, machinery and equipment	**389,790**	461,711
Prepaid lease payments	**318,298**	158,734
Bills receivables	**–**	27,141
Restricted bank deposits	**1,140,427**	1,392,414
	2,347,478	2,763,852

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 sale and leaseback obligations (See notes 15 and 16 for details).

43. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	207,075	342,347
— Investment cost in a partnership	393,815	—
	600,890	342,347

In accordance with the Limited Partnership Agreement and Equity Investment Agreement, which were duly passed by way of poll at the extraordinary general meeting of the Company held on 28 December 2020 (the "EGM"), the Group would contribute up to RMB395.0 million in total to 濰坊市世紀陽光新舊動能轉換股權投資基金合夥企業(有限合夥)(Weifang City Century Sunshine Old-to-New Momentum Conversion Equity Investment Fund Partnership (Limited Partnership))* (the "Partnership"), while the Partnership would contribute up to RMB500.0 million into the Group in exchange for a subsidiary's equity. Details of the transaction are set out in the Company's circular dated 10 December 2020. As at the year ended 31 December 2020, the Group has contributed RMB1,185,000 to the Partnership, which recorded under other receivables in note 24. Subsequent to the reporting date, the Group has contributed RMB197.5 million to the Partnership, while the Partnership has contributed RMB251.5 million to the Group.

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

44. LEASE COMMITMENTS

The Group as lessee

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

	2020 RMB'000	2019 RMB'000
Within one year	176	269

44. LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year was RMB1,848,000 (2019: RMB1,477,000). All of the properties held have committed tenants for the next 1 to 5 years.

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

	2020 RMB'000	2019 RMB'000
Within one year	**1,360**	1,052
In the second to fifth year inclusive	**2,206**	2,351
	3,566	3,403

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:

	2020 RMB'000	2019 RMB'000
Sales of electricity and steam to a non-controlling shareholder of a subsidiary (note)	**110,347**	124,469
Interest income earned from a joint venture (note 8(i))	**12,873**	14,304
Provision of goods and services to a joint venture	**10,911**	3,143

Note:

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.

45. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

	2020 RMB'000	2019 RMB'000
Trade receivables from		
— a joint venture	5,062	4,430
— a non-controlling shareholder of a subsidiary (note 22)	8,352	13,647
	13,414	18,077
Other receivable from a joint venture (note ii)	188,460	192,215
Other payable due to		
— a non-controlling shareholder of a subsidiary (note i)	24,500	132,629
— a director (note i)	4,283	—
— the spouse of a director (note i)	10,000	10,000
— a controlling shareholder (note i)	1,621	1,165
	40,404	143,794

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 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:

	2020 RMB'000	2019 RMB'000
Short term employee benefit	9,438	10,326
Retirement benefit scheme contributions	186	204
	9,624	10,530

46. 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 23% to 32% (2019: 18% — 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.

47. PARTICULARS OF SUBSIDIARIES

(a) 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 2020	2019	Principal activities
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$179,990,970	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	RMB510,000,000	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	RMB200,000,000	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

47. PARTICULARS OF SUBSIDIARIES (Continued)

(a) 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 2020	2019	Principal activities
昌樂盛世熱電有限責任公司 (Changle Shengshi Thermoelectricity Co., Ltd.) (note i)	Private limited company	PRC	RMB539,250,000	80.00%	80.00%	Generation and supply of electricity and steam
濰坊大環再生資源有限公司 (Weifang Dahuan Waste Recovery Co., Ltd.) (note i)	Private limited company	PRC	RMB70,000,000	100.00%	100.00%	Waste materials trading
上海王的實業有限公司 (Shanghai Wangreat Industrial Co., Ltd.) (note i)	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
昌樂縣鬱金香酒店管理有限公司 (Changle Tulip Hotel Management Co., Ltd) (note i)	Private limited company	PRC	RMB10,000,000	100.00%	100.00%	Hotel operation
山東科邁生物製漿有限公司 (Shandong Kemat Paper Co., Ltd.) (note i)	Private limited company	PRC	RMB20,000,000	100.00%	100.00%	Manufacture of paper products
山東概念印刷有限公司 (Shandong Sunshine Concept Printing Co., Ltd.) (note i, ii)	Private limited company	PRC	RMB230,000,000	100.00%	N/A	Manufacture of paper products

47. PARTICULARS OF SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

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 2020.

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.

(b) 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	
		31.12.2020 %	31.12.2019 %	**31.12.2020 RMB'000**	31.12.2019 RMB'000	**31.12.2020 RMB'000**	31.12.2019 RMB'000
Changle Shengshi Thermoelectricity Co., Ltd. (Shengshi Thermoelectricity)	PRC	**20**	20	**23,585**	14,719	**223,928**	200,343
Individually immaterial subsidiaries with non-controlling interests						**88,986**	96,291
						312,914	296,634

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.

47. PARTICULARS OF SUBSIDIARIES (Continued)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (Continued)

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

	2020 RMB'000	2019 RMB'000
Current assets	1,400,483	1,365,151
Non-current assets	612,362	590,674
Current liabilities	(764,670)	(944,731)
Non-current liabilities	(128,533)	(9,379)
Equity attributable to owners of the Company	895,714	801,372
Non-controlling interests	223,928	200,343
Revenue	755,321	739,608
Expenses	637,394	666,013
Profit for the year	117,927	73,595
Profit attributable to owners of the Company	94,342	58,876
Profit attributable to the non-controlling interests	23,585	14,719
Profit for the year	117,927	73,595
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	94,342	58,876
Total comprehensive income attributable to the non-controlling interests	23,585	14,719
Total comprehensive income for the year	117,927	73,595
Net cash inflow from operating activities	130,805	244,985
Net cash outflow from investing activities	(110,475)	(127,182)
Net cash inflow/(outflow) from financing activities	476	(78,979)
Net cash inflow	20,806	38,824

48. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Bank borrowings

Subsequent to the year ended 31 December 2020, certain PRC banks agreed to extend the due dates of the Group's bank borrowings of approximately RMB682,245,000 for one year when they fall due in year 2021.

(b) The effect of coronavirus disease ("COVID-19")

As a result of the continuous outbreak of novel coronavirus ("COVID-19") the global has taken numerous measures including travel and transportation restrictions to prevent the spread of the epidemic. Certain measures were undertaken by the PRC central government and various provincial or municipal governments including but not limited to implementation of travel restrictions and quarantine policies. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at date of this report.

(c) Other borrowings

On 15 March 2021, two subsidiaries of the Group (as the lessees) entered into a finance lease agreement with Minsheng Financial Leasing Co., Ltd. (民生金融租賃股份有限公司) (as the lessor), pursuant to which, the latter has agreed to, among other things, (i) acquire the certain leased assets from the lessees for an aggregate consideration of RMB150,000,000 and (ii) lease the leased assets to the lessees for a lease term of 3 years. Details of the transaction are set out in the announcement of the Company dated 15 March 2021. At the expiry of the lease term, the Lessees shall obtain the ownership of the leased assets from the Lessor at no consideration.

49. 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:

	2020 RMB'000	2019 RMB'000
Non-current assets		
Investment in a subsidiary	462,824	462,824
Amounts due from subsidiaries	754,049	724,816
	1,216,873	1,187,640
Current assets		
Prepayments and other receivables	2	2
Amount due from non-controlling interests of a subsidiary	1,458	—
Bank balances and cash	10	931
	1,470	933
Current liabilities		
Amounts due to subsidiaries	18,891	18,891
Amount due to a controlling shareholder	1,621	1,165
Amount due to a director	4,283	—
Other payables	—	448
	24,795	20,504
Net current liabilities	(23,325)	(19,571)
Total assets less current liabilities	1,193,548	1,168,069
Capital and reserves		
Share capital	73,779	73,779
Reserves (note)	1,119,769	1,094,290
Total equity	1,193,548	1,168,069

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: Movement in equity

	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2019	73,779	722,957	283,277	64,978	1,144,991
Profit and total comprehensive income for the year	—	—	—	51,910	51,910
Dividend paid	—	—	—	(28,832)	(28,832)
At 31 December 2019 and 1 January 2020	73,779	722,957	283,277	88,056	1,168,069
Profit and total comprehensive income for the year	—	—	—	25,479	25,479
At 31 December 2020	**73,779**	**722,957**	**283,277**	**113,535**	**1,193,548**

50. RECLASSIFICATION AND COMPARATIVE FIGURES

Certain comparative figures have been restated to conform the current year's presentation.

Financial Summary

	2020 RMB'000	2019 RMB'000	2019 RMB'000	2017 RMB'000	2016 RMB'000
Results					
Revenue	**6,673,435**	6,311,200	6,585,656	5,781,857	4,223,298
Profit before income tax	**733,683**	487,745	477,940	564,542	185,315
Taxation	**(219,694)**	(128,111)	(131,450)	(162,918)	(58,756)
Non-controlling interests	**(16,279)**	(9,636)	(13,539)	(5,593)	(3,448)
Profit attributable to owners of the Company	**497,710**	349,998	332,951	396,031	123,111
Assets					
Non-current assets	**5,995,476**	5,590,247	5,006,467	4,461,349	4,321,581
Current assets	**3,384,982**	3,830,098	4,161,115	4,088,640	3,410,091
Total assets	**9,380,458**	9,420,345	9,167,582	8,549,989	7,731,672
Liabilities					
Non-current liabilities	**763,296**	295,319	499,500	750,650	590,058
Current liabilities	**5,185,478**	6,207,332	6,081,158	5,592,204	5,373,661
Total liabilities	**5,948,774**	6,502,651	6,580,658	6,342,854	5,963,719
Equity and reserves					
Total equity	**3,431,684**	2,917,694	2,586,924	2,207,135	1,767,953
Non-controlling interests	**(312,914)**	(296,634)	(287,030)	(187,545)	(151,898)
Equity attributable to owners of the Company	**3,118,770**	2,621,060	2,299,894	2,019,590	1,616,055