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)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Revenue was RMB3,044.1 million for 1H2019, representing a decrease by approximately 8.3%, from RMB3,318.4 million for the corresponding period last year.
- Gross profit was RMB551.6 million, representing a decrease by approximately 12.9%, from RMB633.0 million for the corresponding period last year.
- Profit attributable to the owners of the Company decreased by approximately 31.4% to RMB122.8 million, as compared to RMB179.0 million for the corresponding period last year.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of China Sunshine Paper Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 ("1H 2019") together with the comparative figures for the corresponding period of last year ("1H 2018"). These interim results have been reviewed by the Company's auditor, Grant Thornton Hong Kong Limited, and the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	4	**3,044,120**	3,318,383
Cost of sales		**(2,492,503)**	(2,685,340)
Gross profit		**551,617**	633,043
Other income	5	**101,451**	105,823
Other gains or losses	6	**7,989**	(81,297)
Distribution and selling expenses		**(138,650)**	(140,371)
Administrative expenses		**(218,304)**	(139,722)
Gain on fair value changes of an investment property		**2,081**	—
Finance costs	7	**(113,570)**	(124,014)
Share of (loss)/profit of a joint venture		**(11,015)**	7,091
Profit before income tax	9	**181,599**	260,553
Income tax expense	8	**(55,068)**	(74,796)
Profit and total comprehensive income for the period		**126,531**	185,757
Profit and total comprehensive income attributable to:			
Owners of the Company		**122,793**	178,976
Non-controlling interests		**3,738**	6,781
		126,531	185,757
Earnings per share for profit attributable to the owners of the Company during the period			
Basic and diluted *(RMB)*	11	**0.15**	0.22

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2019** ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**3,955,672**	3,734,877
Investment property		**145,653**	120,674
Prepaid lease payments		**391,568**	365,364
Goodwill		**30,326**	30,326
Deferred tax assets		**26,895**	28,614
Interest in a joint venture		**197,081**	208,096
Deposits and other receivables		**305,114**	226,076
Deposits for acquisition for property, plant and equipment		**309,736**	292,440
		5,362,045	5,006,467
Current assets			
Prepaid lease payments		**—**	8,567
Inventories		**496,129**	756,442
Trade receivables	12	**537,050**	507,154
Bills receivables	13	**411,183**	679,101
Prepayments and other receivables		**233,587**	290,925
Income tax recoverable		**37**	37
Restricted bank deposits		**1,705,566**	1,394,637
Bank balances and cash		**860,050**	524,252
		4,243,602	4,161,115
Current liabilities			
Contract liabilities		**89,421**	57,818
Trade payables	14	**997,919**	1,039,778
Bills payables	14	**230,000**	322,000
Other payables		**244,499**	180,356
Payable for construction work, machinery and equipment		**78,518**	87,577
Income tax payable		**37,142**	12,818
Lease liabilities/Obligations under finance leases	15	**334,703**	308,090
Deferred income		**2,582**	2,405
Discounted bills financing	16	**2,165,907**	1,916,750
Bank borrowings	17	**2,170,875**	2,045,566
Other borrowing		**8,000**	8,000
Corporate bond	18	**100,000**	100,000
		6,459,566	6,081,158
Net current liabilities		**(2,215,964)**	(1,920,043)
Total assets less current liabilities		**3,146,081**	3,086,424

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Capital and reserves			
Share capital		**73,779**	73,779
Reserves		**2,320,076**	2,226,115
Equity attributable to owners of the Company		**2,393,855**	2,299,894
Non-controlling interests		**290,736**	287,030
Total equity		**2,684,591**	2,586,924
Non-current liabilities			
Lease liabilities/Obligations under finance leases	15	**204,059**	229,668
Bank borrowings	17	**13,264**	47,246
Corporate bond	18	**198,903**	198,393
Deferred income		**39,771**	18,788
Deferred tax liabilities		**5,493**	5,405
		461,490	499,500
Total equity and non-current liabilities		**3,146,081**	3,086,424

NOTES

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

The Group has net current liabilities of approximately RMB2,215,964,000 as at 30 June 2019. The directors of the Company (the "Directors") have evaluated the relevant available information and key assumptions used in the cash flow projections for the twelve months since the reporting date. In addition, although most of the existing bank facilities will expire within twelve months, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing bank facilities upon expiry or to obtain other additional bank borrowing facilities as necessary. Therefore, the Directors are of the opinion that, taking into account the presently available borrowing facilities (including short-term bank borrowings which could be renewed on an annual basis subject to approval by banks) and internal financial resources of the Group, the Group has sufficient working capital to meet its financial obligation as they fall due for the foreseeable future. Accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and amended International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019. Other than the impact of the adoption of IFRS 16 as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(a) New or amended IFRSs effective for the annual period beginning 1 January 2019

In the current period, the Group has applied for the first time all amendments to IFRSs issued by the International Accounting Standards Board ("IASB"), which are relevant to the Group's operations and effective for the Group's condensed consolidated interim financial statements for the annual period beginning on 1 January 2019.

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

IFRS 16 "Lease"

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations (IFRIC-Int 4 "Determining whether an Arrangement contains a Lease", SIC Int-15 "Operating Leases-Incentives" and SIC Int-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC-Int 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC-Int 4. The Group has already recognised the prepaid lease payments for leasehold land where the Group is a lessee. The application of IFRS 16 does not have impact on these assets except for the whole balance is now presented as "prepaid lease payments" under non-current assets.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 were ranging from 4.35% to 4.75%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	RMB'000
Total operating lease commitments disclosed at 31 December 2018	1,404
Recognition exemptions:	
— Leases with remaining lease term of less than 12 months	(751)
Operating leases liabilities before discounting	653
Discounting using incremental borrowing rate as at 1 January 2019	(45)
Operating leases liabilities	608
Finance leases obligation	537,758
Total lease liabilities recognised under IFRS 16 at 1 January 2019	538,366
Classified as:	
Current lease liabilities	308,415
Non-current lease liabilities	229,951
	538,366

The following table summarises the impact of transition to IFRS 16 on the Group's consolidated statement of financial position at 1 January 2019:

	RMB'000
Increase in right-of-use assets presented in property plant and equipment	608
Increase in lease liabilities	608
Increase in prepaid lease payments (non-current asset)	8,567
Decrease in prepaid lease payments (current asset)	(8,567)

(b) Issued but not yet effective IFRSs

The Group has not early applied any new and amended IFRSs which have been issued by the IASB but are not yet effective for the current accounting period.

The directors anticipate that all of the new and amended IFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of the new and amended IFRSs. The Group has commenced an assessment of the impact of these new standards and amendments, but not yet in a position to state whether they would have a significant impact on its results and financial position.

(c) Significant accounting policies

The condensed consolidated interim financial statements has been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2018, except for the effects of applying IFRS 16.

Lease

(a) *The Group as lessee*

Policies applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, 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 contracts 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 condensed 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).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, 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.

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. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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 and leases of low-value assets 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 condensed 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. Right-of-use assets that meet the definition of investment property are presented within investment property. The prepaid lease payments for leasehold land are presented as “prepaid lease payments” under non-current assets.

Policies applicable before 1 January 2019

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

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

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

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

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

Leasehold land and building

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

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

(b) The Group as lessor

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

4. SEGMENT INFORMATION

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

(a) Segment result

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

Six months ended 30 June 2019 (unaudited)

	Paper products					
	White top linerboard	**Coated-white top linerboard**	**Core board**	**Specialised paper products**	**Electricity and steam**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**773,440**	**1,207,247**	**343,323**	**602,697**	**117,413**	**3,044,120**
Inter-segment revenue	**—**	**—**	**—**	**—**	**237,543**	**237,543**
Segment revenue	**773,440**	**1,207,247**	**343,323**	**602,697**	**354,956**	**3,281,663**
Segment profit	**113,801**	**266,043**	**73,699**	**71,694**	**49,158**	**574,395**

Six months ended 30 June 2018 (unaudited)

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

(b) Reconciliation of segment profit

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit		
Segment profit	**574,395**	561,054
Unrealised profit on inter-segment sales	**(38,556)**	(37,275)
	535,839	523,779
Other income	**99,437**	105,260
Other gains or losses	**6,289**	5,791
Distribution and selling expenses	**(138,650)**	(140,371)
Administrative expenses	**(210,257)**	(133,794)
Finance costs	**(102,125)**	(107,203)
Gain on fair value changes of an investment property	**2,081**	—
Share of (loss)/profit of a joint venture	**(11,015)**	7,091
Consolidated profit before income tax	**181,599**	260,553

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

The Group does not allocate depreciation of property, plant and equipment and amortisation of prepaid lease payments, finance costs and interest income to the relevant paper product segments in the internal segment analysis as this information is not necessary.

No segment assets and liabilities, and other related segment information were presented as no such discrete financial information are provided to the chief operating decision maker.

5. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income on:		
Bank deposits	**13,648**	13,929
The balance with a joint venture *(note i)*	**6,861**	7,399
Loans to a third party	**—**	1,599
Total interest income	**20,509**	22,927
Government grants *(note ii)*	**79,799**	81,731
Rental income from an investment property and other properties	**1,143**	1,165
	101,451	105,823

Notes:

i. During the six months ended 30 June 2019, the Group earned interest income from 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd ("Sunshine Oji")), a joint venture of the Group, at a weighted average effective interest rate of 6.18% per annum (six months ended 30 June 2018: 6.18% per annum).

ii. During the six months ended 30 June 2019, the Company's subsidiaries, 山東世紀陽光紙業集團有限公司 (Shandong Century Sunshine Paper Group Co., Ltd ("Century Sunshine")) was granted and received unconditional government subsidy from local government of approximately RMB72,103,000, the amounts of which were determined by reference to the amount of value-added tax paid (six months ended 30 June 2018: RMB80,406,000).

6. OTHER GAINS OR LOSSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain from sale of scrap materials, net	**14,278**	9,376
Impairment loss on property, plant and equipment	**—**	(89,023)
Loss on disposal of property, plant and equipment	**(3,045)**	(3,842)
Net foreign exchange losses	**(4,516)**	(1,885)
(Allowance for)/Reversal of impairment of trade and other receivables	**(98)**	940
Others	**1,370**	3,137
	7,989	(81,297)

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses on:		
Discounted bills financing	**41,804**	32,957
Bank and other borrowings	**60,201**	61,652
Lease liabilities/Obligation under finance leases	**12,766**	13,764
Corporate bond	**13,063**	16,960
	127,834	125,333
Less: Interest capitalised in construction in progress	**(14,264)**	(1,319)
	113,570	124,014

Borrowing costs capitalised during the six months ended 30 June 2019 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 5.02% to 5.22% (six months ended 30 June 2018: 5.22%) per annum to expenditure on construction in progress.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	**53,261**	98,496
Deferred tax expense/(credit)	**1,807**	(23,700)
Charge for the period	**55,068**	74,796

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

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong profits tax has not been provided for the six months ended 30 June 2019 and 2018 as the Group has no assessable profits for the period.

9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Wages and salaries	**137,857**	122,479
Retirement benefits schemes contributions	**22,272**	19,225
Total staff costs (including directors' emoluments)	**160,129**	141,704
Cost of inventories recognised as an expense	**2,244,705**	2,540,222
Depreciation of property, plant and equipment		
— right-of-use assets	**193**	—
— owned	**126,066**	184,968
Impairment of property, plant and equipment	**—**	89,023
Amortisation of prepaid lease payments	**2,807**	5,205
Research and development expenses	**211,601**	73,410

10. DIVIDENDS

During the current interim period, a final dividend of HK$0.04 (six months ended 30 June 2018: HK$0.07) per share in respect of the year ended 31 December 2018 amounting to a total of HK$32,774,000 (equivalent to approximately RMB28,832,000) (six months ended 30 June 2018: HK$57,355,000 (equivalent to approximately RMB48,356,000)) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 4 June 2019.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 was based on the profit of RMB122,793,000 (six months ended 30 June 2018 (unaudited): RMB178,976,000) for the period attributable to owners of the Company, and the weighted average number of 819,362,000 (six months ended 30 June 2018 (unaudited): 819,362,000) ordinary shares in issue during the six months ended 30 June 2019.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2019 and 2018. The basic earnings per share equals to the diluted earnings per share.

12. TRADE RECEIVABLES

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

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
0–30 days	**480,671**	431,060
31–90 days	**44,080**	64,235
91–365 days	**11,361**	11,307
Over 1 year	**938**	552
	537,050	507,154

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

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
At the beginning of the period/year	**9,040**	9,530
Adoption of IFRS 9	**—**	319
Adjusted balance	**9,040**	9,849
Written off during the year	**(617)**	—
Allowance/(Reversal) during the period/year	**971**	(809)
At the end of the period/year	**9,394**	9,040

13. BILLS RECEIVABLES

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

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
0–90 days	**208,016**	265,417
91–180 days	**57,745**	219,858
181–365 days	**145,422**	193,826
	411,183	679,101

As at 30 June 2019, the Group has discounted bills receivables of RMB18,793,000 (31 December 2018: RMB189,619,000) to banks with full recourse. The Group continues to recognise the full carrying amount of the bills receivables and has recognised the cash received upon the discounting as discounted bills financing (note 16).

14. TRADE AND BILLS PAYABLES

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

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
0–90 days	**964,546**	896,641
91–365 days	**253,846**	453,169
Over 1 year	**9,527**	11,968
	1,227,919	1,361,778

All the bills payables as at 30 June 2019 and 31 December 2018 are trading nature and will mature within twelve months respectively. At the end of the reporting period, certain of the Group's bank deposits were pledged to secure bills payable granted to the Group.

15. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	As at 30 June 2019	As at 31 December 2018	**As at 30 June 2019**	As at 31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Within one year	**360,813**	334,339	**334,703**	308,090
In more than one year but not more than two years	**163,868**	204,872	**154,734**	196,252
In more than two years but not more than five years	**51,260**	34,244	**49,325**	33,416
	575,941	573,455	**538,762**	537,758
Future finance charges on lease liabilities (2018: obligations under finance leases)	**(37,179)**	(35,697)	**—**	—
Present value of lease obligations liabilities (2018: obligation under finance leases)	**538,762**	537,758	**538,762**	537,758
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(334,703)**	(308,090)
Amount due for settlement after 12 months			**204,059**	229,668

The Group's lease liabilities (2018: obligations under finance leases) are secured by the lessor's charge over certain property, plant and equipment amounting to RMB818,694,000 (31 December 2018: RMB823,238,000).

During the current interim period, the Group entered into several sales and leaseback agreements with leasing companies for machinery and equipment ("Secured Assets") amounting to RMB160,000,000 (31 December 2018: RMB374,000,000) for a period of 2–3 years (31 December 2018: 2–3 years). Upon maturity, the Group will be entitled to purchase the Secured Assets.

During the current interim periods, the total cash outflows for the lease are RMB146,933,000.

16. DISCOUNTED BILLS FINANCING

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Discounted bills receivables from third parties *(note a)*	**18,793**	189,619
Discounted bills receivables from subsidiaries of the Company *(note b)*	**2,147,114**	1,727,131
Total	**2,165,907**	1,916,750

Note:

a. These borrowings arose from discounting, with recourse, of bills receivables from third parties. The Group continues to recognise the carrying amount of the underlying bills receivables, as presented in note 13, since the title of receivables was not transferred to the lending banks.

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

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

17. BANK BORROWINGS

During the current interim period, the Group obtained new loans amounting to RMB1,497,380,000 (six months ended 30 June 2018: RMB1,660,807,000), and repaid loans amounting to RMB1,406,053,000 (six months ended 30 June 2018: RMB1,666,846,000). The newly raised loans bear interest from 3.50% to 7.13% per annum (six months ended 30 June 2018: 4.34% to 7.40%). At the end of the reporting period, certain of the Group's property, plant and equipment and land use rights of RMB1,123,861,000 (31 December 2018 (audited): RMB1,399,474,000) were pledged to secure bank borrowings granted to the Group.

18. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was RMB500,000,000 with annual coupon rate of 8.19% per annum. The corporate bond is guaranteed by 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation Co. Ltd.), and is with counter-guarantee arrangement with the Group's investment property and construction in progress of RMB145,653,000 and RMB19,892,000 respectively (31 December 2018 (audited): investment property and construction in progress of RMB120,674,000 and RMB42,790,000 respectively), and the remaining balance will be repaid with 20% of offering size annually from the year 2019 to year 2021.

19. CAPITAL COMMITMENTS

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated interim financial statements in respect of:		
— acquisition of property, plant and equipment	**478,382**	371,016

BUSINESS REVIEW

During the six months ended 30 June 2019, there were still structural and periodic overcapacity in China's paper manufacturing industry. Due to the rising fluctuations in the market and further increased competition in the paper manufacturing industry, demand in the downstream packaging industry decreased, and the market sentiment has further weakened, resulting in a decline in selling prices of the products. At the same time, affected by China-US trade tensions and continuous implementation of more stringent environmental policies, oversea raw material supply was limited and the prices of domestic raw materials experienced fluctuation, which laid pressure on the production costs of enterprises and reduced the profit-making space. Against complicated and changing external economic conditions, the Group, adhering to the management concept of "Refinement and Innovation", realized its sustained and sound operations by continuously optimizing its product mix to identify new growth drivers and to consolidate its refined management base. As of 30 June 2019, the Group recorded a sales volume from its main products of 632,000 tonnes, which basically remained stable as compared to 635,000 tonnes for the corresponding period last year. Our sales revenue amounted to RMB3.04 billion, representing a decrease of 8.3% as compared to RMB3.32 billion for the period ended 30 June 2018.

The Group is committed to producing various specifications of high-quality packaging paper, including white top linerboard, coated-white top linerboard and core board, cultivates the market meticulously and devotes to meeting the needs from different clients. The Group insists on the development strategy of differentiation and conducting self-managed research and development of white top linerboard and coated-white top linerboard, which possess a variety of intellectual property rights and contribute to the primary productive energy of the Group. In the first half of 2019, the sales of these two main products amounted to 499,000 tonnes, which still was the source of most of the Group's income.

BUSINESS OUTLOOK

The trend of eliminating outdated production capacity and implementation of more stringent environmental policies in the entire paper manufacturing industry will continue in the future. Medium-sized and small enterprises will continue to reach the full utilization of production capacity and the consolidation of the industry will be further enhanced, which is conducive to the competition of the Group.

In response to the strict environmental protection policy of continuously reducing the import quota for wastepaper and increasing procurement quality, the Group will proactively seek the optimization and adjustment of raw material structure while laying out new alternative raw materials. Adhering to the principle of "customer first", and by adopting the Customer Relationship Management (CRM) system to achieve refined marketing management, we will deliver high quality and efficient services to customers and facilitate sustainable organic growth of the Group. Meanwhile, the Group will also continue to strictly uphold high standards of environmental-friendly operation and the principle of harmonious co-existence with nature by resolutely implementing measures on energy conservation and emission reduction, therefore achieving mutually beneficial relationship between economic development and ecological balance.

With ever-changing innovative development, the Group will continue to promote its refined management of production, procurement, marketing and finance, and make all efforts to reduce costs and increase efficiency to actively respond to the complicated and changing external economic conditions. By applying modern methods such as big data and the Internet, we will strive to innovate in production technology, processes, products, management and business models, to become the leader in the industry in all aspects.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

For the first six months ended 30 June 2019, our Group's total revenue was RMB3,044.1 million, representing a decrease of 8.3% as compared to that of RMB3,318.4 million for the first six months ended 30 June 2018.

As a result of the market demand pressure, average selling price of paper products of our Group decreased during 1H 2019, and the sales volume also decreased slightly. Sales of paper products decreased by 8.6% to RMB2,926.7 million for 1H 2019 with sales volume of around 632,000 tonnes, as compared to that of RMB3,202.2 million and around 635,000 tonnes for the corresponding period last year.

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

		1H 2019			1H 2018	
	RMB'000	***GP margin (%)***	***% of total revenue***	*RMB'000*	*GP margin (%)*	*% of total revenue*
White top linerboard	**773,440**	**14.7**	**25.4**	904,863	16.1	27.3
Coated-white top linerboard	**1,207,247**	**22.0**	**39.7**	1,325,397	21.1	39.9
Core board	**343,323**	**21.5**	**11.3**	390,054	27.4	11.8
Specialised paper products	**602,697**	**11.9**	**19.8**	581,860	12.1	17.5
Subtotal of sales of paper products	**2,926,707**	**17.9**	**96.2**	3,202,174	18.8	96.5
Sales of electricity and steam	**117,413**	**13.9**	**3.8**	116,209	13.3	3.5
Total revenue	**3,044,120**	**18.1**	**100.0**	3,318,383	19.1	100.0

Cost of sales

Cost of sales was RMB2,492.5 million for 1H 2019, representing a decrease of 7.2% as compared to that of RMB2,685.3 million for 1H 2018. The decrease in cost of sales was consistent with the decrease in revenue, but lower than the decrease in revenue.

Gross profit and gross profit margin

The gross profit of our Group decreased from RMB633.0 million for 1H 2018 to RMB551.6 million for 1H 2019. The profit margin of the Group also decreased during the period as compared to the corresponding period last year, from 19.1% for 1H 2018 to 18.1% for 1H 2019.

Other profit and loss items

Other income of RMB101.5 million for 1H 2019 (1H 2018: RMB105.8 million) mainly consisted of interest income on bank deposits of RMB13.6 million, interest income earned from a joint venture and a third party of RMB6.9 million, government grants of RMB79.8 million and rental income of RMB1.2 million.

Other gains of RMB8.0 million for 1H 2019 (1H 2018: other losses RMB81.3 million) mainly consisted of gain from sale of scrap materials of RMB14.3 million, loss of disposal of property, plant and equipment of RMB3.0 million, net foreign exchange losses of RMB4.5 million, allowance for impairment of trade receivables 0.1 million and other gains of RMB1.3 million.

Distribution and selling expenses was RMB138.7 million for 1H 2019, as compared to RMB140.4 million for the corresponding period last year. As a percentage against revenue, it increased from 4.2% for 1H 2018 to 4.6% for 1H 2019.

Administrative expenses was RMB218.3 million for 1H 2019, representing an increase of 56.3% as compared to RMB139.7 million for the corresponding period last year. As a percentage against revenue, it increased from 4.2% for 1H 2018 to 7.2% for 1H 2019. The increase was mainly due to the increase in research and development expenses.

Finance costs was RMB113.6 million for 1H 2019, representing a decrease of 8.4% as compared to RMB124.0 million for the corresponding period last year. As a percentage against revenue, it remained 3.7% for 1H 2019, which was the same as 1H 2018.

During 1H 2019, there was a share of loss of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB11.0 million (1H 2018: share of profit of a joint venture of RMB7.1 million). The profitability of the joint venture is weakened mainly because the new production line market still needs to be further developed.

Income tax expenses

Our income tax expenses decreased from RMB74.8 million for 1H 2018 to RMB55.1 million for 1H 2019. The applicable enterprise income tax rate for our subsidiaries for both 1H 2019 and 1H 2018 were roughly the same. Effective tax rate for 1H 2019 and 1H 2018 was 30.3% and 28.7%, respectively.

Profit and total comprehensive income

As a result of the above factors, we recorded a profit for the year attributable to the owners of our Company of RMB122.8 million for the first six months ended 30 June 2019 (1H 2018: RMB179.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

Working capital, gearing and financial resources

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

As at 30 June 2019, our Group had restricted bank deposits, cash and bank balances of RMB2,565.6 million (31 December 2018: RMB1,918.9 million). The debt of our Group comprised of bank and other borrowings, lease liabilities/obligations under finance leases and corporate bond totaled RMB3,029.8 million as at 30 June 2019 (31 December 2018: RMB2,937.0 million). Net gearing ratio decreased from 39.4% as at 31 December 2018 to 17.3% as at 30 June 2019.

Inventories decreased from RMB756.4 million as at 31 December 2018 to RMB496.1 million as at 30 June 2019. Inventory turnover was 46 days for 1H 2019, as compared to 46 days for 1H 2018.

Trade receivables increased from RMB507.2 million as at 31 December 2018 to RMB537.1 million as at 30 June 2019. Trade receivables turnover was 31 days for 1H 2019, as compared to 29 days for 1H 2018. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded a decrease from RMB1,039.8 million as at 31 December 2018 to RMB997.9 million as at 30 June 2019. Trade payable turnover was 74 days for 1H 2019, as compared to 59 days for 1H 2018.

Current ratio decreased from 0.68 times as at 31 December 2018 to 0.66 times as at 30 June 2019.

Notes to financial ratios

(1) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.

(2) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.

(3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.

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

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

Capital expenditure

For 1H 2019, our capital expenditure was approximately RMB245.8 million, which mainly involves the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

Capital commitments and contingent liabilities

As at 30 June 2019, our Group had capital commitments, which were contracted but not provided for acquisition of property, plant and equipment of RMB478.4 million.

There was no contingent liabilities as at 30 June 2019.

Pledge of assets

As at 30 June 2019, the carrying amount of our assets of RMB2,741.6 million and the fair value of our investment property of RMB145.7 million were pledged as collateral or security for our Group's bank loans, lease liabilities and corporate bond.

Foreign exchange risks

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

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

CORPORATE GOVERNANCE

Our Company is committed to achieve a high standard of corporate governance. Our Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. Our Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout 1H 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by our Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code throughout 1H 2019.

AUDIT COMMITTEE

Our Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our Company's financial reporting process, internal control and risk management system and to provide advice and comments to our Board. The audit committee consists of three independent non-executive Directors, namely Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie. Ms. Shan Xueyan is the chairlady of the audit committee. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for 1H 2019 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated financial statements of our Group for 1H 2019 have been reviewed by the Company's auditor, Grant Thornton Hong Kong Limited, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants.

EMPLOYEES AND REMUNERATION POLICIES

Our Group had approximately 4,200 employees as at 30 June 2019. The staff costs for 1H 2019 were RMB160.1 million (1H 2018: RMB141.7 million). The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to set performance-based remuneration which reflects market standards. Employees' remuneration packages are generally determined based on job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for 1H 2019 (1H 2018: nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of Company's shares.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunshinepaper.com.cn) and the interim report containing all the information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

Our Board would like to take this opportunity to express its gratitude to our shareholders, our business associates and all our employees for their continuous support.

By order of the Board
China Sunshine Paper Holdings Company Limited
Wang Dongxing
Chairman

Shanghai, China 29 August 2019

As at the date of this announcement, the Directors are:

Executive Directors:	*Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Wang Changhai, Mr. Zhang Zengguo and Mr. Ci Xiaolei*
Non-executive Director:	*Ms. Wu Rong*
Independent non-executive Directors:	*Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie*