

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

- Revenue decreased by 4.2%, from approximately RMB6,585.7 million for FY2018 to approximately RMB6,311.2 million for FY2019.
- Profit for the year attributable to the owners of the Company for FY2019 was approximately RMB350.0 million, representing an increase of approximately RMB17.0 million or 5.1%, as compared to that for FY2018.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Sunshine Paper Holdings Company Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the financial year ended 31 December 2019 (“**FY2019**”) together with the comparative figures for the year ended 31 December 2018 (“**FY2018**”). These financial results have been reviewed by the audit committee of the Company (the “**Audit Committee**”), approved by the Board and agreed by the Group’s auditor, Grant Thornton Hong Kong Limited.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

| | Notes | 2019 RMB’000 | 2018 RMB’000 |
|--|-------|-----------------------|-----------------------|
| Revenue | 5 & 6 | 6,311,200 | 6,585,656 |
| Cost of sales | | <u>(5,047,897)</u> | <u>(5,493,906)</u> |
| Gross profit | | 1,263,303 | 1,091,750 |
| Other income | 7 | 203,530 | 246,385 |
| Other gains or losses | 7 | (69,205) | (70,600) |
| Distribution and selling expenses | | (287,893) | (287,734) |
| Administrative expenses | | (396,546) | (273,147) |
| Gain on fair value changes of an investment property | | 112 | 585 |
| Share of (loss)/profit of a joint venture | | (23,107) | 4,554 |
| Finance costs | 8 | <u>(202,449)</u> | <u>(233,853)</u> |
| Profit before income tax | 10 | 487,745 | 477,940 |
| Income tax expense | 9 | <u>(128,111)</u> | <u>(131,450)</u> |
| Profit and total comprehensive income for the year | | <u>359,634</u> | <u>346,490</u> |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 349,998 | 332,951 |
| Non-controlling interests | | <u>9,636</u> | <u>13,539</u> |
| | | <u>359,634</u> | <u>346,490</u> |
| Earnings per share for profit attributable to owners of the Company during the year | | | |
| Basic and diluted (RMB) | 12 | <u>0.43</u> | <u>0.41</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

| | <i>Notes</i> | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 4,192,405 | 3,734,877 |
| Investment property | | 143,684 | 120,674 |
| Prepaid lease payments | | 397,324 | 365,364 |
| Goodwill | | 25,606 | 30,326 |
| Deferred tax assets | | 54,209 | 28,614 |
| Interest in a joint venture | | 184,989 | 208,096 |
| Deposits for acquisition for property, plant and equipment | | 377,914 | 292,440 |
| Deposits and other receivables | <i>13</i> | <u>214,116</u> | <u>226,076</u> |
| | | <u>5,590,247</u> | <u>5,006,467</u> |
| Current assets | | | |
| Prepaid lease payments | | — | 8,567 |
| Inventories | <i>14</i> | 565,709 | 756,442 |
| Trade receivables | <i>15</i> | 519,591 | 507,154 |
| Bills receivables | <i>16</i> | 373,356 | 679,101 |
| Prepayments and other receivables | <i>17</i> | 259,677 | 290,925 |
| Income tax recoverable | | 37 | 37 |
| Restricted bank deposits | | 1,392,414 | 1,394,637 |
| Bank balances and cash | | <u>719,314</u> | <u>524,252</u> |
| | | <u>3,830,098</u> | <u>4,161,115</u> |
| Current liabilities | | | |
| Contract liabilities | | 119,478 | 57,818 |
| Trade payables | <i>18</i> | 982,248 | 1,039,778 |
| Bills payables | <i>19</i> | 303,620 | 322,000 |
| Other payables | <i>20</i> | 259,014 | 180,356 |
| Payables for construction work, machinery and equipment | | 167,870 | 87,577 |
| Income tax payable | | 73,335 | 12,818 |
| Lease liabilities/Obligations under finance leases | <i>21</i> | 258,258 | 308,090 |
| Deferred income | | 14,842 | 2,405 |
| Discounted bills financing | <i>22</i> | 1,885,628 | 1,916,750 |
| Bank borrowings | <i>23</i> | 1,987,039 | 2,045,566 |
| Other borrowings | <i>24</i> | 56,000 | 8,000 |
| Corporate bond | <i>25</i> | <u>100,000</u> | <u>100,000</u> |
| | | <u>6,207,332</u> | <u>6,081,158</u> |
| Net current liabilities | | <u>(2,377,234)</u> | <u>(1,920,043)</u> |
| Total assets less current liabilities | | <u>3,213,013</u> | <u>3,086,424</u> |

| | <i>Notes</i> | 2019 RMB'000 | 2018 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| Capital and reserves | | | |
| Share capital | <i>26</i> | 73,779 | 73,779 |
| Reserves | | 2,547,281 | 2,226,115 |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 2,621,060 | 2,299,894 |
| Non-controlling interests | | 296,634 | 287,030 |
| | | <hr/> | <hr/> |
| Total equity | | 2,917,694 | 2,586,924 |
| | | <hr/> | <hr/> |
| Non-current liabilities | | | |
| Lease liabilities/Obligations under finance leases | <i>21</i> | 142,477 | 229,668 |
| Bank borrowings | <i>23</i> | 12,281 | 47,246 |
| Corporate bond | <i>25</i> | 99,265 | 198,393 |
| Deferred income | | 35,913 | 18,788 |
| Deferred tax liabilities | | 5,383 | 5,405 |
| | | <hr/> | <hr/> |
| | | 295,319 | 499,500 |
| | | <hr/> | <hr/> |
| Total equity and non-current liabilities | | 3,213,013 | 3,086,424 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司) (the “**Company**”) 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 (the functional currency of the Company and its subsidiaries).

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

2. NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

The International Accounting Standards Boards (the “**IASB**”) has issued a number of new and revised IFRSs. The Group has adopted all these revised IFRSs, which are effective for the accounting period beginning on or after 1 January 2019:

| | |
|----------------------|--|
| IFRS 16 | Leases |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle |
| IFRIC 23 | Uncertainty over Income Tax Treatments |

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 Leases

As a Lessee

IFRS 16 “Leases” replaces IAS 17 “Leases” along with three Interpretations (IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases-Incentives” and SIC 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 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 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, 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 was 6.23%.

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

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

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

| | <i>RMB'000</i> |
|--|---|
| 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) |
| | <hr style="border-top: 3px double black;"/> |

As a lessor

Upon initial application of IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16. Comparative information is not restated.

Sale and leaseback transactions

According to the transitional provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed and therefore there are no impact on the consolidated financial statements as at 1 January 2019.

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 ² |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to IFRS 3 | Definition of a Business ⁴ |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform ¹ |
| Amendments to IAS 1 and IAS 8 | Definition of Material ¹ |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current ⁵ |

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective date not yet been determined

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2022

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. The Directors are in the process of making an assessment of the impact of these IFRSs on the consolidated financial statements of the Group in their initial application.

3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost except for certain properties which are stated at fair values.

The Group has net current liabilities of approximately RMB2,377,234,000 at 31 December 2019. 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 in 2020, 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, 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.

5. 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 2019 | | | |
|--------------------------------------|-------------------------------------|---|--------------------------|-------------------------|
| | Paper products <i>RMB'000</i> | Electricity and steam <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
| Timing of revenue recognition | | | | |
| — At a point in time | 6,079,885 | 230,712 | 42 | 6,310,639 |
| — Over time | — | — | 561 | 561 |
| | <u>6,079,885</u> | <u>230,712</u> | <u>561</u> | <u>6,310,639</u> |
| Geographical markets | | | | |
| — PRC | 5,929,507 | 230,712 | 603 | 6,160,822 |
| — Oversea | 150,378 | — | — | 150,378 |
| | <u>5,929,507</u> | <u>230,712</u> | <u>—</u> | <u>6,160,822</u> |
| | | | | |
| Segments | For the year ended 31 December 2018 | | | |
| | Paper products <i>RMB'000</i> | Electricity and steam <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
| Timing of revenue recognition | | | | |
| — At a point in time | 6,353,312 | 232,344 | — | 6,585,656 |
| | <u>6,353,312</u> | <u>232,344</u> | <u>—</u> | <u>6,585,656</u> |
| Geographical markets | | | | |
| — PRC | 6,257,753 | 232,344 | — | 6,490,097 |
| — Oversea | 95,559 | — | — | 95,559 |
| | <u>6,257,753</u> | <u>232,344</u> | <u>—</u> | <u>6,490,097</u> |

6. 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 2019

| | Paper products | | | | Electricity and steam RMB'000 | Other RMB'000 | Total RMB'000 |
|---|------------------------------------|---|-----------------------|---|-------------------------------------|------------------|------------------|
| | White top linerboard RMB'000 | Coated- white top linerboard RMB'000 | Core board RMB'000 | Specialised paper products RMB'000 | | | |
| Revenue from external customers | <u>1,604,714</u> | <u>2,369,807</u> | <u>698,675</u> | <u>1,406,669</u> | <u>230,732</u> | <u>603</u> | <u>6,311,200</u> |
| Inter-segment revenue | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>508,876</u> | <u>—</u> | <u>508,876</u> |
| Segment revenue | <u>1,604,714</u> | <u>2,369,807</u> | <u>698,675</u> | <u>1,406,669</u> | <u>739,608</u> | <u>603</u> | <u>6,820,076</u> |
| Segment profit | <u>342,183</u> | <u>502,206</u> | <u>169,943</u> | <u>193,688</u> | <u>104,752</u> | <u>385</u> | <u>1,313,157</u> |
| Other segment information: Impairment loss on goodwill | <u>—</u> | <u>—</u> | <u>—</u> | <u>(4,720)</u> | <u>—</u> | <u>—</u> | <u>(4,720)</u> |

For the year ended 31 December 2018

| | Paper products | | | | Electricity and steam | Other | Total |
|---|-------------------------|------------------------------------|----------------|----------------------------------|--------------------------|----------------|------------------|
| | White top linerboard | Coated- white top linerboard | Core board | Specialised paper products | | | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue from external customers | <u>1,772,195</u> | <u>2,485,513</u> | <u>822,785</u> | <u>1,272,819</u> | <u>232,344</u> | <u>—</u> | <u>6,585,656</u> |
| Inter-segment revenue | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>490,649</u> | <u>—</u> | <u>490,649</u> |
| Segment revenue | <u>1,772,195</u> | <u>2,485,513</u> | <u>822,785</u> | <u>1,272,819</u> | <u>722,993</u> | <u>—</u> | <u>7,076,305</u> |
| Segment profit | <u>242,166</u> | <u>472,100</u> | <u>224,490</u> | <u>116,506</u> | <u>97,169</u> | <u>—</u> | <u>1,152,431</u> |
| Other segment information: | | | | | | | |
| Impairment loss on property, plant and equipment | <u>—</u> | <u>—</u> | <u>—</u> | <u>(89,023)</u> | <u>—</u> | <u>—</u> | <u>(89,023)</u> |

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, share of (loss)/profit of a joint venture to paper product segment and does not allocate income tax expenses to both the paper product segment and electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

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

| | 2019 | 2018 |
|--|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit | | |
| Segment profit | 1,313,157 | 1,152,431 |
| Unrealised profit on inter-segment sales | (83,539) | (87,270) |
| | 1,229,618 | 1,065,161 |
| Administrative expenses | (381,148) | (260,261) |
| Other income | 200,374 | 241,771 |
| Other gains or losses | (67,427) | (74,541) |
| Distribution and selling expenses | (287,893) | (287,734) |
| Finance costs | (182,784) | (211,595) |
| Gain on fair value changes of an investment property | 112 | 585 |
| Share of (loss)/profit of a joint venture | (23,107) | 4,554 |
| Consolidated profit before income tax | <u>487,745</u> | <u>477,940</u> |

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

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

(b) Information about major customers

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

(c) Geographical information

The information on the geographical locations of the Group's revenue determined based on geographical region of the customers is described in note 5.

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.

7. OTHER INCOME AND OTHER GAINS OR LOSSES

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Other income: | | |
| Interest income on: | | |
| Bank deposits | 29,720 | 27,230 |
| The balance with a third party | — | 2,343 |
| The balance with a joint venture (<i>note i</i>) | <u>14,304</u> | <u>11,195</u> |
| Total interest income | <u>44,024</u> | <u>40,768</u> |
| Rental income from an investment property and other properties | 1,477 | 1,098 |
| Government grants (<i>note ii</i>) | <u>158,029</u> | <u>204,519</u> |
| | <u>203,530</u> | <u>246,385</u> |
| Other gains or losses: | | |
| Net foreign exchange losses | (7,413) | (5,331) |
| Gain from sale of scrap materials, net | 34,586 | 27,013 |
| Impairment loss on property, plant and equipment (<i>note iii</i>) | — | (89,023) |
| Loss on disposal and written off of property, plant and equipment (Provision for)/Reversal of expected credit loss (“ECL”) on trade and other receivables | (10,304) (79,840) | (8,716) 1,070 |
| Impairment loss on goodwill | (4,720) | — |
| Bad debt | (3,126) | — |
| Others | <u>1,612</u> | <u>4,387</u> |
| | <u>(69,205)</u> | <u>(70,600)</u> |

Notes:

- i. During the year ended 31 December 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) at a weighted average effective interest rate of 5.94% per annum (2018: 6.18% per annum).
- ii. During the year ended 31 December 2019, 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 RMB154,091,000, (2018: RMB200,925,000) from local government, the amount of which was determined by reference to the amount of value-added tax (“VAT”) paid.

- iii. During the year ended 31 December 2018, the Group carried out a review of the recoverable amount of the property, plant and equipment in a segment owned by a subsidiary, as management has determined that indication of impairment exists at the end of the reporting period due to the market performance was worse than expected and the management has changed the plan on the relevant assets. The review led to the recognition of impairment loss of RMB89,023,000 that has been recognised in the “other gains or losses” in the Group’s profit or loss. The recoverable amount of the related assets has been determined by reference to a valuation performed by an independence qualified professional valuer not connected with the Group. The valuation was arrived at on the basis of making reference to comparable sales evidence as available in the relevant market.

8. FINANCE COSTS

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Interest expenses on: | | |
| Discounted bills financing | 74,846 | 76,001 |
| Bank and other borrowings wholly repayable within five years | 108,142 | 128,275 |
| Lease liabilities/Obligations under finance leases | 29,830 | 26,427 |
| Corporate bond | 20,275 | 28,665 |
| | <u>233,093</u> | <u>259,368</u> |
| Less: Interest capitalised in construction in progress | <u>(30,644)</u> | <u>(25,515)</u> |
| | <u><u>202,449</u></u> | <u><u>233,853</u></u> |

Borrowing costs capitalised during the year ended 31 December 2019 arose from the general borrowing pool and were calculated by applying a capitalisation rate ranging from 4.99% to 5.22% (2018: 5.12% to 5.22%) per annum to expenditure on construction in progress.

9. INCOME TAX EXPENSE

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Current tax | | |
| PRC enterprise income tax | 151,707 | 154,930 |
| Under/(over) provision in previous year | 2,021 | (975) |
| | <u>153,728</u> | <u>153,955</u> |
| Deferred tax credit | <u>(25,617)</u> | <u>(22,505)</u> |
| | <u><u>128,111</u></u> | <u><u>131,450</u></u> |

Under the Law of the People’s Republic of China on Enterprise Income Tax and Implementation Regulation of the Enterprise Income Tax Law, other than those disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2018: 25%).

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2019 and 2018 as the Group did not have any assessable profits subject to Hong Kong Profits Tax during both years.

10. PROFIT BEFORE INCOME TAX

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Wages and salaries | 324,518 | 260,151 |
| Retirement benefits schemes contributions | 49,461 | 42,284 |
| | <hr/> | <hr/> |
| Total staff costs (including the Directors' emoluments) | 373,979 | 302,435 |
| | <hr/> | <hr/> |
| Cost of inventories recognised as an expense | 4,435,040 | 4,823,248 |
| Depreciation of property, plant and equipment | | |
| — Right-of-use assets | 74,305 | — |
| — Owned | 180,537 | 253,397 |
| Provision for/(Reversal of) ECL on trade and other receivables | 79,840 | (1,070) |
| Depreciation/Amortisation of prepaid lease payments | 5,534 | 6,158 |
| Auditor's remuneration | 1,535 | 1,731 |
| Lease charges on short term leases | 2,015 | — |
| Net foreign exchange losses | 7,413 | 5,331 |
| Rental income from an investment property and other properties | (1,477) | (1,098) |
| Bad debt | 3,126 | — |
| | <hr/> <hr/> | <hr/> <hr/> |

11. DIVIDENDS

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Dividend declared for distribution during the year: | | |
| 2018 final dividend — HK\$0.04 per share | | |
| (2018: 2017 final dividend — HK\$0.07 per share) | 28,832 | 48,356 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2019. A final dividend of HK\$0.04 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) was approved and paid to the equity shareholders of the Company whose names appear in the register of members on 4 June 2019.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit of RMB349,998,000 (2018: RMB332,951,000) for the year attributable to owners of the Company, and the weighted average number of 819,362,000 (2018: 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 2019 and 31 December 2018. The diluted earnings per share equals to the basic earnings per share.

13. DEPOSITS AND OTHER RECEIVABLES

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Other receivables from a joint venture | 273,491 | 184,298 |
| Guarantee deposits for lease liabilities/obligations under finance leases | <u>21,901</u> | <u>45,464</u> |
| | 295,392 | 229,762 |
| Less: ECL allowance | <u>(81,276)</u> | <u>(3,686)</u> |
| | <u><u>214,116</u></u> | <u><u>226,076</u></u> |

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| At the beginning of the year | 3,686 | 2,857 |
| Allowance during the year | <u>77,590</u> | <u>829</u> |
| At the end of the year | <u><u>81,276</u></u> | <u><u>3,686</u></u> |

14. INVENTORIES

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Raw materials | 394,717 | 392,481 |
| Finished goods | <u>170,992</u> | <u>363,961</u> |
| | <u><u>565,709</u></u> | <u><u>756,442</u></u> |

15. TRADE RECEIVABLES

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-----------------------------|------------------------|------------------------|
| Trade receivables due from: | | |
| — third parties | 512,153 | 499,725 |
| — a joint venture | 4,462 | 2,540 |
| — a related party | <u>13,650</u> | <u>13,929</u> |
| | 530,265 | 516,194 |
| Less: ECL allowance | <u>(10,674)</u> | <u>(9,040)</u> |
| | <u><u>519,591</u></u> | <u><u>507,154</u></u> |

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

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

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-------------|------------------------|------------------------|
| 0–30 days | 474,076 | 431,060 |
| 31–90 days | 28,493 | 64,235 |
| 91–365 days | 15,667 | 11,307 |
| Over 1 year | <u>1,355</u> | <u>552</u> |
| | <u><u>519,591</u></u> | <u><u>507,154</u></u> |

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:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--------------------------------------|-------------------------------|------------------------|
| At the beginning of the year | 9,040 | 9,849 |
| Written off during the year | (617) | — |
| Allowance/(Reversal) during the year | <u>2,251</u> | <u>(809)</u> |
| At the end of the year | <u>10,674</u> | <u>9,040</u> |

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.

16. **BILLS RECEIVABLES**

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-------------------|-------------------------------|------------------------|
| Bills receivables | <u>373,356</u> | <u>679,101</u> |

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 RMB49,128,000 (2018: RMB189,619,000) 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 RMB49,128,000 (2018: RMB189,619,000) was recognised for the cash received from banks.

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--------------|-------------------------------|------------------------|
| 0–90 days | 204,907 | 265,417 |
| 91–180 days | 85,515 | 219,858 |
| 181–365 days | <u>82,934</u> | <u>193,826</u> |
| | <u>373,356</u> | <u>679,101</u> |

17. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables is as follows:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Prepayments to suppliers | 87,875 | 123,680 |
| Other receivables | <u>171,826</u> | <u>167,270</u> |
| | 259,701 | 290,950 |
| Less: ECL allowance | <u>(24)</u> | <u>(25)</u> |
| | <u><u>259,677</u></u> | <u><u>290,925</u></u> |

An analysis of other receivables is as follows:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|------------------------|------------------------|
| VAT recoverable | 108,694 | 121,330 |
| Deposits | 15,101 | 26,922 |
| Guarantee deposits for lease liabilities/obligations under finance leases | 39,864 | 10,641 |
| Advance to employees | 2,357 | 4,938 |
| Others | <u>5,810</u> | <u>3,414</u> |
| | <u><u>171,826</u></u> | <u><u>167,245</u></u> |

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| At the beginning of the year | 25 | 1,115 |
| Reversal during the year | <u>(1)</u> | <u>(1,090)</u> |
| At the end of the year | <u><u>24</u></u> | <u><u>25</u></u> |

18. TRADE PAYABLES

An analysis of trade payables is as follows:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-----------------------|-------------------------------|------------------------|
| Trade payables due to | | |
| — third parties | 982,193 | 1,039,778 |
| — a joint venture | 55 | — |
| | <u>982,248</u> | <u>1,039,778</u> |

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

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-------------|-------------------------------|------------------------|
| 0–90 days | 918,114 | 876,641 |
| 91–365 days | 55,027 | 151,169 |
| Over 1 year | 9,107 | 11,968 |
| | <u>982,248</u> | <u>1,039,778</u> |

19. 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:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---------------|-------------------------------|------------------------|
| 0–90 days | 155,120 | 20,000 |
| 91–180 days | 68,500 | 120,000 |
| Over 180 days | 80,000 | 182,000 |
| | <u>303,620</u> | <u>322,000</u> |

All the bills payables are of trading nature and will be expired within twelve months (2018: twelve months) from the issue date.

20. OTHER PAYABLES

An analysis of other payables is as follows:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Other payables due to third parties | 115,220 | 101,854 |
| Amount due to a controlling shareholder (<i>note</i>) | 1,165 | — |
| Amount due to a related party (<i>note</i>) | 10,000 | — |
| Amount due to a non-controlling shareholder of a subsidiary (<i>note</i>) | <u>132,629</u> | <u>78,502</u> |
| | <u><u>259,014</u></u> | <u><u>180,356</u></u> |

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

21. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|-------------------------------------|------------------------|------------------------|
| Analysed for reporting purposes as: | | |
| Current liabilities | 258,258 | 308,090 |
| Non-current liabilities | <u>142,477</u> | <u>229,668</u> |
| | <u><u>400,735</u></u> | <u><u>537,758</u></u> |

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------------|---|------------------------|
| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
| Amounts payable under lease liabilities/finance leases | | | | |
| — Within one year | 276,212 | 334,339 | 258,258 | 308,090 |
| — In more than one year but not more than two years | 105,102 | 204,872 | 98,107 | 196,252 |
| — In more than two years but not more than five years | 35,059 | 34,244 | 30,293 | 33,416 |
| — After five years | <u>17,689</u> | — | <u>14,077</u> | — |
| | 434,062 | 573,455 | 400,735 | 537,758 |
| Less: future finance charges | <u>(33,327)</u> | <u>(35,697)</u> | — | — |
| Present value of lease obligations | <u><u>400,735</u></u> | <u><u>537,758</u></u> | <u><u>400,735</u></u> | <u><u>537,758</u></u> |
| Less: Amount due for settlement with 12 months (shown under current liabilities) | | | <u>(258,258)</u> | <u>(308,090)</u> |
| Amount due for settlement after 12 months | | | <u><u>142,477</u></u> | <u><u>229,668</u></u> |

22. 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:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|-------------------------|-------------------------|
| Discounted bills receivables from third parties (<i>note a</i>) | 49,128 | 189,619 |
| Discounted bills receivables from a joint venture | 500 | — |
| Discounted bills receivables from subsidiaries of the Company (<i>note b</i>) | <u>1,836,000</u> | <u>1,727,131</u> |
| Total | <u><u>1,885,628</u></u> | <u><u>1,916,750</u></u> |

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 16 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 RMB1,206,840,000 (2018: RMB1,137,500,000) were pledged to the issuing banks.

23. BANK BORROWINGS

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|--|-------------------------|-------------------------|
| Secured bank borrowings | 273,100 | 500,691 |
| Unsecured bank borrowings | <u>1,726,220</u> | <u>1,592,121</u> |
| | <u>1,999,320</u> | <u>2,092,812</u> |
| The borrowings are repayable as follows: | | |
| — Within one year | 1,987,039 | 2,045,566 |
| — In the second year | 1,965 | 34,965 |
| — In the third to fifth years inclusive | <u>10,316</u> | <u>12,281</u> |
| | 1,999,320 | 2,092,812 |
| Less: Amount due for settlement within one year and shown under current liabilities | <u>(1,987,039)</u> | <u>(2,045,566)</u> |
| Amount due after one year | <u>12,281</u> | <u>47,246</u> |
| Total borrowings | | |
| — At fixed rates | 727,575 | 860,762 |
| — At floating rates | <u>1,271,745</u> | <u>1,232,050</u> |
| | <u>1,999,320</u> | <u>2,092,812</u> |
| Analysis of borrowings by currency: | | |
| — Denominated in RMB | <u>1,999,320</u> | <u>2,092,812</u> |

Fixed-rate borrowings are charged at the rates ranging from 4.07% to 6.53% per annum as at 31 December 2019 (2018: 3.50% to 7.40% per annum).

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

For all bank borrowings as above, the weighted average effective interest rate for the year ended 31 December 2019 was 5.13% per annum (2018: 4.91% per annum).

24. OTHER BORROWINGS

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Borrowing from | | |
| Weifang City Investment Co., Ltd.* <i>(note i)</i> (濰坊市投資集團有限公司) (“Weifang City Investment”) | 6,000 | 8,000 |
| Shandong Lehua Group Co., Ltd.* <i>(note ii)</i> (山東樂化集團有限公司) (“Shandong Lehua Group”) | <u>50,000</u> | <u>—</u> |
| | <u>56,000</u> | <u>8,000</u> |

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 (2018: 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 (2018: nil).

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

25. 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 RMB143,684,000 and RMB19,892,000 respectively (2018: investment property and construction in progress of RMB120,674,000 and RMB42,790,000 respectively). RMB100,000,000 had been repaid during the year and the remaining balance will be repaid with 20% of offering size annually from the year 2020 to the year 2021.

26. SHARE CAPITAL

| | Number of shares | Share capital <i>HK\$'000</i> |
|---|-----------------------------|--|
| Authorised: Ordinary shares of HK\$0.10 each At 1 January 2018, 31 December 2018 and 31 December 2019 | <u>2,000,000,000</u> | <u>200,000</u> |
| | Number of shares | Share capital <i>HK\$'000</i> |
| Issued and fully paid: At 1 January 2018, 31 December 2018 and 31 December 2019 | <u>819,362,000</u> | <u>81,936</u> |
| | | Shown in the consolidated financial statements <i>RMB'000</i> |
| | | <u>73,779</u> |

27. EVENTS AFTER THE END OF THE REPORTING PERIOD

The effect of coronavirus disease (“COVID-19”)

The outbreak of COVID-19 continues to spread throughout China and to countries across the world. Prevention and control policies have implemented throughout China, these policies have certain impact on the business operations of the Group in particular the supply chain from China as well as the delivery and buy-off process of raw materials to certain degree, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

Up to the date of the report, the Group’s operation is generally stable. Although there will be certain impact to the demand of paper due to the threat to the global economy, the assessment is still in progress. Given the dynamic nature of these circumstances, the related impact on the Group’s consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group’s interim and annual financial statements in 2020.

BUSINESS REVIEW

Against complicated and changing business conditions during 2019, the paper manufacturing industry continued to witness a structural and periodic overcapacity of the market supply and demand, with the selling prices of our products remaining at a low level. In the meantime, driven by the ongoing US-Sino trade friction, increasingly tightened environmental policies, frequent fluctuation in the RMB exchange rate, and various other factors, the overseas supply of raw materials became limited, and the pricing of raw materials in the domestic market faced movement. As a result, production costs at companies faced tremendous pressure. Amid the increasingly fierce market competition, the Group closely focused on the “lean and innovative” management philosophy. To be specific, we consolidated its lean management foundation, continued to optimize its product supply structure, and explored the marketing shares. In addition, we further tapped into the performance potential of our equipment by innovating and adjustment production processes, as well as continuing to identify new income sources and minimize costs. During the year, the Group’s sales volume of its major products was a record high and amounted to approximately 1.31 million tonnes, representing an increase of approximately 4.0% as compared to approximately 1.26 million tonnes last year. We generated sales revenue of approximately RMB6,311.2 million, which declined by approximately 4.2% as compared to approximately RMB6,585.7 million last year due to a decline in the selling price of our products.

The Group always insisted on the development strategy of differentiation by focusing on producing high-quality and multipurposed packaging paper, including white top linerboard, coated-white top linerboard and core board to meet the various needs from different industries. We conducted 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. During the year, the sales of these two main products amounted to 1,040,000 tonnes, which still was the major source of the Group’s income.

BUSINESS OUTLOOK

Looking into 2020, the economic conditions across the globe continues to face various uncertainties, particularly when the current coronavirus disease (COVID-19) outbreak significantly weighs on the economic development. The paper manufacturing industry will continue to face challenges and opportunities in the new year. Being confident in the national outbreak prevention and control, however, we believe that business activities will soon be restored under the strong national support and various preferential policies. After the Spring Festival, due to the intensified prevention and control across the country, cargo transportation faced some challenges for a period of time. Despite some impacts on the supply of raw materials due to the “home isolation” initiative adopted across the country, the Company faced limited impacts due to its early reserve of raw materials. As at the date of the report, all of the above impacts have been eliminated. In addition, as the majority of our employees are from local areas and only partial production activities were suspended during the Spring Festival, full resumption of production activities is not an issue. However, due to the epidemic impacts on the domestic and foreign economic conditions, the market demand will face challenges. The Group will continue to consolidate the management foundation, convert the growth momentum, and optimize our product mix. To enhance efficiency and management standard as our major task, we will keep pace with the advanced enterprises at home and abroad, identify and resolve management weak links, and persist in optimization. Furthermore, we will turn the pressure into our drive to move forward. By constantly maintaining the steady operation in the spirit of “stabilizing our business with improvement”, we will evolve into a sizeable papermaking powerhouse.

In response to the national policy in tightening import of waste paper, the Group will vigorously expand and diversify the upstream businesses, while exploring other alternative raw materials to safeguard product quality over the course of lowering production costs. In line with more stringent environmental policies introduced by the government, the Group’s competitive strengths will become increasingly noticeable. While making steady progress, we will continue to strengthen our environmental papermaking management, conserve energy, reduce emissions, and fulfil our corporate social responsibility. In doing so, we will achieve the green sustainability.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue

Our Group's total revenue for FY2019 was approximately RMB6,311.2 million, representing a decrease of approximately RMB274.5 million or 4.2% as compared to that of approximately RMB6,585.7 million for FY2018. The decrease in revenue mainly resulted from decrease in selling prices.

Sales of electricity and steam continued to account for a low single digit percentage of our Group's total revenue for FY2019.

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

| | FY2019 | | FY2018 | |
|---------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Sales of paper products | | | | |
| White top linerboard | 1,604,714 | 25.4 | 1,772,195 | 27.0 |
| Coated-white top linerboard | 2,369,807 | 37.5 | 2,485,513 | 37.7 |
| Core board | 698,675 | 11.1 | 822,785 | 12.5 |
| Specialised paper products | 1,406,669 | 22.3 | 1,272,819 | 19.3 |
| Sub-total of paper products | 6,079,865 | 96.3 | 6,353,312 | 96.5 |
| Sales of electricity and steam | 230,732 | 3.6 | 232,344 | 3.5 |
| Other | 603 | 0.1 | — | — |
| | <u>6,311,200</u> | <u>100.0</u> | <u>6,585,656</u> | <u>100.0</u> |

Cost of sales

Our cost of sales was around RMB5,047.9 million for FY2019, whereas the cost of sales for FY2018 was approximately RMB5,493.9 million. Cost of sales for FY2019 was in line with the decrease trend of total revenue in general, but outweighed the decrease in revenue.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB1,091.8 million for FY2018 to approximately RMB1,263.3 million for FY2019. Gross profit margin for FY2019 was around 20.0%, representing a 3.4 percentage point increase as compared to that of 16.6% for FY2018.

Other profit and loss items

Other income of approximately RMB203.5 million for FY2019 (FY2018: approximately RMB246.4 million) mainly comprised interest income of approximately RMB44.0 million (FY2018: approximately RMB40.8 million), rental income from an investment property and other properties of approximately RMB1.5 million (FY2018: approximately RMB1.1 million) and government grants of approximately RMB158.0 million (FY2018: approximately RMB204.5 million).

Other losses of approximately RMB69.2 million for FY2019 (FY2018: approximately RMB70.6 million) mainly consisted of provision for expected credit loss on trade and other receivables of RMB79.8 million, impairment loss on goodwill of RMB4.7 million, gain from sale of scrap materials of RMB34.6 million, loss of disposal of property, plant and equipment of RMB10.3 million, net foreign exchange losses of RMB7.4 million, bad debt of RMB3.1 million and other gains of RMB1.6 million.

Distribution and selling expenses recorded RMB287.9 million for FY2019 as compared to RMB287.7 million for the corresponding period last year. For FY2019, such expenses represented approximately 4.6% of the total revenue, as compared with approximately 4.4% of the total revenue for FY2018.

Administrative expenses recorded RMB396.5 million for FY2019 as compared to RMB273.1 million for the corresponding period last year. For FY2019, it accounted for approximately 6.3% of the total revenue, as compared with approximately 4.1% of the total revenue for FY2018. The increase was mainly due to the increase in research and development expenses.

Finance costs recorded approximately RMB202.4 million for FY2019 as compared to approximately RMB233.9 million for the corresponding period last year. For FY2019, it accounted for approximately 3.2% of the total revenue, as compared with approximately 3.6% of the total revenue for FY2018. The decrease was mainly due to the reduction in the amount of liabilities and the discount rate.

During 2019, there was a share of loss of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB23.1 million (FY2018: share of profit of a joint venture of RMB4.6 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

Income tax expenses were approximately RMB128.1 million for FY2019 as compared to approximately RMB131.5 million for FY2018.

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 RMB350.0 million for FY2019, representing an increase of approximately RMB17.0 million from approximately RMB333.0 million for FY2018.

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 FY2019, our Group continued to adopt a conservative approach to financial risk management.

Market risks

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

Working capital

Net current liabilities of our Group was approximately RMB2,377.2 million as at 31 December 2019, as compared to approximately RMB1,920.0 million as at 31 December 2018. Current ratio was 0.62 times and 0.68 times, respectively, as at 31 December 2019 and 31 December 2018.

Bank balances and cash, and restricted bank deposits were approximately RMB2,111.7 million as at 31 December 2019, as compared to approximately RMB1,918.9 million as at 31 December 2018.

Inventories were approximately RMB565.7 million as at 31 December 2019, as compared to approximately RMB756.4 million as at 31 December 2018. Inventory turnover was 48 days for FY2019, as compared to 51 days for FY2018.

Trade receivables were approximately RMB519.6 million as at 31 December 2019, as compared to approximately RMB507.2 million as at 31 December 2018. Trade receivables turnover for FY2019 was 30 days as compared to 26 days for FY2018.

Trade payables were approximately RMB982.2 million as at 31 December 2019, as compared to approximately RMB1,039.8 million as at 31 December 2018. Trade payables turnover for FY2019 was 73 days, as compared to 63 days for FY2018.

Cashflow

Net cash from operating activities amounted to approximately RMB1,472.8 million for FY2019 (FY2018: approximately RMB1,030.5 million).

Net cash used in investing activities amounted to approximately RMB772.5 million for FY2019 (FY2018: approximately RMB647.2 million), primarily representing the purchase of property, plant and equipment of RMB284.1 million, and additions of deposits for acquisition property, plant and equipment of RMB415.7 million, etc.

Net cash used in financing activities amounted to approximately RMB505.2 million for FY2019 (FY2018: approximately RMB333.6 million), primarily attributable to interest paid of RMB234.2 million, the repayment of bank and other borrowings of RMB3,145.6 million, and the repayment of obligations under finance leases of RMB339.7 million, offset in part by the net proceeds from sale and finance lease back transactions of RMB176.0 million and new bank borrowings raised of RMB3,050.1 million, etc.

The combined effect of the above resulted in a net increase in cash and cash equivalents of RMB195.1 million for FY2019 (FY2018: Net increase in cash and cash equivalents of RMB49.7 million).

Gearing ratio

Our net gearing ratio decreased from approximately 39.4% as at 31 December 2018 to approximately 18.6% as at 31 December 2019. The decrease in net gearing ratio was mainly driven by the decrease in bank borrowings.

Capital expenditure

During FY2019, our capital expenditure was approximately RMB316.7 million (FY2018: RMB494.1 million), which mainly involved the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

Pledge of assets

For FY2019, the aggregate carrying amount of our assets pledged was approximately RMB2,763.9 million. (FY2018: approximately RMB2,988.1 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 RMB342.3 million as at 31 December 2019 (FY2018: RMB371.0 million).

As at 31 December 2019, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 4,430 full-time employees in the PRC and Hong Kong as at 31 December 2019 (3,970 as at 31 December 2018). The staff costs for FY2019 were approximately RMB374.0 million, representing an increase of RMB71.6 million over FY2018 of approximately RMB302.4 million. The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Notes to financial ratios:

- (1) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.
- (2) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant year divided by turnover of the relevant year and multiplied by 365 days.
- (3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.
- (4) Current ratio equals current assets divided by current liabilities as of the end of the year.
- (5) Net gearing ratio equals total of borrowings, corporate bond and obligations under finance leases, net of bank balances and cash, and restricted bank deposits divided by total equity as of the end of the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During FY2019, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of their respective securities.

CORPORATE GOVERNANCE PRACTICES

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 maximizing shareholders' interests. Our Company has complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules during FY2019.

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 FY2019.

AUDIT COMMITTEE

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 provide advice and comments to our Board. The Audit Committee, comprising Ms. Shan Xueyan (Chairlady), Mr. Wang Zefeng and Ms. Jiao Jie, has reviewed the annual results for FY2019 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with our management and our Company's external auditor.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's annual results for FY2019 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure. The financial information set out in this announcement has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditor, Grant Thornton Hong Kong Limited.

DIVIDEND

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2019 (FY2018: HK\$0.04 per share).

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The register of members of our Company will be closed from 25 May 2020 to 29 May 2020, 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 22 May 2020.

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.

PUBLICATION OF RESULTS

This announcement of results has been published on our website at www.sunshinepaper.com.cn and the website of the Stock Exchange at www.hkexnews.hk. The annual report of our Company for FY2019 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be dispatched to the Shareholders and published on our website at www.sunshinepaper.com.cn and the website of the Stock Exchange at www.hkexnews.hk in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all the Shareholders, customers, suppliers, banks, professional parties and employees of our Group for their continuous support.

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

Shandong, China, 27 March 2020

As at the date of this announcement, the directors of the Company 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

* For identification purposes only