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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue was RMB2,837.2 million for 1H 2020, representing a decrease by approximately 6.8% from RMB3,044.1 million for 1H 2019.
- Gross profit was RMB610.0 million for 1H 2020, representing an increase by approximately 10.6% from RMB551.6 million for 1H 2019.
- Profit attributable to the owners of the Company for 1H 2020 increased by approximately 68.0% to RMB206.3 million, as compared to RMB122.8 million for 1H 2019.

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 2020 (“**1H 2020**”) together with the comparative figures for the corresponding period of last year (“**1H 2019**”). 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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
Capital and reserves			
Share capital		73,779	73,779
Reserves		<u>2,753,625</u>	<u>2,547,281</u>
Equity attributable to owners of the Company		2,827,404	2,621,060
Non-controlling interests		<u>306,521</u>	<u>296,634</u>
Total equity		<u>3,133,925</u>	<u>2,917,694</u>
Non-current liabilities			
Lease liabilities	15	141,752	142,477
Bank borrowings	17	295,799	12,281
Corporate bond	18	99,605	99,265
Deferred income		33,991	35,913
Deferred tax liabilities		<u>36,150</u>	<u>5,383</u>
		<u>607,297</u>	<u>295,319</u>
Total equity and non-current liabilities		<u>3,741,222</u>	<u>3,213,013</u>

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

4. REVENUE

Disaggregation of revenue from contracts with customers

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

Segments	Unaudited			Total <i>RMB'000</i>
	For the six months ended 30 June 2020			
	Paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Others <i>RMB'000</i>	
Timing of revenue recognition				
— At a point in time	2,722,688	113,237	110	2,836,035
— Over time	—	—	1,119	1,119
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Geographical markets				
— PRC	2,651,415	113,237	1,229	2,765,881
— Oversea	71,273	—	—	71,273
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Segments	Unaudited			Total <i>RMB'000</i>
	For the six months ended 30 June 2019			
	Paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Others <i>RMB'000</i>	
Timing of revenue recognition				
— At a point in time	2,926,707	117,413	—	3,044,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Geographical markets				
— PRC	2,859,240	117,413	—	2,976,653
— Oversea	67,467	—	—	67,467
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. SEGMENT INFORMATION

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

(a) Segment result

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

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

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

(b) Reconciliation of segment profit

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

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

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

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

6. OTHER INCOME AND OTHER GAINS AND LOSSES

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

Notes:

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSE

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

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

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

9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

12. TRADE RECEIVABLES

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

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

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

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

13. BILLS RECEIVABLES

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

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

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

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

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

15. LEASE LIABILITIES

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

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

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

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

16. DISCOUNTED BILLS FINANCING

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

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

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, property, plant and equipment and construction in progress of RMB88,393,000, RMB19,761,000 and RMB54,873,000 respectively (31 December 2019 (Audited): investment property and construction in progress of RMB143,684,000 and RMB19,892,000 respectively), and the remaining balance will be repaid with 20% of offering size annually from the year 2020 to year 2021.

19. CAPITAL COMMITMENTS

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

BUSINESS REVIEW

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

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

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

BUSINESS OUTLOOK

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

For 1H 2020, our Group's total revenue was RMB2,837.2 million, representing a decrease of 6.8% as compared to that of RMB3,044.1 million for 1H 2019.

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Other profit and loss items

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

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

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

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

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

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

Income tax expense

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

Profit and total comprehensive income

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

LIQUIDITY AND FINANCIAL RESOURCES

Working capital, gearing and financial resources

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

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

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

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

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

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

Notes to financial ratios

- (1) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (2) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.
- (3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (4) Current ratio equals current assets divided by current liabilities as of the end of the period.
- (5) Net gearing ratio equals the total of bank and other borrowings, 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 2020, our capital expenditure was approximately RMB95.9 million, which mainly involves the purchase of equipment and land for our new corrugated paper production line, as well as the construction of ancillary facilities.

Capital commitments and contingent liabilities

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

There was no contingent liabilities as at 30 June 2020.

Pledge of assets

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

Foreign exchange risks

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

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

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

AUDIT COMMITTEE

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

EMPLOYEES AND REMUNERATION POLICIES

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

