

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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue was RMB3,807.2 million for 1H 2021, representing an increase by approximately 34.2% from RMB2,837.2 million for 1H 2020.
- Gross profit was RMB800.7 million for 1H 2021, representing an increase by approximately 31.3% from RMB610.0 million for 1H 2020.
- Profit attributable to the owners of the Company for 1H 2021 increased by approximately 60.6% to RMB331.3 million, as compared to RMB206.3 million for 1H 2020.

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 2021 (“**1H 2021**”) together with the comparative figures for the corresponding period of last year (“**1H 2020**”). 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 2021 RMB’000	2020 RMB’000
Revenue	4&5	3,807,246	2,837,154
Cost of sales		<u>(3,006,535)</u>	<u>(2,227,194)</u>
Gross profit		800,711	609,960
Other income	6	126,341	90,472
Other gains or losses	6	(32,496)	7,376
Distribution and selling expenses		(160,532)	(136,119)
Administrative expenses		(197,944)	(153,961)
Loss on fair value changes of an investment property		(5,468)	(418)
Finance costs	7	(77,026)	(98,358)
Share of profit/(loss) of a joint venture		<u>9,635</u>	<u>(4,374)</u>
Profit before income tax	9	463,221	314,578
Income tax expense	8	<u>(128,527)</u>	<u>(98,348)</u>
Profit and total comprehensive income for the period		<u><u>334,694</u></u>	<u><u>216,230</u></u>
Profit and total comprehensive income attributable to:			
Owners of the Company		331,348	206,344
Non-controlling interests		<u>3,346</u>	<u>9,886</u>
		<u><u>334,694</u></u>	<u><u>216,230</u></u>
Earnings per share for profit attributable to the owners of the Company during the period			
Basic and diluted (RMB)	11	<u><u>0.39</u></u>	<u><u>0.25</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 30 June 2021 <i>RMB'000</i>	Audited As at 31 December 2020 <i>RMB'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		4,797,610	4,679,607
Investment property		66,508	71,976
Prepaid lease payments		464,266	468,946
Goodwill		25,606	25,606
Deferred tax assets		55,296	51,755
Interest in a joint venture		198,120	188,485
Deposits and other receivables		322,761	206,779
Deposits for acquisition for property, plant and equipment		<u>425,481</u>	<u>302,322</u>
		6,355,648	5,995,476
Current assets			
Inventories		734,170	635,650
Trade receivables	12	517,678	513,349
Bills receivables	13	136,361	283,255
Prepayments and other receivables		241,911	198,996
Income tax recoverable		—	37
Restricted bank deposits		1,435,077	1,140,427
Bank balances and cash		<u>1,000,920</u>	<u>613,268</u>
		4,066,117	3,384,982
Current liabilities			
Contract liabilities		142,229	121,761
Trade payables	14	866,777	814,320
Bills payables	14	317,911	282,613
Other payables		168,955	209,460
Payable for construction work, machinery and equipment		164,761	207,397
Income tax payables		78,045	61,924
Lease liabilities	15	1,301	877
Deferred income		2,782	2,909
Discounted bills financing	16	1,571,903	1,245,217
Bank borrowings	17	1,939,185	1,972,696
Other borrowings		190,427	166,501
Corporate bond	18	<u>99,980</u>	<u>99,803</u>
		5,544,256	5,185,478
Net current liabilities		<u>(1,478,139)</u>	<u>(1,800,496)</u>
Total assets less current liabilities		<u>4,877,509</u>	<u>4,194,980</u>

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
Capital and reserves			
Share capital		80,944	73,779
Reserves		3,474,344	3,044,991
		<u>3,555,288</u>	<u>3,118,770</u>
Equity attributable to owners of the Company			
Non-controlling interests		316,260	312,914
		<u>3,871,548</u>	<u>3,431,684</u>
Total equity			
Non-current liabilities			
Lease liabilities	15	19,190	20,098
Bank borrowings	17	631,084	543,516
Other borrowings		265,716	113,875
Deferred income		44,562	46,096
Deferred tax liabilities		45,409	39,711
		<u>1,005,961</u>	<u>763,296</u>
		<u>4,877,509</u>	<u>4,194,980</u>
Total equity and non-current liabilities			

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 RMB1,478,139,000 as at 30 June 2021. 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 2020.

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 2020.

In the current interim period, the Group has applied for the first time, all amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), which are relevant to and effective for the Group’s consolidated financial statements for accounting period beginning on 1 January 2021.

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, on 1 January 2021, the Group has early adopted the Amendment to IFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021” which will be mandatorily effective for the Group for financial year beginning on or after 1 April 2021.

Except for those mentioned below, the adoption of these amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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

The Phase 2 Amendments provide practical relief from certain requirements in IFRSs. These reliefs relate to modifications of financial assets and financial liabilities (measured at amortised costs) and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark risk-free rate.

The Group initially applied Phase 2 Amendments on 1 January 2021 and applied the amendments retrospectively. However, in accordance with the exceptions permitted in Phase 2 Amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

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 2021			
	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	<u>3,682,265</u>	<u>124,981</u>	<u>—</u>	<u>3,807,246</u>
Geographical markets				
— PRC	3,561,453	124,981	—	3,686,434
— Oversea	<u>120,812</u>	<u>—</u>	<u>—</u>	<u>120,812</u>
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	<u>—</u>	<u>—</u>	<u>1,119</u>	<u>1,119</u>
Geographical markets				
— PRC	2,651,415	113,237	1,229	2,765,881
— Oversea	<u>71,273</u>	<u>—</u>	<u>—</u>	<u>71,273</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						
	For the six months ended 30 June 2021						
	Paper products				Electricity and steam	Others	Total
White top linerboard	Coated- white top linerboard	Core board	Specialised paper products				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	843,904	1,210,287	364,067	1,264,007	124,981	—	3,807,246
Inter-segment revenue	—	—	—	—	261,125	—	261,125
Segment revenue	<u>843,904</u>	<u>1,210,287</u>	<u>364,067</u>	<u>1,264,007</u>	<u>386,106</u>	<u>—</u>	<u>4,068,371</u>
Segment profit	<u>253,244</u>	<u>385,473</u>	<u>72,139</u>	<u>99,421</u>	<u>30,029</u>	<u>—</u>	<u>840,306</u>

	Unaudited						
	For the six months ended 30 June 2020						
	Paper products				Electricity and steam	Others	Total
White top linerboard	Coated- white top linerboard	Core board	Specialised paper products				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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>

(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 on fair value changes of an investment property, certain finance costs, and share of profit/(loss) of a joint venture to paper product segment and does not allocate income tax 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	
	2021	2020
	RMB'000	RMB'000
Profit		
Segment profit	840,306	660,406
Unrealised profit on inter-segment sales	(46,228)	(60,037)
	<u>794,078</u>	<u>600,369</u>
Other income	123,766	88,977
Other gains or losses	(36,433)	(175)
Distribution and selling expenses	(160,532)	(136,119)
Administrative expenses	(194,137)	(146,000)
Finance costs	(67,688)	(87,682)
Loss on fair value changes of an investment property	(5,468)	(418)
Share of profit/(loss) of a joint venture	9,635	(4,374)
	<u>463,221</u>	<u>314,578</u>
Consolidated profit before income tax	<u>463,221</u>	<u>314,578</u>

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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:		
Bank deposits	13,999	15,051
The balance with a joint venture (<i>note i</i>)	8,549	6,503
	<u>22,548</u>	<u>21,554</u>
Total interest income		
	<u>22,548</u>	<u>21,554</u>
Government grants (<i>note ii</i>)	93,923	67,644
Rental income from an investment property and other properties	1,826	1,274
Hotel and catering service income	2,080	—
Logistics service income	5,964	—
	<u>126,341</u>	<u>90,472</u>
Other gains or losses:		
Gain from sale of scrap materials, net	10,389	13,539
Loss on disposal of property, plant and equipment	(25,344)	(4,805)
Net foreign exchange losses	(1,406)	(783)
Reversal of/(Provision for) expected credit loss on trade receivables	505	(1,821)
Provision for expected credit loss on other receivables	(1,740)	—
Impairment loss on property, plant and equipment	(17,185)	—
Others	2,285	1,246
	<u>(32,496)</u>	<u>7,376</u>

Notes:

- i. During the six months ended 30 June 2021, 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 5.70% per annum (six months ended 30 June 2020: 4.75% per annum).
- ii. During the six months ended 30 June 2021, 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 RMB89,134,000, the amounts of which were determined by reference to the amount of value-added tax paid (six months ended 30 June 2020: RMB62,800,000).

7. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest expenses on:		
Discounted bills financing	25,121	41,643
Bank and other borrowings	66,980	69,038
Lease liabilities	8	7
Corporate bond	4,272	8,530
	<u>96,381</u>	<u>119,218</u>
Less: Interest capitalised in construction in progress	<u>(19,355)</u>	<u>(20,860)</u>
	<u>77,026</u>	<u>98,358</u>

Borrowing costs capitalised during the six months ended 30 June 2021 arose on the general borrowing pool and were calculated by applying a capitalisation rate ranging from 4.01% to 5.46% (six months ended 30 June 2020 a capitalisation rate ranging from 4.55% to 5.22%) per annum to expenditure on construction in progress.

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax		
People's Republic of China ("PRC") Enterprise Income Tax	126,370	69,330
Deferred tax expense	2,157	29,018
	<u>128,527</u>	<u>98,348</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 in Hong Kong, 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 2021 and 2020 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Wages and salaries	203,491	150,981
Retirement benefits schemes contributions	27,841	16,567
	<hr/>	<hr/>
Total staff costs (including directors' emoluments)	231,332	167,548
	<hr/>	<hr/>
Amortisation of prepaid lease payments	2,831	2,767
Cost of inventories recognised as an expense	2,324,292	2,187,253
Depreciation of property, plant and equipment		
— right-of-use assets	36,894	36,942
— owned assets	132,520	105,152
Research and development expenses	34,638	236,261
	<hr/> <hr/>	<hr/> <hr/>

10. DIVIDENDS

During the current interim period, no final dividend in respect of the year ended 31 December 2020 (six months ended 30 June 2020: nil) 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 2021 (six months ended 30 June 2020: nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2021 was based on the profit of RMB331,348,000 (six months ended 30 June 2020: RMB206,344,000) for the period attributable to owners of the Company, and the weighted average number of 849,701,000 (six months ended 30 June 2020: 819,362,000) ordinary shares in issue during the six months ended 30 June 2021.

There are no dilutive potential ordinary shares in issue for the six months ended 30 June 2021 and 2020. 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 2021 RMB'000	Audited As at 31 December 2020 RMB'000
0–30 days	487,659	426,951
31–90 days	14,973	70,642
91–365 days	14,869	15,756
Over 1 year	177	—
	<u>517,678</u>	<u>513,349</u>

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

	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
At the beginning of the period/year	16,976	10,674
Written off during the period/year	—	(781)
(Reversal)/Allowance during the period/year	<u>(505)</u>	<u>7,083</u>
At the end of the period/year	<u>16,471</u>	<u>16,976</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
	2021	2020
	RMB'000	RMB'000
0–90 days	85,837	189,852
91–180 days	47,750	55,860
181–365 days	2,774	37,543
	136,361	283,255

As at 30 June 2021, the Group has discounted bills receivables of RMB1,003,000 (31 December 2020 (Audited): RMB9,217,000) 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. For trade payables, the ageing presented based on goods received date at the end of the reporting period. For bills payables, the ageing presented based on the issue date at the end of the reporting period.

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
0–90 days	912,855	892,605
91–365 days	245,187	193,355
Over 1 year	26,646	10,973
	1,184,688	1,096,933

All the bills payables as at 30 June 2021 and 31 December 2020 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 2021 RMB'000	Audited As at 31 December 2020 RMB'000	Unaudited As at 30 June 2021 RMB'000	Audited As at 31 December 2020 RMB'000
Within one year	2,308	1,880	1,301	877
More than one year but not more than two years	2,070	1,824	1,115	863
More than two years but not more than five years	5,724	5,500	3,179	2,889
After five years	19,619	21,473	14,896	16,346
	<u>29,721</u>	<u>30,677</u>	<u>20,491</u>	<u>20,975</u>
Future finance charges on lease liabilities	<u>(9,230)</u>	<u>(9,702)</u>	<u>—</u>	<u>—</u>
Present value of lease liabilities	<u><u>20,491</u></u>	<u><u>20,975</u></u>	<u><u>20,491</u></u>	<u><u>20,975</u></u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(1,301)</u>	<u>(877)</u>
Amount due for settlement after 12 months			<u><u>19,190</u></u>	<u><u>20,098</u></u>

The Group's lease liabilities are secured by the lessor's charge over certain property, plant and equipment amounting to RMB20,491,000 (31 December 2020 (Audited): RMB20,975,000).

During the current interim period, the total cash outflows for the leases are RMB1,977,000 (six months ended 30 June 2020: RMB3,213,000).

16. DISCOUNTED BILLS FINANCING

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Discounted bills receivables from third parties (<i>note a</i>)	1,003	9,217
Discounted bills receivables from subsidiaries of the Company (<i>note b</i>)	<u>1,570,900</u>	<u>1,236,000</u>
Total	<u>1,571,903</u>	<u>1,245,217</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 RMB1,770,670,000 (six months ended 30 June 2020: RMB2,243,014,000), and repaid loans amounting to RMB1,716,613,000 (six months ended 30 June 2020: RMB1,577,337,000). The newly raised loans bear interest from 3.10% to 6.57% per annum (six months ended 30 June 2020: 2.00% to 7.51%). At the end of the reporting period, certain of the Group's property, plant and equipment and land use rights of RMB1,741,399,000 (31 December 2020 (Audited): RMB2,347,478,000) were pledged to secure bank borrowings granted to the Group.

18. CORPORATE BOND

Century Sunshine completed the issuance of the corporate bond on 23 July 2014. The final offering size of the seven-year corporate bond was RMB500,000,000 with annual coupon rate of 8.19% per annum. The corporate bond is guaranteed by 中合中小企業融資擔保股份有限公司 (China United SME Guarantee Corporation Co. Ltd.), and is with counter-guarantee arrangement with the Group's investment property and property, plant and equipment of RMB66,508,000 and RMB87,542,000 respectively (31 December 2020 (Audited): investment property and property, plant and equipment of RMB71,976,000 and RMB87,178,000 respectively), and the remaining balance was repaid in July 2021.

19. CAPITAL COMMITMENTS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for in the condensed consolidated interim financial statements in respect of acquisition of:		
— property, plant and equipment	142,349	207,075
— investment cost in a partnership	196,315	393,815
	338,664	600,890

20. RECLASSIFICATION AND COMPARATIVE FIGURES

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

BUSINESS REVIEW

In 1H 2021, under the government's effective epidemic prevention and control, the domestic epidemic prevention and control has entered into a normalization stage. With the active efforts of all the leaders and employees of the Group against the new situation, new business normal and new challenges under the management concept of "innovation, breakthrough and detail" formulated at the beginning of the year, the Group steadfastly expanded its operations externally and implemented strict management internally, so that the Group managed to survive amid fierce market competition and maintained a strong and sustainable profitability.

In response to the weak market demand, fierce industry competition, sluggish downstream demand and sharp increase in raw material prices, the Group has improved its competitiveness in all aspects of procurement, production, finance, sales and logistics, including developing procurement channels, improving production processes, optimizing financial structure, implementing precisely targeted strategies of market development and maintenance, improving logistics efficiency. As a result, the Group has gained recognition from customers and maintained a relatively good market share while effectively reducing costs. For 1H 2021, the Group reported 734,000 tonnes of machine-made paper, representing an increase of 19.5% as compared to 614,000 tonnes for the corresponding period last year. The total revenue increased to RMB3,807.2 million, representing an increase of 34.2% as compared to that for the corresponding period last year.

The Group focuses on producing high-quality and multipurposed packaging paper, including white top linerboard, coated-white top linerboard, core board and corrugated paper. It is also committed to satisfying the various needs of different customer groups by intensively cultivating the market under the differentiated development strategy at the same time. In addition to the white top linerboard, coated-white top linerboard products independently developed by the Group with a number of intellectual property rights, which still contribute to the Company's main production capacity, corrugated paper has become a new source of revenue growth for the Company with the gradual release of the production capacity of the Group's newly commissioned corrugated paper production line.

BUSINESS OUTLOOK

Although the pandemic is generally under control in the PRC, the global economy suffered immeasurable adverse impact given the uncertainties in respect of the epidemic prevention and control outside China. In addition, the implementation of the policy of zero imports of waste paper will have an additional impact on the supply of raw materials, product quality and technological process of the Group.

In light of the complicated domestic and international economic conditions, the Group will continue to optimize and recalibrate the composition of raw materials, while identifying new alternatives to secure a sufficient supply. Packaging paper is still the Group's main core product. The Group is committed to providing its customers with premium products, while actively responding to the national policy of "carbon emissions peak and carbon neutrality" implementing energy saving and emission reduction to achieve a mutually beneficial relationship between economic development and a balanced ecosystem.

With the further release of the production capacity of the new corrugated paper production line and following the commissioning of the second production line, the Group will further optimize its product mix, which will offer greater opportunities for its development. In the meantime, the Group will further improve its digitalization and build an intelligent manufacturing plant to provide customers with services of better quality and with higher efficiency, thus promoting sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

For 1H 2021, our Group's total revenue was RMB3,807.2 million, representing an increase of 34.2% as compared to that of RMB2,837.2 million for 1H 2020.

Both average selling price of paper products and sales volume increased during 1H 2021. Sales of paper products increased by 35.2% to RMB3,682.3 million for 1H 2021 with sales volume of around 734,000 tonnes, as compared to that of RMB2,722.7 million and around 614,000 tonnes for 1H 2020.

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

	1H 2021			1H 2020		
	<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	843,904	30.0	22.2	677,924	26.4	23.9
Coated-white top linerboard	1,210,287	31.8	31.8	913,256	24.2	32.2
Core board	364,067	19.8	9.5	308,177	23.6	10.9
Specialised paper products	1,264,007	7.9	33.2	823,331	13.5	29.0
Subtotal of sales of paper products	3,682,265	22.0	96.7	2,722,688	21.5	96.0
Sales of electricity and steam	124,981	7.8	3.3	113,237	21.1	3.9
Others	—	—	—	1,229	86.6	0.1
Total revenue	<u>3,807,246</u>	<u>21.0</u>	<u>100</u>	<u>2,837,154</u>	<u>21.5</u>	<u>100</u>

Cost of sales

Cost of sales was RMB3,006.5 million for 1H 2021, representing an increase of 35.0% as compared with that of RMB2,227.2 million for 1H 2020. The increase in cost of sales was consistent with the increase in revenue.

Gross profit and gross profit margin

The gross profit of our Group increased from RMB610.0 million for 1H 2020 to RMB800.7 million for 1H 2021. The profit margin of the Group decreased during the period as compared with the corresponding period last year, from 21.5% for 1H 2020 to 21.0% for 1H 2021.

Other profit and loss items

Other income of RMB126.3 million for 1H 2021 (1H 2020: RMB90.5 million) mainly consisted of interest income on bank deposits of RMB14.0 million, interest income earned from a joint venture of RMB8.5 million, government grants of RMB93.9 million, rental income of RMB1.8 million, hotel and catering service income of RMB2.1 million and logistics service income of RMB6.0 million.

Other losses of RMB32.5 million for 1H 2021 (1H 2020: other gains of RMB7.4 million) mainly consisted of gain from sale of scrap materials of RMB10.4 million, loss of disposal of property, plant and equipment of RMB25.3 million, net foreign exchange losses of RMB1.4 million, provision for expected credit loss on other receivables of RMB1.7 million, impairment loss on property, plant and equipment of RMB17.2 million, reversal of expected credit loss on trade receivables of RMB0.5 million, and other gains of RMB2.2 million.

Distribution and selling expenses was RMB160.5 million for 1H 2021, as compared with RMB136.1 million for 1H 2020. As a percentage against revenue, it decreased from 4.8% for 1H 2020 to 4.2% for 1H 2021.

Administrative expenses was RMB197.9 million for 1H 2021, representing an increase of 28.5% as compared with RMB154.0 million for 1H 2020. As a percentage against revenue, it decreased from 5.4% for 1H 2020 to 5.2% for 1H 2021.

Finance costs was RMB77.0 million for 1H 2021, representing a decrease of 21.7% as compared with RMB98.4 million for 1H 2020. As a percentage against revenue, it decreased from 3.5% for 1H 2020 to 2.0% for 1H 2021. The decrease was mainly due to the decrease in discounted bills financing and weighted average borrowing rate of bank loans and discounted bills financing.

During 1H 2021, there was a share of profit of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB9.6 million (1H 2020: share of loss of RMB4.4 million).

Income tax expense

Our income tax expense increased from RMB98.3 million for 1H 2020 to RMB128.5 million for 1H 2021. Effective tax rate for 1H 2021 and 1H 2020 was 27.7% and 31.3%, respectively.

Profit and total comprehensive income

As a result of the above factors, the profit for the period attributable to the owners of the Company is RMB331.3 million for 1H 2021 (1H 2020: RMB206.3 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 2021, our Group had restricted bank deposits, cash and bank balances of RMB2,436.0 million (31 December 2020: RMB1,753.7 million). The debt of the Group comprised of bank and other borrowings, lease liabilities and corporate bond total RMB3,146.9 million as at 30 June 2021 (31 December 2020: RMB2,917.4 million). Net gearing ratio decreased from 33.9% as at 31 December 2020 to 18.4% as at 30 June 2021.

Inventories increased from RMB635.7 million as at 31 December 2020 to RMB734.2 million as at 30 June 2021. Inventory turnover was 41 days for 1H 2021, as compared to 49 days for 1H 2020.

Trade receivables increased from RMB513.3 million as at 31 December 2020 to RMB517.7 million as at 30 June 2021. Trade receivables turnover was 25 days for 1H 2021, as compared to 35 days for 1H 2020. Our credit period given to customers is around 30–45 days in general.

Trade payables recorded an increase from RMB814.3 million as at 31 December 2020 to RMB866.8 million as at 30 June 2021. Trade payable turnover was 51 days for 1H 2021, as compared to 78 days for 1H 2020.

Current ratio increased from 0.65 times as at 31 December 2020 to 0.73 times as at 30 June 2021.

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 2021, our capital expenditure was approximately RMB54.2 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.

Capital commitments and contingent liabilities

As at 30 June 2021, our Group had capital commitments, which were contracted in the condensed consolidated interim financial statements in respect of acquisition of property, plant and equipment and investment cost in a partnership of RMB338.7 million.

There was no contingent liabilities as at 30 June 2021.

Pledge of assets

As at 30 June 2021, the carrying amount of our assets of RMB1,828.9 million and the fair value of our investment property of RMB66.5 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 RMB, there is no foreign exchange difference arising from the translation of financial statements. In addition, as our Group conducts business transactions principally in RMB and the amount of bank balances denominated in foreign currencies is immaterial, 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

The Company is committed to achieve a high standard of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for our growth and for safeguarding and maximising shareholders' interests. The 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 (the “**Listing Rules**”) throughout 1H 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The 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. The Company has made specific enquiries with all Directors, and all Directors have confirmed that they have complied with the Model Code throughout 1H 2021.

AUDIT COMMITTEE

The Board has established an audit committee in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the Company's financial reporting process, internal control and risk management system and to provide advice and comments to the 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 2021 and discussed the financial matters with the management of the Company. The unaudited condensed consolidated financial statements of the Group for 1H 2021 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

The Group had approximately 4,600 employees as at 30 June 2021. The staff costs for 1H 2021 were RMB231.3 million (1H 2020: RMB167.5 million). The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to set performance-based remuneration which reflects market standards. Employees' remuneration packages are generally determined based on job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our Group's emolument policy will be adjusted depending on a number of factors, including changes in the market and the direction of our Group's business development, so as to achieve our Group's operational targets.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for 1H 2021 (1H 2020: nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During 1H 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of Company's shares.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE WEBSITE

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

APPRECIATION

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

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

Weifang, China 27 August 2021

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

Executive Directors: **Mr. Wang Dongxing, Mr. Shi Weixin, Mr. Wang Changhai, Mr. Zhang Zengguo and Mr. Ci Xiaolei**

Non-executive Director: **Ms. Wu Rong**

Independent non-executive Directors: **Ms. Shan Xueyan, Mr. Wang Zefeng and Ms. Jiao Jie**

* *For identification purposes only*