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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 RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

FINANCIAL HIGHLIGHTS

- Revenue increased by 19.5% from approximately RMB7,982.2 million for FY2021 to approximately RMB9,538.2 million for FY2022.
- Profit for the year attributable to the owners of the Company for FY2022 was approximately RMB205.7 million, representing an decrease of approximately RMB350.9 million or 63.0% as compared to that for FY2021.

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 2022 (“**FY2022**”) together with the comparative figures for the year ended 31 December 2021 (“**FY2021**”). 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	2022 RMB’000	2021 RMB’000 (restate)
Revenue	5 & 6	9,538,229	7,982,231
Cost of sales		(8,374,125)	(6,448,542)
Gross profit		1,164,104	1,533,689
Other income	7	318,004	299,028
Other gains or losses, net	7	3,487	(66,141)
Distribution and selling expenses		(401,795)	(339,582)
Administrative expenses		(429,535)	(499,371)
Provision for expected credit loss (“ECL”) on financial assets, net		(27,333)	(16,691)
Gain/(Loss) on fair value changes of an investment property		361	(5,761)
Share of loss of a joint venture		(44,087)	(8,669)
Share of loss of an associate		(54,983)	—
Finance costs	8	(169,344)	(149,220)
Profit before income tax	10	358,879	747,282
Income tax expense	9	(124,334)	(198,778)
Profit for the year		234,545	548,504
Other comprehensive income/(expense), net of tax			
Item that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		1,516	—
Fair value loss on financial assets through other comprehensive income (“FVTOCI”)		(599)	(856)
Other comprehensive income/(expense), net of tax		917	(856)
Total comprehensive income for the year		235,462	547,648

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i> (restate)
Profit for the year attributable to:			
Owners of the Company		205,729	556,621
Non-controlling interests		28,816	(8,117)
		<u>234,545</u>	<u>548,504</u>
Total comprehensive income			
for the year attributable to:			
Owners of the Company		206,646	555,765
Non-controlling interests		28,816	(8,117)
		<u>235,462</u>	<u>547,648</u>
Earnings per share for profit attributable to owners			
of the Company during the year			
Basic and diluted (<i>RMB</i>)	<i>12</i>	<u>0.20</u>	<u>0.63</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restate)
Non-current assets			
Property, plant and equipment		5,351,770	5,103,415
Investment property		66,576	66,215
Prepaid lease payments		733,632	620,999
Goodwill		49,746	49,746
Deferred tax assets		83,462	62,866
Interest in an associate		—	—
Interest in a joint venture		135,729	179,816
Deposits for acquisition for property, plant and equipment		321,028	419,875
Financial assets at fair value through profit and loss (“FVTPL”)		260,725	—
Deposits and other receivables	13	356,405	373,386
		7,359,073	6,876,318
Current assets			
Inventories	14	900,711	1,088,205
Trade receivables	15	630,665	527,742
Bills receivables	16	284,431	171,988
Prepayments and other receivables	17	493,253	240,767
Restricted bank deposits		1,585,112	1,293,544
Bank balances and cash		851,179	829,572
		4,745,351	4,151,818
Current liabilities			
Contract liabilities		68,071	121,962
Trade payables	18	1,107,950	1,031,253
Bills payables	19	287,450	484,361
Other payables	20	225,569	212,475
Payables for construction work, machinery and equipment		142,032	165,143
Income tax payable		1,545	23,893
Lease liabilities	21	3,214	1,354
Deferred income		8,983	6,045
Discounted bills financing	22	1,739,953	1,374,325
Bank borrowings	23	2,047,827	2,213,223
Other borrowings	24	350,134	248,566
		5,982,728	5,882,600
Net current liabilities		(1,237,377)	(1,730,782)
Total assets less current liabilities		6,121,696	5,145,536

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i> (restate)
Capital and reserves			
Share capital	25	90,256	80,944
Reserves		4,001,671	3,698,761
Equity attributable to owners of the Company		4,091,927	3,779,705
Non-controlling interests		334,003	304,724
Total equity		4,425,930	4,084,429
Non-current liabilities			
Lease liabilities	21	38,491	31,000
Bank borrowings	23	930,673	536,901
Other borrowings	24	453,318	300,387
Deferred income		205,887	137,319
Deferred tax liabilities		67,397	55,500
		1,695,766	1,061,107
Total equity and non-current liabilities		6,121,696	5,145,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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, 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). 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 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 revised IFRSs. The Group has adopted all these revised IFRSs, which are effective for the accounting period beginning on 1 January 2022:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020

Amendments to IFRS 3 “Reference to the Conceptual Framework”

The amendments update the reference in IFRS 3 to the latest version of “Conceptual Framework for Financial Reporting” issued in March 2018, and add an exception to the requirement for an entity to refer to “Conceptual Framework for Financial Reporting” to determine what constitutes an asset or liability.

Besides, the exception also specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” or IFRIC-Int 21 “Levies” if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should apply the criteria in IAS 37 or IFRIC-Int 21 respectively (instead of the “**Conceptual Framework for Financial Reporting**”) to determine whether a present obligation exists at the acquisition date.

Furthermore, the amendments also explicitly state that contingent assets do not qualify for recognition at the acquisition date.

Amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 January 2022 and apply prospectively. The amendments have no impact on the consolidated financial statements because there are no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the year ended 31 December 2022.

Amendments to IAS 16 “Property, Plant and Equipment — Proceeds before Intended Use”

The amendments prohibit an entity from deducting from the cost of property, plant and equipment any proceeds received from selling items produced before that asset is available for use (i.e. any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in manner intended by management). Instead, an entity should recognise such sales proceeds and related costs in profit or loss. The entity should measure the cost of those items in accordance with IAS 2 “Inventories”.

Besides, the amendments also clarify the meaning of “testing whether an asset is functioning properly” and require additional disclosures for the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities.

The amendments have no impact on the consolidated financial statements as there are no sales of such items produced by property, plant and equipment made available for use on or after 1 January 2021.

Amendments to IAS 37 “Onerous Contracts — Cost of Fulfilling a Contract”

The amendments clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Annual Improvements to IFRS Standards 2018–2020

The Annual Improvements to IFRS Standards 2018–2020 include a number of amendments to various IFRSs, which are summarised below.

Amendments to IFRS 1 provide an option for a subsidiary to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of its parent company (based on the parent company’s date of transitions to IFRSs) if a subsidiary adopts IFRSs later than its parent company and applies paragraph D16(a) of IFRS 1.

Amendments to IFRS 9 clarify that, for the purpose of applying the “10 per cent” test for derecognition of financial liability, the borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other’s behalf, in the assessment.

Amendments to IFRS 16 remove the illustration of the reimbursement of leasehold improvements by the lessor from the illustrative example 13 as the example is not clear as to why such payments are not a lease incentive, which in turn remove any potential confusion regarding the treatment of lease incentives that might arise.

Amendments to IAS 41 remove a requirement to exclude cash flows from taxation when measuring fair value of a biological asset, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13.

Amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual period beginning on or after 1 January 2022. The amendments to IFRS 16 only regard an illustrative example, so no effective date is stated. The annual improvements have no impact on the consolidated financial statements.

Issued but not yet effective IFRSs

At the date of authorisation of these consolidation financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 17	Insurance Contracts and related amendments ¹
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 16	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ Effective date not yet determined

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

Measurement period adjustments for an incomplete initial accounting of acquisition of Rernher Recycle Co., Ltd.

During the year ended 31 December 2021, China Ramble Paper Company Limited (中國遠博紙業有限公司), an indirectly wholly-owned subsidiary of the Company acquired 98% equity interest in Rernher Recycle Co., LTD (仁和公司) (“**Rernher Recycle**”) of which the valuations have not been completed and the respective fair values of identifiable net assets and goodwill were determined provisionally. During the year ended 31 December 2022, the Group made certain fair value adjustments, with reference to the finalised independent valuation, to the carrying amounts of the identifiable assets and liabilities of Rernher Recycle as a result of completing the initial accounting. The adjustments to the fair values at the acquisition of the identifiable net assets were made as if initial accounting had been completed on the acquisition date. In addition, the depreciation of the respective assets subsequent to the acquisition date was adjusted accordingly.

The above restatements relate to acquisition which have effected during the year ended 31 December 2021 and hence have no financial impact on the consolidated financial position at 1 January 2021. Accordingly no restated consolidated statement of financial position as at 1 January 2021 is presented.

i) *Restated consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2021*

	As originally stated RMB'000	Adjustments RMB'000	As restated RMB'000
Revenue	7,982,231	—	7,982,231
Cost of sales	<u>(6,448,678)</u>	<u>136</u>	<u>(6,448,542)</u>
Gross profit	1,533,553	136	1,533,689
Other income	299,028	—	299,028
Other gains or losses, net	(66,141)	—	(66,141)
Provision for expected credit loss (“ECL”) on financial asset, net	(16,691)	—	(16,691)
Distribution and selling expenses	(339,582)	—	(339,582)
Administrative expenses	(499,371)	—	(499,371)
Loss on fair value changes of an investment property	(5,761)	—	(5,761)
Share of loss of a joint venture	(8,669)	—	(8,669)
Finance costs	<u>(149,220)</u>	<u>—</u>	<u>(149,220)</u>
Profit before income tax	747,146	136	747,282
Income tax expenses	<u>(198,752)</u>	<u>(26)</u>	<u>(198,778)</u>
Profit for the year	548,394	110	548,504
Other comprehensive expense, net of tax Items that will be reclassified subsequently to profit or loss: Fair value loss on financial assets through other comprehensive income (“FVTOCI”)	<u>(856)</u>	<u>—</u>	<u>(856)</u>
Total comprehensive income for the year	<u>547,538</u>	<u>110</u>	<u>547,648</u>
Profit for the year attributable to:			
Owners of the Company	556,513	108	556,621
Non-controlling interests	<u>(8,119)</u>	<u>2</u>	<u>(8,117)</u>
	<u>548,394</u>	<u>110</u>	<u>548,504</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company	555,657	108	555,765
Non-controlling interests	<u>(8,119)</u>	<u>2</u>	<u>(8,117)</u>
	<u>547,538</u>	<u>110</u>	<u>547,648</u>

ii) *Restated consolidated statement of financial position as at 31 December 2021*

	As originally stated RMB'000	Adjustments RMB'000	Restated RMB'000
Non-current assets			
Property, plant and equipment	5,119,019	(15,604)	5,103,415
Investment property	66,215	—	66,215
Prepaid lease payments	620,999	—	620,999
Goodwill	37,406	12,340	49,746
Deferred tax assets	59,744	3,122	62,866
Interest in a joint venture	179,816	—	179,816
Deposits for acquisition for property, plant and equipment	419,875	—	419,875
Deposits and other receivables	373,386	—	373,386
	<u>6,876,460</u>	<u>(142)</u>	<u>6,876,318</u>
Current assets			
Inventories	1,088,205	—	1,088,205
Trade receivables	527,742	—	527,742
Bills receivables	171,988	—	171,988
Prepayments and other receivables	240,767	—	240,767
Restricted bank deposits	1,293,544	—	1,293,544
Bank balances and cash	829,572	—	829,572
	<u>4,151,818</u>	<u>—</u>	<u>4,151,818</u>
Current liabilities			
Contract liabilities	121,962	—	121,962
Trade payables	1,031,253	—	1,031,253
Bills payables	484,361	—	484,361
Other payables	212,475	—	212,475
Payables for construction work, machinery and equipment	165,143	—	165,143
Income tax payable	23,893	—	23,893
Lease liabilities	1,354	—	1,354
Deferred income	6,045	—	6,045
Discounted bills financing	1,374,325	—	1,374,325
Bank borrowings	2,213,223	—	2,213,223
Other borrowings	248,566	—	248,566
	<u>5,882,600</u>	<u>—</u>	<u>5,882,600</u>
Net current liabilities	<u>(1,730,782)</u>	<u>—</u>	<u>(1,730,782)</u>
Total assets less current liabilities	<u>5,145,678</u>	<u>(142)</u>	<u>5,145,536</u>

	As originally stated <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Restated <i>RMB'000</i>
Capital and reserves			
Share capital	80,944	—	80,944
Reserves	<u>3,698,653</u>	<u>108</u>	<u>3,698,761</u>
Equity attributable to owners of the Company	3,779,597	108	3,779,705
Non-controlling interests	<u>304,974</u>	<u>(250)</u>	<u>304,724</u>
Total equity	<u>4,084,571</u>	<u>(142)</u>	<u>4,084,429</u>
Non-current liabilities			
Lease liabilities	31,000	—	31,000
Bank borrowings	536,901	—	536,901
Other borrowings	300,387	—	300,387
Deferred income	137,319	—	137,319
Deferred tax liabilities	<u>55,500</u>	<u>—</u>	<u>55,500</u>
	<u>1,061,107</u>	<u>—</u>	<u>1,061,107</u>
Total equity and non-current liabilities	<u><u>5,145,678</u></u>	<u><u>(142)</u></u>	<u><u>5,145,536</u></u>

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 under the historical cost basis except for financial assets at FVTOCI, FVTPL and certain properties which are stated at fair value.

The Group has net current liabilities of approximately RMB1,237,377,000 at 31 December 2022. 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 banking facilities will expire in 2023, the Directors consider that there are good track records and good relationships with banks, and that the Group will be able to renew existing banking 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 at a point in time in the following major product lines and geographical market:

Segments	For the year ended 31 December 2022		
	Paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Timing of revenue recognition			
— At a point in time	<u>9,133,329</u>	<u>404,900</u>	<u>9,538,229</u>
Geographical markets			
— the People Republic of China (the “PRC”)	<u>8,935,590</u>	<u>404,900</u>	<u>9,340,490</u>
— Overseas	<u>197,739</u>	<u>—</u>	<u>197,739</u>
	For the year ended 31 December 2021		
Segments	Paper products <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Timing of revenue recognition			
— At a point in time	<u>7,684,546</u>	<u>297,685</u>	<u>7,982,231</u>
Geographical markets			
— PRC	<u>7,428,251</u>	<u>297,685</u>	<u>7,725,936</u>
— Overseas	<u>256,295</u>	<u>—</u>	<u>256,295</u>

6. SEGMENT INFORMATION

(a) Reportable segments

The Group determines its reportable 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 reportable segment for the year.

For the year ended 31 December 2022

	Paper products					Subtotal RMB'000	Electricity and steam 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	Corrugated paper RMB'000			
Revenue from external customers	<u>1,954,014</u>	<u>2,368,916</u>	<u>775,556</u>	<u>2,074,914</u>	<u>1,959,929</u>	<u>9,133,329</u>	<u>404,900</u>	<u>9,538,229</u>
Inter-segment revenue							<u>933,906</u>	<u>933,906</u>
Segment revenue						<u>9,133,329</u>	<u>1,338,806</u>	<u>10,472,135</u>
Segment profit						<u>1,114,095</u>	<u>120,021</u>	<u>1,234,116</u>

For the year ended 31 December 2021

	Paper products					Subtotal (restate) RMB'000	Electricity and steam RMB'000	Total (restate) RMB'000
	White top linerboard RMB'000	Coated- white top linerboard RMB'000	Core board RMB'000	Specialised paper products (restate) RMB'000	Corrugated paper RMB'000			
Revenue from external customers	<u>1,790,888</u>	<u>2,440,506</u>	<u>791,650</u>	<u>1,566,763</u>	<u>1,094,739</u>	<u>7,684,546</u>	<u>297,685</u>	<u>7,982,231</u>
Inter-segment revenue							<u>640,074</u>	<u>640,074</u>
Segment revenue						<u>7,684,546</u>	<u>937,759</u>	<u>8,622,305</u>
Segment profit						<u>1,505,247</u>	<u>9,484</u>	<u>1,514,731</u>
Other segment information: Impairment loss on property, plant and equipment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(31,099)</u>	<u>—</u>	<u>(31,099)</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/(loss) on fair value changes of an investment property, certain finance costs, share of loss of an associate, share of loss of a joint venture to paper product segment and does not allocate income tax expenses to both the paper product segment and electricity and steam segment when making decisions about resources to be allocated to the segment and assessing its performance.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restate)
Profit		
Segment profit	1,234,116	1,514,731
Unrealised (profit)/loss on inter-segment sales	<u>(107,711)</u>	<u>14,245</u>
	1,126,405	1,528,976
Administrative expenses	(414,502)	(486,337)
Other income	316,168	280,564
Other gains or losses	(24,868)	(92,322)
Distribution and selling expenses	(401,795)	(339,582)
Finance costs	(143,820)	(129,587)
Gain/(loss) on fair value changes of an investment property	361	(5,761)
Share of loss of an associate	(54,983)	—
Share of loss of a joint venture	<u>(44,087)</u>	<u>(8,669)</u>
Consolidated profit before income tax	<u><u>358,879</u></u>	<u><u>747,282</u></u>

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

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

(b) Information about major customers

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

(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 (other than deferred tax assets and financial assets at FVTPL) by geographical location is presented.

7. OTHER INCOME AND OTHER GAINS OR LOSSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other income:		
Interest income on:		
Bank deposits	29,867	24,622
Loans to third parties	4,532	1,455
The balance with a joint venture (<i>note i</i>)	<u>22,957</u>	<u>21,442</u>
Total interest income	<u>57,356</u>	<u>47,519</u>
Rental income from an investment property and other properties	3,159	3,387
Hotel and catering services income	3,137	3,974
Logistics services income	8,316	11,911
Government grants (<i>note ii</i>)	<u>246,036</u>	<u>232,237</u>
	<u><u>318,004</u></u>	<u><u>299,028</u></u>
Other gains or losses:		
Net foreign exchange losses	(2,374)	(4,341)
Gain from sale of scrap materials, net	7,108	28,958
Loss on disposal and written off of property, plant and equipment	(12,321)	(34,798)
Impairment loss of investment in an associate	(245,847)	—
Change in fair value of FVTPL	241,169	—
Impairment loss on property, plant and equipment	—	(31,099)
Others	<u>15,752</u>	<u>(24,861)</u>
	<u><u>3,487</u></u>	<u><u>(66,141)</u></u>

Notes:

- i. During the year ended 31 December 2022, the Group earned interest income from other receivable from 陽光王子(壽光)特種紙有限公司 (Sunshine Oji (Shouguang) Specialty Paper Co., Ltd) at a weighted average effective interest rate of 6.00% per annum (2021: 6.00% per annum), unsecured and repayable after 12 months from the end of the reporting period.
- ii. During the year ended 31 December 2022, 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) was granted and received unconditional government subsidy of approximately RMB206,777,000 (2021: RMB194,148,000) from local government, the amount of which was determined by reference to the amount of value-added tax ("VAT") paid.

8. FINANCE COSTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest expenses on:		
Discounted bills financing	38,009	57,580
Bank and other borrowings wholly repayable within five years	155,954	131,687
Lease liabilities	815	115
Corporate bond	—	4,292
	<u>194,778</u>	<u>193,674</u>
Less: Interest capitalised in construction in progress	<u>(25,434)</u>	<u>(44,454)</u>
	<u><u>169,344</u></u>	<u><u>149,220</u></u>

Borrowing costs capitalised during the year ended 31 December 2022 arose from the general borrowing pool and were calculated by applying a capitalisation rate ranging from 4.35% to 6.20% (2021: 4.06% to 6.20%) per annum to expenditure on construction in progress.

9. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restate)
Current tax		
PRC enterprise income tax	132,399	188,720
Under provision in previous year	634	2,232
	<u>133,033</u>	<u>190,952</u>
Deferred tax (credit)/expenses	<u>(8,699)</u>	<u>7,826</u>
	<u><u>124,334</u></u>	<u><u>198,778</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, all PRC subsidiaries are subject to PRC enterprise income tax of 25% (2021: 25%).

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2022 and 2021 as the Group sustained a loss for tax purpose.

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restate)
Wages and salaries	376,819	452,022
Retirement benefits schemes contributions (<i>note</i>)	<u>65,452</u>	<u>54,073</u>
Total staff costs (including the Directors' emoluments)	<u>442,271</u>	<u>506,095</u>
Cost of inventories recognised as an expense	5,786,824	4,955,298
Depreciation of property, plant and equipment		
— right-of-use assets	74,973	73,783
— owned assets	307,665	268,205
Provision for ECL on		
— trade receivables	13,439	10,344
— other receivables	13,894	6,347
Depreciation of prepaid lease payments	8,055	5,528
Auditor's remuneration	2,052	1,887
Lease charges on short term leases	1,448	1,712
Net foreign exchange losses	2,374	4,341
Research and development costs	<u>91,845</u>	<u>43,943</u>

Note:

At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: nil).

11. DIVIDENDS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Dividend declared for distribution during the year:		
2021 final dividend — HK\$0.065 (2021: 2020 final dividend — Nil per share)	56,745	—
2021 special dividend — HK\$0.095 (2021: Nil)	<u>82,935</u>	<u>—</u>
	<u>139,680</u>	<u>—</u>

The Directors do not recommend the payment of final dividends for the year ended 31 December 2022 (2021: a final dividend of HK6.5 cents per ordinary share and a special dividend of HK9.5 cents per share). During the year ended 31 December 2022, China Sunrise Paper Holdings Limited, Mr. Wang Dongxing and Mr. Wang Changhai, controlling shareholders of the Company have waived their entitlement to the special dividend, totalling of HK\$32,675,000 (equivalents to RMB27,944,000) (2021: nil).

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit of RMB205,729,000 (2021: RMB556,621,000 (restate)) for the year attributable to owners of the Company, and the weighted average number of 1,014,467,000 (2021: 877,660,000) ordinary shares in issue during the year.

There are no dilutive potential ordinary shares in issue for the years ended 31 December 2022 and 31 December 2021. The diluted earnings per share equals to the basic earnings per share.

13. DEPOSITS AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other receivables from a joint venture	429,912	385,758
Guarantee deposits for sale and leaseback obligations	23,625	13,830
Loans to third parties (<i>note</i>)	—	59,455
	<u>453,537</u>	<u>459,043</u>
Less: ECL allowance	(97,132)	(85,657)
	<u><u>356,405</u></u>	<u><u>373,386</u></u>

Note: The loans were made to the third parties on normal commercial terms. The amounts are unsecured, will be collected after 12 months from the end of the reporting period and carry a fixed interest at 7.8% and 8.0% respectively.

The movements of gross balance of other receivables are as follows:

	Stage 1 <i>RMB'000</i>	Stage 2 <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2021	18,319	269,736	288,055
Net changes on the gross amount	<u>54,966</u>	<u>116,022</u>	<u>170,988</u>
Balance at 31 December 2021 and 1 January 2022	73,285	385,758	459,043
Net changes on the gross amount	<u>(49,660)</u>	<u>44,154</u>	<u>(5,506)</u>
Balance at 31 December 2022	<u><u>23,625</u></u>	<u><u>429,912</u></u>	<u><u>453,537</u></u>

The movements in the ECL allowance of other receivables are as follows:

	Stage 1 <i>RMB'000</i>	Stage 2 <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2021	—	81,276	81,276
Allowance during the year	—	4,381	4,381
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021 and 1 January 2022	—	85,657	85,657
Allowance during the year	—	11,475	11,475
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2022	—	97,132	97,132
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials	539,204	472,671
Finished goods	361,507	615,534
	<hr/>	<hr/>
	900,711	1,088,205
	<hr/> <hr/>	<hr/> <hr/>

15. TRADE RECEIVABLES

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables due from:		
— third parties	617,168	534,100
— a joint venture	5,774	3,363
— a related party	48,482	17,599
	<hr/>	<hr/>
	671,424	555,062
Less: ECL allowance	(40,759)	(27,320)
	<hr/>	<hr/>
	630,665	527,742
	<hr/> <hr/>	<hr/> <hr/>

The Group normally allows a credit period of 30 to 45 days (2021: 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–30 days	555,367	480,414
31–90 days	59,362	29,320
91–365 days	<u>15,936</u>	<u>18,008</u>
	<u>630,665</u>	<u>527,742</u>

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At the beginning of the year	27,320	16,976
Allowance during the year	19,557	10,344
Allowance reversed during the year	<u>(6,118)</u>	<u>—</u>
At the end of the year	<u>40,759</u>	<u>27,320</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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bills receivables	<u>284,431</u>	<u>171,988</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 RMB105,376,000 (2021: RMB30,725,000) 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 RMB105,376,000 (2021: RMB30,725,000) 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–90 days	205,646	82,715
91–180 days	76,848	27,257
181–365 days	1,937	62,016
	<u>284,431</u>	<u>171,988</u>

17. PREPAYMENTS AND OTHER RECEIVABLES

An analysis of prepayments and other receivables, net of ECL allowance of other receivables, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Prepayments	196,452	159,458
Other receivables	301,210	83,299
	<u>497,662</u>	<u>242,757</u>
Less: ECL allowance	(4,409)	(1,990)
	<u>493,253</u>	<u>240,767</u>

An analysis of other receivables is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
VAT recoverable	51,936	47,849
Deposits	17,754	10,520
Guarantee deposits for sale and leaseback obligations	5,130	15,489
Advance to employees	5,642	2,166
Loan to third parties (<i>note</i>)	209,754	—
Others	10,994	7,275
	<u>301,210</u>	<u>83,299</u>

Note: The loans were made to the third parties on normal commercial terms. The amounts are unsecured, will be collected after 12 months from the end of the reporting period and carry a fixed interest ranging from 7.5% to 8.0%.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At the beginning of the year	1,990	24
Provided during the year	<u>2,419</u>	<u>1,966</u>
At the end of the year	<u>4,409</u>	<u>1,990</u>

18. TRADE PAYABLES

An analysis of trade payables is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables due to		
— third parties	1,107,950	1,031,161
— a joint venture	<u>—</u>	<u>92</u>
	<u>1,107,950</u>	<u>1,031,253</u>

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–90 days	953,146	853,602
91–365 days	116,337	143,489
Over 1 year	<u>38,467</u>	<u>34,162</u>
	<u>1,107,950</u>	<u>1,031,253</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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0-90 days	134,540	147,535
91-180 days	142,910	216,826
Over 180 days	10,000	120,000
	287,450	484,361

All the bills payables are of trading nature and will be expired within twelve months (2021: twelve months) from the issue date.

20. OTHER PAYABLES

An analysis of other payables is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other payables	129,993	87,622
Other payables due to related parties	26,439	26,468
VAT and other tax payables	54,863	47,260
Other interest payable	13,078	20,358
Accrued payroll and welfare	1,196	30,767
	225,569	212,475

21. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Amounts payable under lease liabilities				
— Within one year	5,127	2,891	3,214	1,354
— In more than one year but not more than two years	4,990	2,927	3,229	1,458
— In more than two years but not more than five years	16,555	10,000	11,318	5,077
— After five years	30,156	31,801	23,944	24,465
	<u>56,828</u>	<u>47,619</u>	<u>41,705</u>	<u>32,354</u>
Less: future finance charges	<u>(15,123)</u>	<u>(15,265)</u>	<u>—</u>	<u>—</u>
Present value of lease obligations	<u>41,705</u>	<u>32,354</u>	<u>41,705</u>	<u>32,354</u>
Less: Amount due for settlement within twelve months (shown under current liabilities)			<u>(3,214)</u>	<u>(1,354)</u>
Amount due for settlement after twelve months			<u>38,491</u>	<u>31,000</u>

Note: As at 31 December 2022, lease liabilities amounting to RMB41,705,000 (2021: RMB32,354,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2022, the total cash outflows for the leases are RMB6,539,000 (2021: RMB3,889,000).

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:

	2022 RMB'000	2021 <i>RMB'000</i>
Discounted bills receivables from third parties (<i>note a</i>)	105,376	30,725
Discounted bills receivables from subsidiaries of the Company (<i>note b</i>)	<u>1,634,577</u>	<u>1,343,600</u>
Total	<u>1,739,953</u>	<u>1,374,325</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 RMB1,211,300,000 (2021: RMB900,323,000) were pledged to the issuing banks.

23. BANK BORROWINGS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Secured bank borrowings	558,751	898,066
Unsecured bank borrowings	<u>2,419,749</u>	<u>1,852,058</u>
	<u>2,978,500</u>	<u>2,750,124</u>
The borrowings are repayable as follows:		
— Within one year	2,047,827	2,213,223
— In the second year	691,770	320,965
— In the third to fifth years inclusive	<u>238,903</u>	<u>215,936</u>
	2,978,500	2,750,124
Less: Amount due for settlement within one year and shown under current liabilities	<u>(2,047,827)</u>	<u>(2,213,223)</u>
Amount due after one year	<u>930,673</u>	<u>536,901</u>
Total borrowings		
— At fixed rates	2,751,950	2,141,358
— At floating rates	<u>226,550</u>	<u>608,766</u>
	<u>2,978,500</u>	<u>2,750,124</u>
Analysis of borrowings by currency:		
— Denominated in RMB	2,892,230	2,750,124
— Denominated in EUR	<u>86,270</u>	<u>—</u>
	<u>2,978,500</u>	<u>2,750,124</u>

Fixed-rate borrowings are charged at the rates ranging from 2.00% to 6.30% per annum as at 31 December 2022 (2021: 2.70% to 7.80% 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 2022 was 4.52% per annum (2021: 4.72% per annum).

24. OTHER BORROWINGS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current:		
Borrowings from		
— Sale and leaseback obligations (<i>note i</i>)	350,134	238,566
— The spouse of a director	—	10,000
	<u>350,134</u>	<u>248,566</u>
Non-current:		
Borrowings from		
— Sale and leaseback obligations (<i>note i</i>)	403,003	250,072
— The Partnership (<i>note ii</i>)	50,315	50,315
	<u>453,318</u>	<u>300,387</u>
Total other borrowings	<u><u>803,452</u></u>	<u><u>548,953</u></u>

Notes:

- i During the year ended 31 December 2022, the Group entered into several sale and leaseback agreements with leasing companies for machinery and equipment (“**Secured Assets**”) amounting to RMB552,250,000 (2021: RMB411,000,000) for a period of 2–3 years (2021: 2–3 years). Upon maturity, the Group will be entitled to purchase the Secured Assets.

Nominal interest rates underlying all these contracts are at respective contract dates ranging from 4.34% to 7.26% (2021: 4.69% to 7.26%) per annum.

Sale and leaseback obligations of RMB753,137,000 (2021: RMB488,638,000) as at 31 December 2022 were secured by certain of the Group’s machineries, the total carrying amount of which at 31 December 2022 was RMB1,004,126,000 (2021: RMB606,308,000).

- ii In accordance with the Limited Partnership Agreement and Equity Investment Agreement, which were duly passed by way of poll at the extraordinary general meeting of the Company held on 28 December 2021, the Group would contribute up to approximately RMB395,000,000 in total to 濰坊市世紀陽光新舊動能轉換股權投資基金合夥企業(有限合夥)(Weifang City Century Sunshine Old-to-New Momentum Conversion Equity Investment Fund Partnership (Limited Partnership))* (the “**Partnership**”), while the Partnership would contribute up to RMB500,000,000 into the Group in exchange for a subsidiary’s shares. Details of the transaction are set out in the Company’s circular dated 10 December 2021. As at the year ended 31 December 2022, the Partnership has contributed approximately RMB251,500,000 (2021: RMB251,500,000) to the Group, which RMB50,315,000 (2021: RMB50,315,000) recorded as other borrowing. The Group has further approximately RMB196,315,000 (2021: RMB196,315,000) capital commitment to the Partnership.

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

25. SHARE CAPITAL

		Number of shares	Share capital HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 each			
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022		2,000,000,000	200,000
		<u>2,000,000,000</u>	<u>200,000</u>
	Number of shares	Share capital HK\$'000	Shown in the consolidated financial statements RMB'000
Issued and fully paid:			
At 1 January 2021	819,362,000	81,936	73,779
Placement of shares (<i>Note i</i>)	<u>85,802,000</u>	<u>8,580</u>	<u>7,165</u>
At 31 December 2021 and 1 January 2022	905,164,000	90,516	80,944
Allotment (<i>Note ii</i>)	115,652,359	11,565	9,463
Shares repurchased and cancelled (<i>Note iii</i>)	<u>(1,686,000)</u>	<u>(169)</u>	<u>(151)</u>
At 31 December 2022	<u>1,019,130,359</u>	<u>101,912</u>	<u>90,256</u>

Notes:

- (i) On 28 April 2021, the Company placed 85,802,000 placing shares at the placing price of HK\$1.5 per placing share. A share premium, net of issuing expenses, of approximately HK\$117,359,000 (equivalent to approximately RMB98,005,000) had credited to share premium account. The net proceeds of approximately HK\$125,939,000 (equivalent to approximately RMB105,170,000), after deduction of transaction costs of HK\$2,764,000 (equivalent to approximately RMB2,304,000), are intended to be used for the general working capital of the Group. Details of the placing of new shares were set out in the Company's announcements dated 8 April 2021 and 28 April 2021.
- (ii) During the year ended 31 December 2022, the Company acquired of 45% equity interest in the Top Speed Energy Holding Limited from an independent third party, which has become an associate company of the Company. The Company has settled the consideration by allotment of 115,652,359 ordinary shares of the Company at an issue price of HK\$2.329 amounting to approximately RMB220,386,000 (equivalent to approximately HK\$269,354,000) and by cash of RMB100,000,000.
- (iii) The Company repurchased its 1,686,000 ordinary shares of HK\$0.10 each at an aggregate consideration of HK\$169,000 (equivalent to approximately RMB151,000) during the year ended 31 December 2022 and all of these shares were then cancelled. The nominal value of the cancelled shares was credited to the capital redemption reserve. The premium paid on the repurchase shares was charged against the retained earnings.

BUSINESS REVIEW

In 2022, China's economy experienced tremendous downward pressure due to multiple unexpected factors at home and abroad, such as the resurgence of the Covid-19 pandemic and the impact of global geopolitical conflicts. The paper industry was under dual pressure from both upstream and downstream. Specifically, the supply chain disruption caused by the pandemic led to a significant increase in the prices of primary raw and auxiliary materials and energy; and insufficient demand from downstream consumers led to an impediment to price transmission to end users. According to the National Bureau of Statistics, the producer price index (PPI) of the paper and paper products industry increased by 0.6% year-on-year while the purchase price of industrial producers for the wood and pulp category increased by 4.5% year-on-year, resulting in a significant squeezing of the profit margins of enterprises in the industry and marking the industry's entry into the bottoming-out period.

In the face of a complex and severe economic situation throughout the year, the Group firmly believed that there are opportunities in times of crisis, just as there will be a "warm spring with blooming flowers" ahead after the "cold winter". With the unremitting efforts of all its cadres and employees under the leadership of its management, the Group adhered to the strategic policy of focusing on business operations and internal management, actively responded to the situation and continued to make innovations, successfully maintaining the steady operation of its existing business. Meanwhile, the Group continued to make breakthroughs in the research and development and application of new products and technologies this year. Thanks to a series of measures taken by the Group, the Group has consistently maintained competitive advantages amidst the new industrial conditions and fierce market competition, steadily improved its position in the industry, and achieved hard-won operating results.

The Group has been committed to enhancing its competitiveness in various aspects such as procurement, production, finance, sales and logistics. In response to the intensified market competition amidst the Covid-19 pandemic, the Group focused on leveraging its core customer resources to enhance its competitiveness in regional markets. The Group has expanded its market share and optimized its customer structure by taking specific measures such as re-analyzing the characteristics of regional markets, continuously strengthening its relationships with core customers, and developing targeted featured products. In the meantime, the Group continued to improve its manufacturing processes, optimize its financial structure, improve its logistics efficiency and optimize its supplier structure. These series of measures to reduce costs and increase efficiency have been unanimously recognised by customers, and have further enhanced the Company's profitability through refined management.

During the reporting period, the Group attached great importance to ecological environmental protection, actively fulfilled its social responsibilities, and continuously improved its governance level. By consistently adhering to its ESG principles, the Group has achieved high-quality development and won numerous accolades. In March 2023, the Group was officially included in the list of Leader in Water Efficiency among Key Water Consumption Enterprises and Industrial Parks in 2022 (2022年重點用水企業、園區水效領跑者名單) by the MIIT and other three ministries, with its various water efficiency indicators being at the top level among selected enterprises in the paper industry. The Group is also the first enterprise in Weifang to receive this honor. In terms of the established high-end packaging paper projects and the research and development of new products, the Group has always focused on core indicators such as resource utilization efficiency and recycling rate in order to minimize its environmental pollution. Meanwhile, the Group enhanced its corporate governance level by continuously improving its various rules and regulations on environmental protection and risk control mechanism during the reporting period.

In 2022, despite the numerous adverse factors such as the impact of the pandemic and weak downstream demand, the Group reported 1,950,000 tonnes of machine-made paper, representing an increase of 28% as compared to 1,520,000 tonnes for the corresponding period last year. The revenue increased to RMB9,538 million, representing an increase of 19.5% as compared to that for the corresponding period last year. These marked that the Group has achieved the production targets for sales volume and revenue set at the beginning of the year. Upholding the philosophy of “scientific, refined and efficient management” in internal management, the Company has demonstrated remarkable management capabilities amidst adverse production conditions and complex market environment. This can be evidenced by the fact that its “administrative expenses, selling expenses, and finance costs” accounted for 10.5% of its revenue, down by 1.9 percentage points from 12.4% for the corresponding period last year, and its inventory turnover rate was 8.4 times, up by 0.9 from 7.5 times for the corresponding period last year.

BUSINESS OUTLOOK

Although the risk of global economic recession and the impact of geopolitical conflicts will continue to exist in 2023, the Group believes that an orderly recovery will be the main theme this year and the industry is expected to enter a phase of sustained growth. Currently, the paper industry is witnessing the easing of the upward trend or a decrease in the prices of various raw materials, auxiliary materials and energy. This, coupled with smoother price transmission due to a gradual recovery of the demand from end-users driven by China’s full opening and policy stimulus, is likely to contribute to a recovery in the profits of papermaking enterprises. In the new year, the Group will seize the opportunity of market recovery to steadily increase the market share of its existing main products. Meanwhile, the Group will also focus on promoting specialty papers and bio-mechanical pulp, and continuously optimize its product mix, in an effort to enhance the profitability of the Company. In addition, the Company will continue to optimize its production processes by continuously enhancing its digital and intelligent level, thus comprehensively improving the management level of the Group.

The Group focuses on producing high-quality and multi-purposed packaging paper, including white top linerboard, coated-white top linerboard, core board and corrugated paper. It is also committed to satisfying the need of different customers by intensively cultivating the market under the differentiated development strategy at the same time. On the one hand, with the growing concentration in the industry due to the rising operating threshold of the paper industry, the Group's core product, coated-white top linerboard, is expected to further increase its market share for its advantage of large-scale production and outstanding product performance. On the other hand, with the recovery of market demand, the Group will continue to promote and sell corrugated paper in the market and unleash the production capacity of its corrugated paper project (phase II) to enhance its influence in regional and national markets. With a gradual boom in the industry, the Group is confident that it can continuously enhance its overall strength and industry position by leveraging its technical, product, brand, management and innovation advantages, thus achieving performance growth.

As an innovation-driven production enterprise led by a scientific research team, the Group continues to intensify its efforts in independent innovation and improvement of its research and development system. The Group has built a solid technological foundation for and accumulated practical experiences of innovating product development, production process and information systems. Following its continuing efforts and investments, the bio-mechanical pulp project (Phase I), of which the Group is in possession of all technology patents, has been put into operation and begins to expand production output.

MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue

Our Group's total revenue for FY2022 was approximately RMB9,538.2 million, representing an increase of approximately RMB1,556.0 million or 19.5% as compared to that of approximately RMB7,982.2 million for FY2021. The increase in revenue mainly resulted from the growth in sales quantity.

Sales of electricity and steam continued to account for a low single digit percentage of our Group's total revenue for FY2022.

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

	FY2022		FY2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Sales of paper products				
White top linerboard	1,954,014	20.5	1,790,888	22.4
Coated-white top linerboard	2,368,916	24.8	2,440,506	30.6
Core board	775,556	8.1	791,650	9.9
Corrugated paper	1,959,929	20.6	1,094,739	13.7
Specialised paper products	2,074,914	21.8	1,566,763	19.7
Sub-total of paper products	9,133,329	95.8	7,684,546	96.3
Sales of electricity and steam	404,900	4.2	297,685	3.7
	<u>9,538,229</u>	<u>100.0</u>	<u>7,982,231</u>	<u>100.0</u>

Cost of sales

Our cost of sales was around RMB8,374.1 million for FY2022, whereas the cost of sales for FY2021 was approximately RMB6,448.5 million. The increase in cost of sales was consistent with the increase in revenue, but higher than the increase in revenue. The significant increase in costs is mainly due to the increase in the cost of raw materials such as waste paper, wood pulp, coal, etc, leading to the decrease in the Group's gross profit and gross profit margin.

Gross profit and gross profit margin

Our gross profit decreased from approximately RMB1,533.7 million for FY2021 to approximately RMB1,164.1 million for FY2022. Gross profit margin for FY2022 was around 12.2%, representing a 7.0 percentage point decrease as compared to that of 19.2% for FY2021.

Other profit and loss items

Other income of approximately RMB318.0 million for FY2022 (FY2021: approximately RMB299.0 million) mainly comprised interest income of approximately RMB57.4 million (FY2021: approximately RMB47.5 million), rental income from an investment property and other properties of approximately RMB3.2 million (FY2021: approximately RMB3.4 million), government grants of approximately RMB246.0 million (FY2021: approximately RMB232.2 million), hotel and catering services income of approximately RMB3.1 million (FY2021: approximately RMB4.0 million) and logistics services income of approximately RMB8.3 million (FY2021: approximately RMB11.9 million).

Other gains of approximately RMB3.5 million for FY2022 (FY2021: other losses of approximately RMB66.1 million) mainly consisted of gain from sale of scrap materials of RMB7.1 million, loss on disposal and written off of property, plant and equipment of RMB12.4 million, net foreign exchange losses of RMB2.4 million, gain on change in fair value of financial assets at fair value through profit and loss of RMB241.2 million, impairment loss of investment in an associate of RMB245.8 million and other profit of RMB15.8 million.

Distribution and selling expenses recorded RMB401.8 million for FY2022 as compared to RMB339.6 million for the corresponding period last year. For FY2022, such expenses represented approximately 4.2% of the total revenue, as compared with approximately 4.3% of the total revenue for FY2021.

Administrative expenses recorded RMB429.5 million for FY2022 as compared to RMB499.4 million for the corresponding period last year. For FY2022, it accounted for approximately 4.5% of the total revenue, as compared with approximately 6.3% of the total revenue for FY2021.

Finance costs recorded approximately RMB169.3 million for FY2022 as compared to approximately RMB149.2 million for the corresponding period last year. For FY2022, it accounted for approximately 1.8% of the total revenue, as compared with approximately 1.9% of the total revenue for FY2021.

During 2022, there was a share of loss of a joint venture, Sunshine Oji (Shouguang) Specialty Paper Co., Ltd, of RMB44.1 million (FY2021: share of loss of a joint venture of RMB8.7 million) and a share of loss on an associate of RMB55.0 million.

Income tax expenses

Income tax expenses were approximately RMB124.3 million for FY2022 as compared to approximately RMB198.8 million for FY2021.

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 RMB205.7 million for FY2022, representing an decrease of approximately RMB350.9 million from approximately RMB556.6 million for FY2021.

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 FY2022, our Group continued to adopt a conservative approach to financial risk management.

Foreign exchange risks

As the functional and reporting currencies of our Group are Renminbi, there are significant foreign exchange differences arising from the translation of financial statements by individual companies. In addition, as our Group conducts business transactions which are principally denominated in Renminbi, the exchange rate risk at our Group's operational level is not significant. Nevertheless, the management continues to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when needed.

Working capital

Net current liabilities of our Group were approximately RMB1,237.4 million as at 31 December 2022, as compared to approximately RMB1,730.8 million as at 31 December 2021. Current ratio was 0.79 times and 0.71 times, respectively, as at 31 December 2022 and 31 December 2021.

Bank balances and cash, and restricted bank deposits were approximately RMB2,436.3 million as at 31 December 2022, as compared to approximately RMB2,123.1 million as at 31 December 2021.

Inventories were approximately RMB900.7 million as at 31 December 2022, as compared to approximately RMB1,088.2 million as at 31 December 2021. Inventory turnover was 43 days for FY2022, as compared to 49 days for FY2021.

Trade receivables were approximately RMB630.7 million as at 31 December 2022, as compared to approximately RMB527.7 million as at 31 December 2021. Trade receivables turnover for FY2022 was 22 days as compared to 24 days for FY2021.

Trade payables were approximately RMB1,108.0 million as at 31 December 2022, as compared to approximately RMB1,031.3 million as at 31 December 2021. Trade payables turnover for FY2022 was 47 days, as compared to 52 days for FY2021.

Cashflow

Net cash from operating activities amounted to approximately RMB546.4 million for FY2022 (FY2021: approximately RMB1,067.0 million).

Net cash used in investing activities amounted to approximately RMB1,132.6 million for FY2022 (FY2021: approximately RMB1,386.8 million), primarily representing the purchase of property, plant and equipment RMB337.2 million, and additions of deposits for acquisition of property, plant and equipment of RMB321.0 million, etc.

Net cash from financing activities amounted to approximately RMB607.5 million for FY2022 (FY2021: approximately RMB536.0 million), primarily attributable to interest paid of RMB203.0 million, the repayment of bank and other borrowings of RMB3,406.4 million, net proceeds from sale and leaseback transactions of RMB552.3 million and new bank borrowings raised of RMB3,337.1 million, and increase in discounted bills financing of RMB365.6 million etc.

The combined effect of the above resulted in a net increase in cash and cash equivalents of RMB21.3 million for FY2022 (FY2021: Net increase in cash and cash equivalents of RMB216.3 million).

Gearing ratio

Our net gearing ratio increased from approximately 29.6% as at 31 December 2021 to approximately 31.4% as at 31 December 2022. The increase in net gearing ratio was mainly driven by the increase in capital and reserves.

Capital expenditure

During FY2022, our capital expenditure was approximately RMB337.2 million (FY2021: RMB698.2 million), which mainly involved the purchase of property, plant and equipment.

Pledge of assets

For FY2022, the aggregate carrying amount of our assets pledged was approximately RMB3,833.0 million. (FY2021: approximately RMB2,571.0 million). The pledge of assets are mainly used for bank borrowings and other borrowings.

Capital commitments and contingent liabilities

Capital expenditure contracted for in the consolidated financial statements in respect of acquisition of property, plant and equipment, investment in a partnership and investment cost in an associate were approximately RMB3.7 million, RMB196.3 million and nil as at 31 December 2022 (FY2021: RMB82.2 million, RMB196.3 million and RMB250 million).

As at 31 December 2022, our Group had no material contingent liabilities.

Employees and remuneration policies

Our Group employed approximately 4,200 full-time employees in the PRC and Hong Kong as at 31 December 2022. The staff costs for FY2022 were approximately RMB442.3 million. The emolument policy of our Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Employees also receive certain welfare benefits. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets.

Notes to financial ratios:

- (1) Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.
- (2) Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant year divided by turnover of the relevant year and multiplied by 365 days.
- (3) Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days.
- (4) Current ratio equals current assets divided by current liabilities as of the end of the year.
- (5) Net gearing ratio equals total of bank borrowings, other borrowings and leases liabilities, 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 FY2022, the Company repurchased a total of 1,686,000 shares of HK\$0.1 per share through the Stock Exchange at an aggregate consideration of approximately HK\$3,602,620. All of the shares repurchased were cancelled on 1 March 2023.

Details of shares repurchased during FY2022 are set out as follows:

Date of repurchase	No. of shares Repurchased	Highest price per share (HK\$)	Lowest price per share (HK\$)	Aggregate consideration paid (HK\$'000)
29 December 2022	986,000	2.14	2.10	2,090
30 December 2022	<u>700,000</u>	2.17	2.14	<u>1,512</u>
	<u>1,686,000</u>			<u>3,602</u>

The Board believes that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during FY2022.

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 FY2022.

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 FY2022.

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 FY2022 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 FY2022 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.

CLOSURE OF REGISTER OF MEMBERS

In relation to the AGM

The register of members of our Company will be closed from 24 May 2023 to 31 May 2023, both days inclusive, for the purpose of determining entitlement to attend the annual general meeting to be held on 31 May 2023 (the "AGM"), during which no transfer of shares of our Company will be registered. The record date for entitlement to attend and vote at the AGM is 31 May 2023. 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 23 May 2023.

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 FY2022 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

Hong Kong, China, 30 March 2023

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*