玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by 6.0% to approximately RMB51,341.2 million.
- Gross profit margin increased by approximately 2% from 15.6% to 17.6%.
- **Profit attributable to equity holders of the Company was approximately RMB4,168.5 million increased by 7.5%.**
- **If the exchange losses on operating and financing activities (net of tax) of approximately RMB261.6 million were excluded, the profit attributable to equity holders of the Company increased by approximately 9.6%, to RMB4,430.1 million which was mainly driven by increase in profit margin.**
- The net borrowings to total equity ratio decreased to approximately 50.5%.
- Basic earnings per share increased by RMB0.06 to approximately RMB0.89, increased by 7.2%.
- **Proposed final dividend of RMB22.0 cents per share (equivalent to approximately HK25.1 cents).**
- **Dividend payout ratio was approximately 36.0% in FY2020 (FY2019: 33.8%).**

FINANCIAL RESULTS

The board of directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the year ended 30 June 2020 ("FY2020" or the "Year"), together with the comparative figures for the last financial year ("FY2019") as follows.

CONSOLIDATED INCOME STATEMENT

		For the year ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000* (Restated, *Note 2*)
Revenue	*5*	**51,341,190**	54,609,245
Cost of goods sold		**(42,313,896)**	(46,094,151)
Gross profit		**9,027,294**	8,515,094
Other income, other expenses and other gains — net		**619,269**	719,855
Exchange losses on operating activities — net		**(120,237)**	(82,880)
Selling and marketing costs		**(1,584,493)**	(1,605,266)
Administrative expenses		**(1,880,451)**	(1,723,380)
Operating profit		**6,061,382**	5,823,423
Finance costs — net		**(757,715)**	(933,202)
— Finance income	*7*	**126,268**	137,548
— Finance costs	*7*	**(883,983)**	(1,070,750)
Exchange losses on financing activities — net		**(149,279)**	(91,565)
Share of results of associates and a joint venture — net		**141,214**	59,269
Profit before income tax		**5,295,602**	4,857,925
Income tax expense	*8*	**(1,065,520)**	(956,811)
Profit for the year		**4,230,082**	3,901,114
Profit attributable to:			
— Equity holders of the Company		**4,168,455**	3,879,060
— Non-controlling interests		**61,627**	22,054
		4,230,082	3,901,114
Basic earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*9*	**0.89**	0.83
Diluted earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*9*	**0.89**	0.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated, *Note 2*)
Profit for the year	**4,230,082**	3,901,114
Other comprehensive income		
(items that may be reclassified to profit or loss)		
— Currency translation differences	**39,956**	11,420
Total comprehensive income for the year	**4,270,038**	3,912,534
Attributable to:		
— Equity holders of the Company	**4,197,857**	3,888,415
— Non-controlling interests	**72,181**	24,119
	4,270,038	3,912,534

CONSOLIDATED BALANCE SHEET

	Note	**30 June 2020** *RMB'000*	30 June 2019 *RMB'000* (Restated, *Note 2*)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**58,532,630**	55,945,290
Right-of-use assets	*11*	**1,664,201**	—
Land use rights	*11*	**—**	1,610,376
Intangible assets	*12*	**287,808**	277,562
Investments in associates and a joint venture		**130,421**	89,687
Prepayments		**232,384**	21,029
Deferred income tax assets		**51,774**	94,252
		60,899,218	58,038,196
Current assets			
Inventories	*13*	**5,245,724**	7,715,041
Trade and bills receivables	*14*	**4,596,702**	3,984,294
Other receivables and prepayments		**2,809,823**	3,370,571
Financial assets at fair value through profit or loss		**63,301**	60,565
Tax recoverable		**13,957**	23,663
Restricted cash		**95,601**	203,115
Short-term bank deposits		**35,788**	37,077
Cash and cash equivalents		**5,559,508**	8,339,494
		18,420,404	23,733,820
Total assets		**79,319,622**	81,772,016
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*15*	**480,531**	480,531
Share premium	*15*	**3,884,720**	3,884,720
Other reserves		**4,729,359**	5,563,471
Retained earnings		**31,276,011**	28,152,107
		40,370,621	38,080,829
Non-controlling interests		**425,774**	310,250
Total equity		**40,796,395**	38,391,079

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**30 June 2020**	30 June 2019
		RMB'000	*RMB'000*
			(Restated, *Note 2*)
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**18,361,282**	16,713,613
Other payables		**118,335**	106,695
Deferred income tax liabilities		**3,554,644**	3,189,475
		22,034,261	20,009,783
Current liabilities			
Borrowings	*16*	**7,926,241**	14,594,993
Trade and bills payables	*17*	**5,472,683**	5,680,241
Contract liabilities		**380,307**	239,404
Other payables		**2,123,008**	2,385,816
Current income tax liabilities		**586,727**	470,700
		16,488,966	23,371,154
Total liabilities		**38,523,227**	43,380,937
Total equity and liabilities		**79,319,622**	81,772,016

CASH FLOWS INFORMATION

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated, *Note 2*)
Profit for the year	**4,230,082**	3,901,114
Adjustments for non-cash items/income tax expense/other items with investing or financing cash flows effects/changes in working capital	**6,500,132**	7,174,971
Cash generated from operations	**10,730,214**	11,076,085
Income tax paid	**(532,421)**	(793,321)
Interest paid	**(1,249,086)**	(1,339,495)
Net cash generated from operating activities	**8,948,707**	8,943,269
Net cash used in investing activities	**(4,507,075)**	(6,100,922)
Net cash used in financing activities	**(7,222,906)**	(3,732,215)
Net decrease in cash and cash equivalents	**(2,781,274)**	(889,868)
Cash and cash equivalents at beginning of the year	**8,339,494**	9,195,900
Exchange gains on cash and cash equivalents	**1,288**	33,462
Cash and cash equivalents at end of the year	**5,559,508**	8,339,494

1. GENERAL INFORMATION

The Group is principally engaged in the manufacture and sales of packaging paper, printing and writing paper and high value specialty paper products and pulp.

The Company was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi thousand, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 22 September 2020.

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

2. BASIS OF PREPARATION

Merger accounting restatement

In July 2019, the Group acquired 100% interest of these companies, including Wiseland International Holdings Limited, Nine Dragons Packaging (Taicang) Co., Ltd, Nine Dragons Packaging (Dongguan) Co., Ltd, Nine Dragons Packaging (Tianjin) Co., Ltd, Nine Dragons Packaging (Chengdu) Co., Ltd, Skying Dragon Packaging Printing (Shenyang) Co., Ltd and Dongguan Zhangmutou Nine Dragons Packaging Co., Ltd, at an aggregate cash consideration of RMB594,243,000.

These companies are principally engaged in the production and sales of paper packaging and beneficially owned by the controlling shareholders of the Company.

The above acquisition is considered as business combination involving entities under common control and has been accounted for using merger accounting method, in accordance with the guidance set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. As a result, the consolidated balance sheet as at 1 July 2018 and 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended 30 June 2019 have been restated, in order to include the profits, assets and liabilities of the combining entities since the date of which first come under common control.

The effects of the merger accounting restatements described above on the consolidated balance sheet as at 30 June 2019 has resulted an increase in the Group's total assets by RMB1,008,147,000.

The effects of the merger accounting restatements described above on the consolidated income statement and the consolidated statement of comprehensive income for the year ended 30 June 2019 has resulted in a decrease in the Group's revenue of RMB38,201,000, an increase in the Group's profit attributable to the equity holders of the Company of RMB19,392,000 and an increase in the Group's total comprehensive income attributable to the equity holders of the Company of RMB19,392,000, respectively.

3. ACCOUNTING POLICIES

(a) New standards, amendments and interpretations to standards adopted by the Group

The following new standards, amendments and interpretations to standards are relevant and mandatory for the Group's financial year beginning on 1 July 2019:

HKFRS 16	Leases
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) 23	Uncertainty over income tax treatment
Annual improvements	HKFRS Standards 2015–2017 Cycle

Save for the impact of the adoption of HKFRS 16 disclosed below, the adoption of other amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

Adoption of HKFRS 16

The Group applied the modified retrospective approach to adopt HKFRS 16 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated balance sheet as at 30 June 2019, but are recognised in the opening balance sheet on 1 July 2019.

No significant impact on the Group's profit for the year ended 30 June 2020 as a result of adoption of HKFRS 16.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets — increase by RMB1,626,802,000, which were related to leases of land use rights and office buildings;
- land use rights — decrease by RMB1,610,376,000, which were related to leases of land use rights and reclassified to right-of-use assets;
- lease liabilities — increase by RMB16,426,000, which were related to leases of office buildings as details below.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019.

Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 30 June 2019	23,102
Discounted using the lessee's incremental borrowing rate of the date of initial application	16,426
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	—
Lease liabilities recognised as at 1 July 2019	16,426

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 July 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) New standards and amendments to standards relevant to the Group have been issued but are not effective

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 July 2019 and have not been early adopted by the Group:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of a Business[1]
Conceptual Framework (Revised)	Revised Conceptual Framework for Financial Reporting[1]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance contract[2]
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current[3]
HKFRS 3 (Amendments)	Reference to the Conceptual Framework[3]
HKAS 16 (Amendments)	Property, Plant and Equipment — Proceeds Before Intended Use[3]
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract[3]
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020 Cycle[3]
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture[4]

[1] Effective for annual periods beginning on or after 1 July 2020.
[2] Effective for annual periods beginning on or after 1 July 2021 originally but extended to 1 July 2023.
[3] Effective for annual periods beginning on or after 1 July 2022.
[4] Effective date to be determined.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of packaging paper, printing and writing paper and high value specialty paper products and pulp. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the directors of the Company regard that there is only one segment which is used to make strategic decisions.

The Group is domiciled in the People's Republic of China (the "PRC"). The revenue from external customers attributable to the PRC for the year ended 30 June 2020 is RMB45,870,672,000 (2019: RMB48,516,254,000), and the total of its revenue from external customers from other countries is RMB5,470,518,000 (2019: RMB6,092,991,000).

5. REVENUE

Revenue recognised during the Year are as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Sales of packaging paper	**44,519,172**	46,905,512
Sales of printing and writing paper	**5,780,483**	6,481,141
Sales of high value specialty paper products	**866,527**	994,297
Sales of pulp	**175,008**	228,295
	51,341,190	54,609,245

6. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Depreciation *(Note 11)*	**2,309,243**	2,160,555
Less: amounts charged to other expenses	**(5,012)**	(4,075)
	2,304,231	2,156,480
Amortisation of intangible assets *(Note 12)*	**21,706**	15,796
Less: amount capitalised in property, plant and equipment	**(721)**	(722)
	20,985	15,704
Employee benefit expenses	**3,147,627**	2,947,370
Changes in finished goods	**2,173,163**	(792,454)
Raw materials and consumables used	**35,781,987**	42,446,560
Amortisation of right-of-use assets and land use rights *(Note 11)*	**49,608**	40,853
Less: amount capitalised in property, plant and equipment	**(2,685)**	(2,014)
	46,923	38,839

7. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Finance income:		
Interest income from bank deposits	**126,268**	137,548
Finance costs:		
Interest on borrowings	**(1,022,558)**	(1,176,067)
Other incidental borrowing costs	**(86,163)**	(113,003)
Less: amounts capitalised on property, plant and equipment	**326,825**	279,749
	(781,896)	(1,009,321)
Other finance costs	**(102,087)**	(61,429)
	(883,983)	(1,070,750)

8. INCOME TAX EXPENSE

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Current income tax		
— PRC corporate income tax and withholding income tax *(Notes (a) and (b))*	**640,674**	523,310
— United States of America ("USA") income tax *(Note (c))*	**—**	11,422
— Socialist Republic of Vietnam ("Vietnam") income tax *(Note (d))*	**16,993**	5,858
— Hong Kong profits tax *(Note (e))*	**—**	—
	657,667	540,590
Deferred income tax		
— PRC corporate income tax and withholding income tax	**439,643**	384,992
— USA income tax	**(39,241)**	24,058
— Vietnam income tax	**7,451**	7,171
	407,853	416,221
	1,065,520	956,811

(a) PRC corporate income tax

The Group's subsidiaries in the mainland China are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the Group's financial year ended 30 June 2020 (2019: 15%).

(b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the mainland China to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding income tax rate of the intermediate holding company of the Company's mainland China subsidiaries for the year ended 30 June 2020 was 5% (2019: 5%).

(c) USA income tax

USA income tax has been provided at the federal corporate income tax rate and state income tax rate on the estimated assessable profit for the year ended 30 June 2020 in respect of operations in USA (2019: same).

(d) Vietnam income tax

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit for the year ended 30 June 2020 in respect of operations in Vietnam (2019: same).

(e) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2020 (2019: nil).

9. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2020	2019 (Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**4,168,455**	3,879,060
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,692,221**	4,681,076
Basic earnings per share *(RMB per share)*	**0.89**	0.83

— Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options.

For the year ended 30 June 2019, a calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of shares issued for no consideration.

	For the year ended 30 June	
	2020	2019
		(Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**4,168,455**	3,879,060
Weighted average number of ordinary shares for basic earnings per share *(shares in thousands)*	**4,692,221**	4,681,076
Adjustment for share options *(shares in thousands)*	**—**	4,204
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,692,221**	4,685,280
Diluted earnings per share *(RMB per share)*	**0.89**	0.83

10. DIVIDENDS

	For the year ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interim dividend, paid, of RMB10.0 cents (2019: RMB10.0 cents) per ordinary share	**469,222**	467,422
Final dividend, proposed, of RMB22.0 cents (2019: RMB18.0 cents) per ordinary share	**1,032,289**	844,600
	1,501,511	1,312,022

At a meeting held on 22 September 2020, the Board proposed a final dividend of RMB22.0 cents per ordinary share. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2021.

11. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LAND USE RIGHTS

	Property, plant and equipment *RMB'000*	Right-of-use assets *RMB'000*	Land use rights *RMB'000*
Year ended 30 June 2020			
Opening net book amount as at 1 July 2019 (originally stated)	**55,318,009**	**—**	**1,578,985**
Merger accounting restatement	**627,281**	**—**	**31,391**
Adjustment for change in accounting policy *(Note 3)*	**—**	**1,626,802**	**(1,610,376)**
Opening net book amount as at 1 July 2019 (Restated)	**55,945,290**	**1,626,802**	**—**
Additions	**4,822,328**	**85,220**	**—**
Disposals	**(72,188)**	**—**	**—**
Depreciation/amortisation *(Note 6)*	**(2,309,243)**	**(49,608)**	**—**
Exchange differences	**146,443**	**1,787**	**—**
Closing net book amount as at 30 June 2020	**58,532,630**	**1,664,201**	**—**
Year ended 30 June 2019			
Opening net book amount as at 1 July 2018 (originally stated)	51,121,444	—	1,482,967
Merger accounting restatement	455,402	—	32,544
Opening net book amount as at 1 July 2018 (restated)	51,576,846	—	1,515,511
Additions	6,246,665	—	135,611
Business combination	385,267	—	—
Disposals	(151,618)	—	—
Depreciation/amortisation *(Note 6)*	(2,160,555)	—	(40,853)
Exchange differences	48,685	—	107
Closing net book amount as at 30 June 2019 (restated)	55,945,290	—	1,610,376

Amortisation of RMB39,709,000, RMB7,214,000 and RMB2,685,000 (2019: RMB38,839,000, nil and RMB2,014,000) are charged to the "cost of goods sold" and "administrative expenses" of the consolidated income statement, and capitalised in construction in progress included in "property, plant and equipment", respectively.

12. INTANGIBLE ASSETS

	Year ended 30 June 2020
Opening net book amount as at 1 July 2019 (originally stated)	**271,082**
Merger accounting restatement	**6,480**
Opening net book amount as at 1 July 2019 (restated)	**277,562**
Additions	**31,547**
Amortisation *(Note 6)*	**(21,706)**
Exchange differences	**405**
Closing net book amount as at 30 June 2020	**287,808**

	Year ended 30 June 2019
Opening net book amount as at 1 July 2018 (originally stated)	231,382
Merger accounting restatement	1,177
Opening net book amount as at 1 July 2018 (restated)	232,559
Additions	60,966
Amortisation *(Note 6)*	(15,796)
Exchange differences	(167)
Closing net book amount as at 30 June 2019 (restated)	277,562

Amortisation of RMB20,985,000 and RMB721,000 (2019: RMB15,074,000 and RMB722,000) are charged to the "administrative expenses" and capitalised in construction in progress included in "property, plant and equipment", respectively.

13. INVENTORIES

	30 June 2020 ***RMB'000***	30 June 2019 *RMB'000* (Restated)
At cost:		
Raw materials	**3,436,654**	3,732,808
Finished goods	**1,809,070**	3,982,233
	5,245,724	7,715,041

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB42,313,896,000 for the Year (2019: RMB46,094,151,000).

14. TRADE AND BILLS RECEIVABLES

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
Trade receivables *(Note (a))*	**3,212,027**	2,846,136
Bills receivables *(Note (b))*	**1,384,675**	1,138,158
	4,596,702	3,984,294

(a) As at 30 June 2020, the ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
0-30 days	**2,678,816**	2,258,375
31-60 days	**450,463**	503,607
Over 60 days	**82,748**	84,154
	3,212,027	2,846,136

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are widely dispersed.

The Group's credit sales to customers are mainly entered into on credit terms of not more than 60 days.

(b) Bills receivables are mainly with maturity period of 90 to 180 days (2019: 90 to 180 days). Bills receivables as at 30 June 2020 represents the bank acceptance notes and commercial bills (2019: same).

15. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*	Equivalent nominal value of ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Issued and fully paid					
Year ended 30 June 2019					
Balance as at 1 July 2018	4,674,220,811	467,422	478,977	3,765,002	4,243,979
Issuance of shares upon the exercise of share options	18,000,000	1,800	1,554	119,718	121,272
Balance as at 30 June 2019	4,692,220,811	469,222	480,531	3,884,720	4,365,251
Year ended 30 June 2020					
Balance as at 1 July 2019 and 30 June 2020	4,692,220,811	469,222	480,531	3,884,720	4,365,251

16. BORROWINGS

	30 June 2020 ***RMB'000***	30 June 2019 *RMB'000* (Restated)
Non-current		
— Long-term bank and other borrowings	**18,361,282**	16,713,613
Current		
— Short-term bank borrowings	**7,261,823**	11,400,002
— Current portion of long-term bank and other borrowings	**664,418**	3,194,991
	7,926,241	14,594,993
Total borrowings	**26,287,523**	31,308,606

The maturity of the borrowings is as follows:

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
Within 1 year	**7,926,241**	14,594,993
Between 1 and 2 years	**10,606,088**	10,452,625
Between 2 and 5 years	**7,705,639**	6,212,866
Over 5 years	**49,555**	48,122
	26,287,523	31,308,606

17. TRADE AND BILLS PAYABLES

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
Trade payables *(Note (a))*	**2,291,829**	2,243,538
Bills payables	**3,180,854**	3,436,703
	5,472,683	5,680,241

(a) The ageing analysis of trade payables based on invoice date as at 30 June 2020 is as follows:

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
0–90 days	**2,123,924**	1,908,930
Over 90 days	**167,905**	334,608
	2,291,829	2,243,538

Trade payables are settled in accordance with agreed terms with suppliers.

18. CAPITAL COMMITMENTS

The Group has material capital commitments contracted but not provided for on property, plant and equipment as follows:

	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
		(Restated)
Not later than one year	**1,352,792**	1,666,755
Later than one year and not later than five years	**320,735**	434,617
	1,673,527	2,101,372

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

Strong financial position with increase in annual profit despite the pandemic

During the Year, the Chinese and global economy were hit by the ravaging COVID-19 pandemic. Supply chain and demand were severely twisted and market was highly volatile. The packaging paperboard industry in China could hardly remain unscathed. Production and raw material supply have been constrained for a certain period. Coupled with the Renminbi exchange rate fluctuation, the Group was posed with major challenges.

Despite all these challenges during the pandemic, with the Central Government's effective containment measures, all of the Group's plants resumed production swiftly thanks to the Group's leading position in the industry, the advantages it enjoyed in raw material procurement, and its effective management and control on pandemic prevention. Whilst sales momentum steadily recovered on a monthly basis in the second half of FY2020, sales volume for the Year reached a new record high of approximately 15.3 million tonnes. In terms of earnings, all of our profit parameters have improved across the board, thanks to our effective cost saving measures and flexible sales strategies, as well as other factors such as the cancellation of tariff and decrease in prices of raw materials. Among which, the gross profit and profit attributable to equity holders increased by 6.0% and 7.5% respectively, while the gross margin increased by 2.0 percentage points. In addition, the net gearing ratio of 50.5% was at the lowest level for the last decade; management efficiency in inventory and working capital were enhanced and cash flow remained strong.

During the Year, the Group added a total production capacity of 0.95 million tpa for paper manufacturing in Shenyang and Quanzhou. It has also set up a new base in Malaysia to produce recycled pulp. As at 30 June 2020, the Group's total design production capacity for paper and pulp globally amounted to 17.32 million tpa (of which 16.47 million tpa for paper, 0.85 million for recycled pulp and kraft pulp).

During the Year, the Group continued to drive innovation, research and development as well as training in order to strengthen in aspects of technology, product, environmental protection, safety and human resources management. As at 30 June 2020, the Group employed a total of 18,740 full-time staff and has obtained 649 patents, while 153 other patent applications or approvals are being processed.

Business Strategy and Development Plan

Enhancing the advantage in vertical integration of production chain

Following the imposition of zero import quota on recovered paper from 2021, the resulting supply gap in quality recovered paper would expand. In order to make up for the raw material supply gap, enhance the quality and quantity of our raw materials and ensure our competitive edge in production costs, we have put in capital expenditure to adjust our raw material mix, and expanded our domestic and overseas network for sourcing raw material substitutes. Currently, the Group has an overseas production capacity of 0.15 million and 0.70 million tpa for kraft pulp and recycled pulp respectively. Besides, with the strong support of the Jingzhou Municipal Government, Hubei Province, we are actively preparing for our first fully-integrated pulp and paper project in China, which is expected to include pulp production lines with a production capacity of 0.60 million tpa. In addition, we plan to add 0.60 million tpa of pulp in Shenyang. By the end of 2022, the total design production capacity for kraft pulp and recycled pulp of the Group is expected to exceed 2.0 million tpa.

In terms of paper production capacity expansion, we have newly added a total production capacity of 1.10 million tpa for linerboard in Hebei and Dongguan in the second half of 2020. In Malaysia, the production capacity of 0.55 million tpa for packaging paper is expected to commence production by the second quarter of 2022. Furthermore, we plan to increase 1.2 million tpa of production capacity for packaging paper in the Hubei pulp and paper base by the end of 2022. Upon completion of these capacity expansion projects, the Group's total design capacity for paper production is expected to reach 19.32 million tpa.

During the Year, the Group has acquired businesses of downstream packaging plants to produce corrugated cardboard and carton boxes, thereby unleashing the synergy proactively. Looking forward, we plan to add packaging facilities in our Chengdu and Chongqing packaging plants. We will also continue to enhance the production efficiency of the carton box plants, explore new customers and develop high value-added products to enhance the overall operational efficiencies at a faster pace, in order to contribute to the profitability of the Group.

Expanding customer base and maintaining products' high quality

Against the backdrop of the changing macro-environment and raw material supply, the Group is committed to expanding its customer base and product diversity, and further exploring the business opportunities in mid-to-low end markets while consolidating the mid-to-high end customer base. During the Year, our newly launched "River Dragon (江龍牌)" brand was well recognized by customers and hence drove up the sales volume and market share of the Group. Looking ahead, we will further adjust the product portfolio to meet the diverse market demands. In addition, we will strive to maintain the high quality of our products as quality is the foundation of sustainable development.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB51,341.2 million for FY2020, representing a decrease of approximately 6.0% as compared with FY2019. The major contributor of the Group's revenue was still its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 86.7% of the revenue, with the remaining revenue of approximately 13.3% generated from its printing and writing paper and high value specialty paper and pulp products.

The Group's revenue for FY2020 decreased by approximately 6.0% as compared with FY2019, resulting from the net-off effect of the increase in sales volume of approximately 8.5% and the decrease in selling price of approximately 13.4%. Revenue of linerboard, high performance corrugating medium, coated duplex board and printing and writing paper for FY2020 accounted for approximately 46.4%, 21.7%, 18.6% and 11.3% respectively of the total revenue, compared to 48.1%, 21.1%, 16.7% and 11.9% respectively in FY2019.

The Group's annual design production capacity in packaging paperboard, printing and writing paper, and high value specialty paper and pulp products as at 30 June 2020 was approximately 17.3 million tpa, comprising approximately 9.1 million tpa of linerboard, approximately 3.4 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper and approximately 1.1 million tpa high value specialty paper and pulp products. The four US mills capacity of approximately 1.3 million tpa, including of approximately 0.9 million tpa coated one-side, coated freesheet and coated groundwood grade for printing and writing paper and specialty paper products; and of approximately 0.4 million tpa recycled pulp and kraft pulp products.

The Group's sales volume reached approximately 15.3 million tonnes, increased by 8.5% as compared with 14.1 million tonnes in FY2019. The increase in sales volume was driven by approximately 1.2 million tonnes increase in China business.

The sales volume of linerboard, high performance corrugating medium and coated duplex board for FY2020 increased by approximately 6%, 16% and 15% respectively, while printing and writing paper for FY2020 decreased by approximately 8% as compared with those in FY2019.

The majority of the Group's revenue continued to be realised from the China market, in particular from the linerboard and high performance corrugating medium sectors. For FY2020, revenue related to China consumption represented 89.3% of the Group's total revenue, while the remaining revenue of 10.7% represented overseas sales to customers in other countries.

For FY2020, revenue from the Group's top five customers in aggregate accounted for approximately 6.7% (FY2019: 4.9%) of the Group's total revenue, with that to the single largest customer accounted for approximately 2.1% (FY2019: 1.4%).

Gross profit and Gross profit margin

The gross profit for FY2020 was approximately RMB9,027.3 million, an increase of approximately RMB512.2 million or 6.0% as compared with RMB8,515.1 million in FY2019. The gross profit margin increased from 15.6% in FY2019 to approximately 17.6% in FY2020, mainly due to the decrease in the cost of raw materials of recovered paper was much faster than the decrease in the selling price of the products for the year.

Selling and marketing costs

Selling and marketing costs decreased by approximately 1.3% from RMB1,605.3 million in FY2019 to approximately RMB1,584.5 million in FY2020. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.9% in FY2019 to approximately 3.1% in FY2020 with more geographical coverage.

Administrative expenses

Administrative expenses increased by approximately 9.1% from RMB1,723.4 million in FY2019 to approximately RMB1,880.5 million in FY2020 which was mainly contributed by additional management and administrative costs incurred to support the recently launched four new machines including Quanzhou and Shenyang bases which commenced production in July 2020, Dongguan base which commenced production in September 2020, and Hebei base which will soon commence production in the fourth quarter of 2020. As a percentage of Group's revenue, the administrative expenses increased from 3.2% in FY2019 to approximately 3.7% in FY2020.

Operating profit

The operating profit for FY2020 was approximately RMB6,061.4 million, representing an increase of approximately RMB238.0 million or 4.1% over FY2019. The operating profit margin increased from 10.7% in FY2019 to approximately 11.8% in FY2020 mainly due to the increase in gross profit margin of the Group.

Finance costs — net

The net finance costs for FY2020 decreased by approximately RMB175.5 million, or decreased by 18.8% from RMB933.2 million in FY2019 to approximately RMB757.7 million in FY2020. The decrease in finance cost was mainly contributed by the decrease in total borrowings of approximately RMB5,021.1 million to RMB26,287.5 million as at 30 June 2020 as compared with RMB31,308.6 million as at 30 June 2019 and the decrease of average interest rate from 3.9% in FY2019 to approximately 3.3% in FY2020.

Exchange losses on operating and financing activities — net

The exchange losses on operating and financing activities before tax for FY2020 in aggregation amounted to approximately RMB269.5 million (represented by exchange losses on operating activities and financing activities before tax of approximately RMB120.2 million and RMB149.3 million respectively), increased by approximately RMB95.0 million from RMB174.5 million in FY2019.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB261.6 million in FY2020 as compared to RMB164.7 million in FY2019.

Income tax expense

Income tax charged for the FY2020 amounted to approximately RMB1,065.5 million and increased by approximately 11.4% or RMB108.7 million as compared with FY2019 mainly due to the increase in profit before tax.

The Group's effective tax rate (income tax expense divided by profit before income tax for the Year) was approximately 20.1% in FY2020 as compared to 19.7% in FY2019.

Net profit

The profit attributable to equity holders of the Company increased from RMB3,879.1 million in FY2019 to approximately RMB4,168.5 million in FY2020. If the exchange losses on operating and financing activities (net of tax) of approximately RMB261.6 million were excluded, the profit attributable to equity holders of the Company for FY2020 increased by approximately 9.6%, to approximately RMB4,430.1 million due to increase in profit margin.

In FY2019, the profit attributable to equity holders of the Company was RMB4,043.8 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB164.7 million were excluded.

Dividend

In FY2020, the Group paid an interim dividend of RMB10.0 cents per share, which amounted to RMB469.2 million. The directors have proposed a final dividend of RMB22.0 cents per share, which will aggregate to approximately RMB1,032.3 million. The total dividend for the FY2020 amounted to RMB32.0 cents per share (RMB28.0 per share in FY2019). The dividend pay out ratio was approximately 36.0% in FY2020 (33.8% in FY2019).

Working capital

The level of inventory as at 30 June 2020 decreased by approximately 32.0% to approximately RMB5,245.7 million from RMB7,715.0 million as at 30 June 2019. Inventories mainly comprise of raw materials (mainly recovered paper, coal and spare parts) of approximately RMB3,436.7 million and finished goods of approximately RMB1,809.1 million.

In FY2020, raw material (excluding spare parts) turnover days remained relatively stable at approximately 24 days as compared with for FY2019 while the finished goods turnover days decreased to approximately 16 days as compared to 32 days for FY2019.

Trade and bills receivables as at 30 June 2020 were approximately RMB4,596.7 million, increased by approximately 15.4% from RMB3,984.3 million as at 30 June 2019. During FY2020, the turnover days of trade receivables were approximately 23 days which was within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB5,472.7 million as at 30 June 2020, decreased by approximately 3.7% from RMB5,680.2 million in FY2019. The turnover days of trade and bills payable were approximately 47 days for FY2020 as compared with 45 days for FY2019.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2020 primarily comes from its operating cash flows and bank borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

In terms of available financial resources as at 30 June 2020, the Group had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB5,690.9 million and total undrawn bank facilities of approximately RMB39,504.6 million.

As at 30 June 2020, the shareholders' funds were approximately RMB40,796.4 million, an increase of approximately RMB2,405.3 million from that as at 30 June 2019.

Debts Management

The Group's outstanding borrowings decreased by approximately RMB5,021.1 million from RMB31,308.6 million as at 30 June 2019 to approximately RMB26,287.5 million as at 30 June 2020. The short-term and long-term borrowings amounted to approximately RMB7,926.2 million and RMB18,361.3 million respectively, accounting for 30.2% and 69.8% of the total borrowings respectively. As at 30 June 2020, none of the Group's debts were on secured basis.

The net debt to total equity ratio of the Group decreased from 59.2% as at 30 June 2019 to approximately 50.5% as at 30 June 2020. The Board will closely monitor the Group's net debt to total equity ratio and reduce the borrowing gradually.

Treasury policies

The Group has established a treasury policy with the objective of achieving better control of treasury operations and lowering cost of funds. Therefore, funding for all its operations and foreign exchange exposure have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments will be used to hedge material exposure.

It is the policy of the Group not to enter into any derivative products for speculative activities.

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

This is accomplished by loan re-financing and negotiation. The Board will continue to closely monitor the Group's loan portfolio and compare the loan margin spread under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

(b) Minimise currency risk

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings and will consider arranging for monetary and interest rate hedge at appropriate time to mitigate the corresponding risk. As at 30 June 2020, total foreign currency borrowings amounted to the equivalent of approximately RMB15,500.4 million and loans denominated in RMB amounted to approximately RMB10,787.1 million, representing approximately 59.0% and 41.0% of the Group's borrowings respectively.

Cost of borrowing

The effective interest rates of long-term borrowings and short-term borrowings both were stable at approximately 3.0% per annum as at 30 June 2020 and approximately 3.6% and 3.4% per annum as at 30 June 2019. The gross interest and finance charges (including interest capitalised but before interest income and exchange losses on financing activities) decreased to approximately RMB1,210.8 million in FY2020 from RMB1,350.5 million in FY2019.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments during FY2020 were approximately RMB4,794.1 million. These capital expenditures were fully financed by internal resources and borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for machineries and equipments of approximately RMB1,673.5 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the expansion of the Group's production capacity and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

Contingencies

As at FY2020, the Group had no material contingent liabilities.

Future Outlook

While the global pandemic is getting more stable, we anticipate that social and economic activities will gradually resume to the norm in the year ahead. Despite great uncertainties remain, a series of stimulating measures and the policy of "Plastic Ban Order" launched by the Central Government will be significantly conducive to the demand for packaging paper. In the mid-to-long term, a tighter supply and rising cost of raw materials would pose more pressure on the operation of small and medium-sized paper manufacturers. As such, the edge of economy of scale of large paper manufacturing enterprises will further prevail.

Leveraging its competitive edges as the industrial leader, the Group is prepared to maintain the quality of products and stable raw material supply by consolidating the domestic raw materials supply and market. It will strive to expand its market share, maintain a healthy gearing ratio and sound cash flow management, with the ultimate target to enhance the overall profitability level.

DIVIDEND

An interim dividend of RMB10.0 cents (equivalent to approximately HK11.09 cents) per share for the six months ended 31 December 2019 (six months ended 31 December 2019: RMB10.0 cents) was paid to shareholders on 7 August 2020.

The Board has resolved to recommend the payment of a final dividend of RMB22.0 cents (equivalent to approximately HK25.1 cents) per share for FY2020, which are expected to be paid on or about Friday, 15 January 2021 subject to the approval of the forthcoming annual general meeting ("2020 AGM"). The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.87576 as at 22 September 2020 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2020 AGM will be held on or before 31 December 2020. A notice convening the 2020 AGM and the book closure of register of members, for the purpose of ascertaining shareholders' entitlement to attend the 2020 AGM and the proposed final dividend, will be published and despatched in the manner as required by the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2020.

AUDIT COMMITTEE REVIEW

The audit committee, which comprises three independent non-executive directors, has reviewed with Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group for the Year.

The consolidated financial statements of the Group for FY2020 have been reviewed by the audit committee, with the directors and the Company's auditor, PricewaterhouseCoopers.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices are fundamental to safeguarding interests of shareholders and other stakeholders and enhancing shareholder value.

During FY2020, the Group has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during FY2020, they were in compliance with provisions of the Model Code.

APPRECIATION

In addition to my gratitude to our management and staff, I would like to express my sincere appreciation to governments of various levels for providing a business-friendly environment that has allowed us to prosper and positively influence the lives of our employees while contributing to the success of our industry. We would also like to thank our shareholders, investors, bankers, customers and business partners for their support and look forward to sharing our continued success.

By Order of the Board
Nine Dragons Paper (Holdings) Limited
Cheung Yan
Chairlady

Hong Kong, 22 September 2020

As at the date of this announcement, the executive directors are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu, Mr. Zhang Lianpeng and Mr. Zhang Yuanfu; the independent non-executive directors are Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu.

* *For identification purposes only*