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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 2018**

FINANCIAL HIGHLIGHTS

- Sales increased by 34.8% to approximately RMB52,781.8 million.
- Gross profit rose by 45.2% to approximately RMB11,585.2 million.
- Gross margin increased from 20.4% to 21.9%.
- Profit attributable to equity holders was approximately RMB7,848.1 million increased by approximately 79.0%.
- The exchange losses on operating and financial activities (net of tax) decreased substantially by approximately RMB362.0 million or 94.6% to approximately RMB20.7 million.
- If the exchange losses on operating and financing activities (net of tax) of approximately RMB20.7 million were excluded, the profit attributable to equity holders of the Company increased by approximately 65.1%, to approximately RMB7,868.8 million due to a substantial increase in the selling price of the products and a better profit margin of the Group.
- The net borrowings to total equity ratio decreased to approximately 65.3%.
- Basic earnings per share increased by RMB0.74 to approximately RMB1.68.
- Proposed final dividend of RMB40.0 cents per share (equivalent to approximately HK45.8 cents).
- Dividend payout ratio was approximately 29.8%.

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the year ended 30 June 2018 (“FY2018” or the “Year”), together with the comparative figures for the last financial year (“FY2017”).

CONSOLIDATED INCOME STATEMENT

		For the year ended 30 June	
		2018	2017
	<i>Note</i>	RMB'000	RMB'000
Sales	2	52,781,754	39,154,808
Cost of goods sold		<u>(41,196,507)</u>	<u>(31,178,547)</u>
Gross profit		11,585,247	7,976,261
Other income, other expenses and other losses — net		1,101,681	681,674
Exchange gains/(losses) on operating activities — net		89,408	(117,037)
Selling and marketing costs		(1,115,105)	(837,882)
Administrative expenses		<u>(1,226,499)</u>	<u>(1,142,334)</u>
Operating profit		10,434,732	6,560,682
Finance costs, net		(921,423)	(959,266)
— Finance income	4	102,876	106,689
— Finance costs	4	(1,024,299)	(1,065,955)
Exchange losses on financing activities — net		(98,620)	(282,588)
Share of profit of an associate and a joint venture — net		<u>136,603</u>	<u>116,170</u>
Profit before income tax		9,551,292	5,434,998
Income tax expense	5	<u>(1,690,041)</u>	<u>(1,025,364)</u>
Profit for the year		<u>7,861,251</u>	<u>4,409,634</u>
Profit attributable to:			
— Equity holders of the Company		7,848,075	4,383,668
— Non-controlling interests		<u>13,176</u>	<u>25,966</u>
		<u>7,861,251</u>	<u>4,409,634</u>
Basic earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	6	<u>1.6790</u>	<u>0.9387</u>
Diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	6	<u>1.6752</u>	<u>0.9372</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	7,861,251	4,409,634
Other comprehensive income:		
<i>(items that may be reclassified subsequently to profit or loss)</i>		
Currency translation differences	<u>(7,098)</u>	<u>3,690</u>
Total comprehensive income for the year	<u>7,854,153</u>	<u>4,413,324</u>
Attributable to:		
— Equity holders of the Company	7,845,928	4,385,969
— Non-controlling interests	<u>8,225</u>	<u>27,355</u>
	<u>7,854,153</u>	<u>4,413,324</u>

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	8	51,121,444	46,415,144
Land use rights	8	1,482,967	1,520,792
Intangible assets	9	231,382	230,664
Investments in an associate and a joint venture		176,188	119,749
Other receivables and prepayments		21,305	21,305
Deferred income tax assets		85,249	2,425
		<u>53,118,535</u>	<u>48,310,079</u>
Current assets			
Inventories	10	6,691,091	4,679,114
Trade and bills receivables	11	5,998,275	5,399,248
Other receivables and prepayments		2,979,699	1,220,678
Tax recoverable		9,950	50,103
Restricted cash		—	24,000
Short-term bank deposits		—	10,833
Cash and cash equivalents		9,044,707	6,472,756
		<u>24,723,722</u>	<u>17,856,732</u>
Total assets		<u><u>77,842,257</u></u>	<u><u>66,166,811</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	478,977	478,977
Share premium	12	3,765,002	8,765,002
Other reserves		6,457,327	1,539,236
Retained earnings		25,278,150	18,965,490
		<u>35,979,456</u>	<u>29,748,705</u>
Non-controlling interests		<u>286,131</u>	<u>336,084</u>
Total equity		<u><u>36,265,587</u></u>	<u><u>30,084,789</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>13</i>	14,571,089	16,832,996
Deferred income tax liabilities		2,772,576	2,433,172
Other payables		90,767	—
		<u>17,434,432</u>	<u>19,266,168</u>
Current liabilities			
Borrowings	<i>13</i>	18,141,114	12,116,126
Trade and bills payables	<i>14</i>	3,172,672	2,291,195
Other payables and advance from customers		2,122,238	1,842,678
Current income tax liabilities		706,214	565,855
		<u>24,142,238</u>	<u>16,815,854</u>
Total liabilities		<u>41,576,670</u>	<u>36,082,022</u>
Total equity and liabilities		<u>77,842,257</u>	<u>66,166,811</u>

CASH FLOWS INFORMATION

	For the year ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	7,861,251	4,409,634
Adjustments for non-cash items/income tax expense/other items with investing or financing cash flows effects/changes in working capital	<u>2,929,908</u>	<u>839,261</u>
Cash generated from operations	10,791,159	5,248,895
Income tax paid	(1,252,842)	(627,517)
Interest paid	<u>(1,138,026)</u>	<u>(1,108,075)</u>
Net cash generated from operating activities	8,400,291	3,513,303
Net cash used in investing activities	(7,375,845)	(3,166,399)
Net cash generated from/(used in) financing activities	<u>1,582,847</u>	<u>(4,843,982)</u>
Net increase/(decrease) in cash and cash equivalents	2,607,293	(4,497,078)
Cash and cash equivalents at beginning of the year	6,472,756	11,002,470
Exchange losses on cash and cash equivalents	<u>(35,342)</u>	<u>(32,636)</u>
Cash and cash equivalents at end of the year	<u>9,044,707</u>	<u>6,472,756</u>

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group is mainly engaged in the manufacture and sale of packaging paper, recycled printing and writing paper and high value specialty paper products principally in the People's Republic of China (the "PRC").

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 (the "Stock Exchange").

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 18 September 2018.

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

(a) Amended standards adopted by the Group

The following amendments to standards are relevant and mandatory for the Group's financial year beginning on 1 July 2017. The adoption of these amended standards do not have any significant impact to the results and financial position of the Group.

HKAS 7 (Amendment)	Changes in Liabilities Arising from Financial Activities
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

(b) New and amended standards and interpretations not yet adopted

The following new and amended standards and interpretations relevant to the Group have been issued but are not effective for the financial year beginning 1 July 2017 and have not been early adopted by the Group:

HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 9	Financial Instruments ¹
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions ¹
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures ¹
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration ¹
HKFRS 16	Leases ²
HK(IFRIC) 23	Uncertainty over Income Tax Treatments ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 July 2018.

² Effective for annual periods beginning on or after 1 July 2019.

³ Effective date to be determined.

The above new and amended standards and interpretations will be adopted in the years listed and the Group is in the process of assessing the impact on future accounting periods.

2. SALES AND SEGMENT INFORMATION

Sales recognised during the Year are as follows:

	For the year ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of packaging paper	49,741,364	36,722,348
Sales of recycled printing and writing paper	2,706,576	2,181,592
Sales of high value specialty paper products	333,814	250,868
	<u>52,781,754</u>	<u>39,154,808</u>

Segment information

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

3. OPERATING PROFIT

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

	For the year ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation (<i>Note 8</i>)	2,044,487	2,019,894
Less: amount charged to other expenses	(4,075)	(3,536)
	2,040,412	2,016,358
Amortisation of intangible assets (<i>Note 9</i>)	6,816	7,779
Employee benefit expenses	1,808,421	1,610,104
Changes in finished goods	(1,044,913)	(816,562)
Raw materials and consumables used	38,587,323	28,585,959
Operating leases		
— Land use rights (<i>Note 8</i>)	37,581	41,657
— Buildings	3,033	3,158
	<u>37,581</u>	<u>3,158</u>

4. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>102,876</u>	<u>106,689</u>
Finance costs:		
Interest on borrowings	(1,036,451)	(968,111)
Other incidental borrowing costs	(122,463)	(109,854)
Less: amounts capitalised on property, plant and equipment	<u>135,934</u>	<u>56,398</u>
	(1,022,980)	(1,021,567)
Bills discount charge	(1,319)	(45,494)
Gain on currency and interest rate swap contracts and foreign exchange option contracts	<u>—</u>	<u>1,106</u>
	<u>(1,024,299)</u>	<u>(1,065,955)</u>

5. INCOME TAX EXPENSE

	For the year ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	1,433,354	755,081
— Hong Kong profits tax (Note (c))	<u>—</u>	<u>—</u>
	1,433,354	755,081
Deferred income tax		
— PRC corporate income tax and withholding income tax	<u>256,687</u>	<u>270,283</u>
	<u>1,690,041</u>	<u>1,025,364</u>

(a) PRC corporate income tax

The Group's subsidiaries in the PRC 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 2018 (2017: 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 PRC 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 PRC 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 PRC subsidiaries for the year ended 30 June 2018 was 5% (2017: 5%).

(c) 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 2018 (2017: nil).

6. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>7,848,075</u>	<u>4,383,668</u>
Weighted average number of ordinary shares in issue (<i>shares in thousands</i>)	<u>4,674,221</u>	<u>4,669,721</u>
Basic earnings per share (<i>RMB per share</i>)	<u>1.6790</u>	<u>0.9387</u>

— 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 2018, 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 (2017: same).

	For the year ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company <i>(RMB'000)</i>	<u>7,848,075</u>	<u>4,383,668</u>
Weighted average number of ordinary shares for basic earnings per share <i>(shares in thousands)</i>	4,674,221	4,669,721
Adjustment for share options <i>(shares in thousands)</i>	<u>10,694</u>	<u>7,699</u>
Weighted average number of ordinary shares for diluted earnings per share <i>(shares in thousands)</i>	<u>4,684,915</u>	<u>4,677,420</u>
Diluted earnings per share <i>(RMB per share)</i>	<u>1.6752</u>	<u>0.9372</u>

7. DIVIDENDS

	For the year ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend, paid, of RMB10.0 cents (2017: RMB5.0 cents) per ordinary share	467,422	233,711
Final dividend, proposed, of RMB40.0 cents (2017: RMB25.0 cents) per ordinary share	<u>1,869,688</u>	<u>1,168,555</u>
	<u>2,337,110</u>	<u>1,402,266</u>

At a meeting held on 18 September 2018, the Board proposed a final dividend of RMB40.0 cents per ordinary share. This 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 2019.

8. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment <i>RMB'000</i>	Land use rights <i>RMB'000</i>
Year ended 30 June 2018		
Opening net book amount	46,415,144	1,520,792
Additions	6,175,020	—
Business combination (Note 16)	808,340	—
Disposals	(203,576)	—
Depreciation/amortisation (Note 3)	(2,044,487)	(37,581)
Exchange differences	(28,997)	(244)
	<u>51,121,444</u>	<u>1,482,967</u>
Closing net book amount as at 30 June 2018		
Year ended 30 June 2017		
Opening net book amount	44,860,821	1,521,765
Additions	3,768,803	40,730
Disposals	(180,581)	(156)
Depreciation/amortisation (Note 3)	(2,019,894)	(41,657)
Exchange differences	(14,005)	110
	<u>46,415,144</u>	<u>1,520,792</u>
Closing net book amount as at 30 June 2017		

9. INTANGIBLE ASSETS

	<i>RMB'000</i>
Year ended 30 June 2018	
Opening net book amount as at 1 July 2017	230,664
Business combination (Note 16)	1,330
Addition	6,926
Amortisation (Note 3)	(7,538)
	<u>231,382</u>
Closing net book amount as at 30 June 2018	
Year ended 30 June 2017	
Opening net book amount as at 1 July 2016	245,275
Addition	8,890
Amortisation (Note 3)	(8,501)
Impairment	(15,000)
	<u>230,664</u>
Closing net book amount as at 30 June 2017	

Amortisation of RMB6,816,000 and RMB722,000 (2017: RMB7,779,000 and RMB722,000) are charged to the “administrative expense” and capitalised in construction in progress included in “property, plant and equipment”, respectively.

10. INVENTORIES

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
At cost:		
Raw materials	3,619,336	2,849,572
Finished goods	3,071,755	1,829,542
	<u>6,691,091</u>	<u>4,679,114</u>

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB41,196,507,000 for the Year (2017: RMB31,178,547,000).

11. TRADE AND BILLS RECEIVABLES

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
Trade receivables (<i>Note (a)</i>)	4,071,572	3,074,962
Bills receivable (<i>Note (b)</i>)	1,926,703	2,324,286
	<u>5,998,275</u>	<u>5,399,248</u>

(a) As at 30 June 2018, the ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
0-30 days	3,333,571	2,730,132
31-60 days	652,995	335,500
Over 60 days	85,006	9,330
	<u>4,071,572</u>	<u>3,074,962</u>

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 within the PRC.

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 (2017: 90 to 180 days). Bills receivables as at 30 June 2018 represents the bank acceptance notes and commercial bills (2017: same).

12. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Issued and fully paid					
Year ended 30 June 2018					
Balance as at 1 July 2017	4,674,220,811	467,422	478,977	8,765,002	9,243,979
Reduction of share premium and transfer to contributed surplus (Note (a))	—	—	—	(5,000,000)	(5,000,000)
Balance as at 30 June 2018	<u>4,674,220,811</u>	<u>467,422</u>	<u>478,977</u>	<u>3,765,002</u>	<u>4,243,979</u>
Year ended 30 June 2017					
Balance as at 1 July 2016	4,666,220,811	466,622	478,272	8,730,315	9,208,587
Issuance of shares upon the exercise of share options	8,000,000	800	705	34,687	35,392
Balance as at 30 June 2017	<u>4,674,220,811</u>	<u>467,422</u>	<u>478,977</u>	<u>8,765,002</u>	<u>9,243,979</u>

- (a) A reduction of RMB5,000,000,000 standing to the credit of the share premium account of the Company and the transfer such amount to the contributed surplus account was approved by the shareholders at the annual general meeting on 18 December 2017.

13. BORROWINGS

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	<u>14,571,089</u>	<u>16,832,996</u>
Current		
— Short-term bank borrowings	14,841,529	9,843,130
— Current portion of long-term bank and other borrowings	3,299,585	1,873,196
— Current portion of medium-term notes	<u>—</u>	<u>399,800</u>
	<u>18,141,114</u>	<u>12,116,126</u>
Total borrowings	<u><u>32,712,203</u></u>	<u><u>28,949,122</u></u>

The maturity of the borrowings is as follows:

	30 June 2018 Bank and other borrowings <i>RMB'000</i>
Within 1 year	18,141,114
Between 1 and 2 years	7,397,162
Between 2 and 5 years	6,547,829
Over 5 years	<u>626,098</u>
	<u><u>32,712,203</u></u>

	30 June 2017		
	Bank and other borrowings <i>RMB'000</i>	Medium- term notes <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	11,716,326	399,800	12,116,126
Between 1 and 2 years	9,530,511	—	9,530,511
Between 2 and 5 years	7,054,034	—	7,054,034
Over 5 years	248,451	—	248,451
	<u>28,549,322</u>	<u>399,800</u>	<u>28,949,122</u>

14. TRADE AND BILLS PAYABLES

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
Trade payables (<i>Note (a)</i>)	2,918,844	1,438,397
Bills payables	<u>253,828</u>	<u>852,798</u>
	<u>3,172,672</u>	<u>2,291,195</u>

(a) As at 30 June 2018, the ageing analysis of trade payables based on invoice date is as follows:

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
0–90 days	1,913,973	1,404,215
91–180 days	607,318	17,693
181–365 days	380,205	11,475
Over 365 days	<u>17,348</u>	<u>5,014</u>
	<u>2,918,844</u>	<u>1,438,397</u>

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

15. COMMITMENTS

(a) Capital commitments

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

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
Not later than one year	3,976,565	3,778,224
Later than one year and not later than five years	515,504	516,731
	<u>4,492,069</u>	<u>4,294,955</u>

(b) Operating lease commitments — where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in relation to land and buildings are as follows:

	30 June 2018 <i>RMB'000</i>	30 June 2017 <i>RMB'000</i>
Not later than one year	3,271	7,023
Later than one year and not later than five years	7,323	2,055
Later than five years	14,932	15,409
	<u>25,526</u>	<u>24,487</u>

16. BUSINESS COMBINATION

The Group acquired 100% equity interests in ND Paper Inc. (formerly known as Catalyst Paper Operations Inc.) from an independent third party during the year ended 30 June 2018 (the “Acquisition”). The Acquisition was completed on 29 June 2018 (the “Acquisition Date”).

ND Paper Inc., which was incorporated in the state of Delaware, the United States of America (the “U.S.”), owns and operates two mills located in Rumford, Maine and Biron, Wisconsin, engaging in the business of manufacturing and distributing various types of pulp, paper and paper-based packaging materials.

The acquired businesses did not contribute material revenue or profit to the Group for the period from the Acquisition Date to 30 June 2018. Had the business combination been completed at 1 July 2017, the consolidated pro-forma revenue for the year ended 30 June 2018 would have increased by not more than 10%, while impact to the consolidated pro-forma profit for the year ended 30 June 2018 would not have been material.

Set out below are the summarised information of the Acquisition.

	<i>RMB'000</i>
Purchase considerations — cash	1,185,631
Less: Fair value of total identifiable net assets acquired	<u>(1,185,631)</u>
Goodwill	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

As the largest containerboard manufacturer in Asia, ND Paper is primarily engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as the production and sale of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) and specialty paper. The Group employs advanced, highly automated imported equipment and systems for production, and has a highly proficient, service-oriented sales team to address the needs of its extensive network of customers. The Group also owns two fully-integrated pulp and paper mills in the USA.

During the Year, the Chinese government tightened control on the quota and quality of imported recovered paper, resulting in extreme volatility in the supply of imported recovered paper and prices of domestic recovered paper. Nevertheless, as the government exercised more rigorous measures in environmental inspection and enforcement, while much stricter approval requirements also limited the number of new capacities entering the market, supply-demand orders in the packaging paperboard market continued to improve, allowing the Group to adjust its product pricing in response to recovered paper price fluctuations in a timely manner. Such pricing power has enabled the Group to stabilize at a reasonable profitability level amidst a challenging market environment. The Group's proactive strategy to achieve the appropriate balance among selling prices, sales volume and inventory levels for optimal profitability was effective, resulting in historical high sales revenue and profits during the Year.

The Group purchases its supplies and equipment in accordance with government policy and market conditions. Although the import of recovered paper into China has become more restrictive during the Year, the Group was still able to maintain a flexible procurement strategy that is based on the selection and purchase of raw materials offering the most optimal cost-value relationship by closely monitoring the market supply and price trends of different sources. As a large buyer of recovered paper in the market, the Group is able to secure relatively larger government import quota and leverage effectively on various overseas and domestic channels of recovered paper supply, thus allowing optimization of its raw material costs even during periods of price fluctuations. During the Year, the purchase value of domestic recovered paper accounted for approximately 66% of the total value of the Group's purchase of recovered paper.

During the Year, PM2(VN) at the Vietnam base commenced production in August 2017 and went into commercial production in January 2018. With an annual design production capacity of 350,000 tonnes for linerboard products, this new paper machine has brought the Group's total annual design production capacity to 14.08 million tonnes.

In June 2018, the Group acquired two fully-integrated pulp and paper mills in the USA, further increasing the Group's total annual production capacity to approximately 15 million tonnes. The mill in Rumford, Maine operates three paper production lines, with a combined annual production capacity of 550,000 tonnes, which are capable of producing coated one-side, coated freesheet and coated groundwood grades. With two kraft pulping lines and a dryer, the mill has a combined annual pulping capacity of 520,000 tonnes for kraft pulp, both hardwood and softwood, of which 400,000 tonnes are for internal consumption and the rest of 120,000 tonnes are for market. The mill in Biron, Wisconsin operates two paper production lines, with a combined annual production capacity of 340,000 tonnes producing coated groundwood grades. While these mills provide cost competitive quality products to their established customer base, the acquisition represents an upstream integration of the Group's current business and is an important step in the Group's international development and global fiber sourcing strategy, with access to high quality virgin fiber and synergies, including cost savings, expected to be generated within the existing raw material sourcing and production processes of the Group.

The Group continued as the industry leader in environmental governance and compliance, and has successfully completed the necessary government environmental assessment and approval. Its production bases in China have been named "Environmental Credible Enterprise" by local environmental authorities for consecutive years, and continued to obtain ISO 14001 certification for environmental management systems and certification for clean production.

The Group's leadership position in the industry is also reflected in its technological differentiation and innovation in the various aspects of management, technology, products, environmental management, etc. To date, 449 patents have been obtained and another 189 patent applications or approvals are being processed.

As at June 30, 2018, the Group's operations in China and Vietnam employed a total of approximately 17,000 full-time staff and continued to obtain OHSAS 18001 certification for its occupational health and safety management system at its production bases. Its operations in the USA had approximately 1,000 employees.

Business Strategy and Development Plan

ND Paper has built an enormous production, sales, procurement and logistics platform with an efficient cost structure in the packaging paperboard market in China, offering its extensive network of customers a one-stop shop for a complete range of products and excellence in pre- and after-sales services. While the Group is already enjoying competitive advantages in various aspects, it also maintains continuous efforts in enhancing its existing operations, e.g. equipment upgrading, efficiency improvements, cost controls and environmental standards. It has developed a comprehensive and effective information system for intelligent management, progressing towards the goals of "informatization, automation and intelligentization".

In a market that is changing in response to tighter recovered paper import policy in China, the Group proactively explores and implements upstream developments globally in order to ensure a stable, reliable and cost efficient supply of raw material for its enormous production platform. Various short- and long-term measures are being taken, e.g. driving higher recovered paper supply quality and utilization efficiency, enhancing cost efficiency of raw materials, strengthening logistics supports, employing equally cost effective fiber alternatives, development of recycled pulp production overseas, locating virgin pulp projects, etc. In August 2018, a wholly-owned subsidiary of the Company in the USA entered into an agreement in relation to the acquisition of a recycled pulp mill in Fairmont, West Virginia, USA. The mill has an annual production capacity between 220,000 and 250,000 tonnes and is one of three pulp mills in the world that produce air-dried recycled pulp. Upon completion, this acquisition is expected to allow the Group to gain access to high quality recycled pulp and diversify its manufacturing base.

As for the Group's development in its core business in the Chinese packaging paperboard market, the construction plan of the following five new paper machines at existing production bases continued to progress during the Year:

Production Base	Product	Design Capacity	Target Commencement Date
Chongqing (Phase III)	Linerboard	550,000 tpa	4th quarter of 2018
Quanzhou (Phase II)	Linerboard	350,000 tpa	2nd quarter of 2019
Hebei (Phase II)	Linerboard	500,000 tpa	2nd quarter of 2019
Shenyang (Phase II)	Linerboard	600,000 tpa	2nd quarter of 2019
Dongguan	Linerboard	600,000 tpa	3rd quarter of 2019

Upon completion of all the above-mentioned projects, the Group's total design production capacity is expected to be approximately 18 million tpa.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB52,781.8 million for FY2018, representing an increase of approximately 34.8% as compared with FY2017. 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 94.2% of the revenue, with the remaining revenue of approximately 5.8% generated from its recycled printing and writing paper and high value specialty paper products business.

The Group's revenue for FY2018 increased by approximately 34.8% as compared with FY2017, mainly driven by the increase in the selling price of the products. Revenue of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for FY2018 accounted for approximately 52.2%, 23.7%, 18.4% and 5.1% respectively of the total revenue, compared to 49.9%, 23.1%, 20.8% and 5.6% respectively in FY2017.

The Group's annual design production capacity in packaging paperboard, recycled printing and writing paper and the two US mills products as at 30 June 2018 was approximately 15.0 million tpa, comprising approximately 7.6 million tpa of linerboard, 3.4 million tpa of high performance corrugating medium, 2.6 million tpa of coated duplex board, approximately 0.5 million tpa of recycled printing and writing paper and the two US mills products of approximately 0.9 million tpa (including coated one-side, coated freesheet and coated groundwood grades) after the completion of acquisition on 29 June 2018. The Group's total sales volume of packaging paperboard products and recycled printing and writing paper remained stable at approximately 13.0 million tonnes in FY2018 and FY2017.

The sales volume of linerboard for FY2018 increased by approximately 2.9%, while the sale volume of high performance corrugating medium remained stable for FY2018 as compared with FY2017, and the coated duplex board and recycled printing and writing paper for FY2018 decreased by approximately 6.9% and 3.8% respectively as compared with FY2017.

The majority of the Group's sales continued to be realised from the domestic market, in particular from the linerboard and high performance corrugating medium sectors. For FY2018, revenue related to domestic consumption represented 97.0% of the Group's total revenue, while the remaining revenue of 3.0% were sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2018, sales to the Group's top five customers in aggregate accounted for approximately 4.4% (FY2017: 4.2%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.1% (FY2017: 1.1%).

Gross profit

The gross profit for FY2018 was approximately RMB11,585.2 million, an increase of approximately RMB3,608.9 million or 45.2% as compared with RMB7,976.3 million in FY2017. The gross profit margin increased from 20.4% in FY2017 to approximately 21.9% in FY2018, mainly contributed by the increase in the selling price of the products while sales volume remained stable.

Other income, other expenses and other losses — net

Other income, other expenses and other losses (net) increased by approximately 61.6%, from RMB681.7 million in FY2017 to approximately RMB1,101.7 million in FY2018. The major contributor of the increase was derived from the value added tax refund increased by approximately RMB282.4 million to approximately RMB914.4 million pursuant to the preferential value added tax ("VAT") policies collectively issued by the Ministry of Finance and the PRC State Administration of Taxation. The Group's VAT paid in relation to the production and sales of paper products using the recovered paper as major raw materials were eligible for a fifty percent refund.

Selling and marketing costs

Selling and marketing costs were approximately RMB1,115.1 million in FY2018, increased by approximately 33.1% as compared with RMB837.9 million in FY2017. The increase in the selling and marketing costs was attributable to the increase in sales in FY2018. The total amount of selling and marketing costs as a percentage of the Group's revenue remained stable at 2.1% for FY2018 as compared with FY2017.

Administrative expenses

Administrative expenses increased by approximately 7.4% from RMB1,142.3 million in FY2017 to approximately RMB1,226.5 million in FY2018. The amount of administrative expenses as a percentage of the Group's revenue decreased from 2.9% in FY2017 to 2.3% in FY2018 due to revenue increased by 34.8% in FY2018 as compared with FY2017.

Operating profit

The operating profit for FY2018 was approximately RMB10,434.7 million, representing an increase of approximately RMB3,874.0 million or 59.0% over FY2017. The operating profit margin increased from 16.8% in FY2017 to approximately 19.8% in FY2018 mainly due to increase in gross profit margin from 20.4% in FY2017 to 21.9% in FY2018.

Finance costs

Finance costs decreased by approximately 3.9% to approximately RMB1,024.3 million in FY2018 from RMB1,066.0 million in FY2017. The decrease in finance cost was mainly contributed by the net effect of the increase of interest capitalised on property, plant and equipment of approximately RMB79.5 million and reduction of bills discount charges of approximately RMB44.2 million in FY2018 over FY2017.

Exchange losses on operating and financing activities — net

The exchange losses on operating and financing activities before tax for FY2018 in aggregation amounted to approximately RMB9.2 million (represented by exchange gains on operating activities before tax of approximately RMB89.4 million and exchange losses on financing activities before tax of approximately RMB98.6 million respectively), decreased substantially by approximately RMB390.4 million or 97.7% from RMB399.6 million in FY2017.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB20.7 million in FY2018 as compared to RMB382.7 million in FY2017.

Income tax expense

Income tax charged for the FY2018 amounted to approximately RMB1,690.0 million and increased by approximately 64.8% or RMB664.6 million as compared with FY2017 mainly due to the substantial increase in profit before tax.

The Group's effective tax rate (income tax expense divided by profit before income tax for the Year) decreased to approximately 17.7% in FY2018 as compared to 18.9% in FY2017.

Net profit

The profit attributable to equity holders of the Company increased by RMB3,464.4 million or by approximately 79.0% from RMB4,383.7 million in FY2017 to approximately RMB7,848.1 million in FY2018. If the exchange losses on operating and financing activities (net of tax) of approximately RMB20.7 million were excluded, the profit attributable to equity holders of the Company for FY2018 increased by approximately 65.1%, to approximately RMB7,868.8 million due to a substantial increase in the selling price of the products and a better profit margin of the Group.

In FY2017, the profit attributable to equity holders of the Company was RMB4,765.3 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB382.7 million and the gain from derivative financial instruments (net of tax) amounted to RMB1.1 million were excluded.

Business Combination

The Group acquired 100% equity interests of two pulp and paper manufacturing mills located in Rumford, Maine and Biron, Wisconsin in the U.S. from Catalyst Paper Corporation during FY2018. The Acquisition was completed on 29 June 2018, the acquired businesses did not contribute material revenue or profit to the Group for the two days period ended 30 June 2018.

Dividend

In FY2018, the Group paid an interim dividend of RMB10.0 cents per share, which amounted to RMB467.4 million. The directors have proposed a final dividend of RMB40.0 cents per share, which will aggregate to approximately RMB1,869.7 million. The total dividend for the FY2018 amounted to RMB50.0 cents per share. The dividend pay out ratio was approximately 29.8% in FY2018.

Working capital

The inventories increased by approximately 43.0% to approximately RMB6,691.1 million in FY2018 from RMB4,679.1 million in FY2017. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB3,619.3 million and finished goods of approximately RMB3,071.8 million.

The raw materials increased by approximately 27.0% to approximately RMB3,619.3 million in FY2018 from RMB2,849.6 million in FY2017. The increase in raw materials balance was mainly due to the substantial increase in the cost of recovered paper during FY2018, and the acquisition of two U.S. mills raw material at cost of approximately RMB328.5 million on 29 June 2018.

The finished goods increased by approximately 67.9% to approximately RMB3,071.8 million in FY2018 from RMB1,829.5 million in FY2017. The increase in finished goods was mainly due to the substantial increase in the cost of raw materials during FY2018, and the acquisition of two U.S. mills finished goods at cost of approximately RMB197.3 million on 29 June 2018.

In FY2018, raw material (excluding spare parts) turnover days remained relatively stable at approximately 25 days as compared to 25 days for FY2017 while the finished goods turnover days increased to approximately 27 days as compared to 21 days for FY2017.

Trade and bills receivables were approximately RMB5,998.3 million in FY2018, increased by approximately 11.1% from RMB5,399.2 million in FY2017. During FY2018, the turnover days of trade receivables were approximately 28 days which was within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB3,172.7 million in FY2018, increased by approximately 38.5% from RMB2,291.2 million in FY2017. The turnover days of trade and bills payable were approximately 28 days for FY2018 which was within the credit period granted by most suppliers.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2018 primarily comes from its operating cash flows and borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's cash generated from operations increased from RMB5,248.9 million in FY2017 to approximately RMB10,791.2 million in FY2018, representing an increase of approximately 105.6%. The increase was primarily attributable to the increase in profit and the changes in the working capital in particular the increase in trade, bills and other payables. In terms of available financial resources as at 30 June 2018, the Group had total undrawn banking facilities of approximately RMB32,321.3 million and cash and cash equivalents of approximately RMB9,044.7 million.

As at 30 June 2018, the shareholders' funds were approximately RMB36,265.6 million, an increase of approximately RMB6,180.8 million from that of FY2017. The shareholders' fund per share increased from RMB6.4 in FY2017 to approximately RMB7.8 in FY2018.

Debts Management

The Group's outstanding borrowings increased by approximately RMB3,763.1 million from RMB28,949.1 million as at 30 June 2017 to approximately RMB32,712.2 million as at 30 June 2018. The short-term and long-term borrowings amounted to approximately RMB18,141.1 million and RMB14,571.1 million respectively, accounting for 55.5% and 44.5% of the total borrowings respectively. As at 30 June 2018, about 99.7% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 74.6% as at 30 June 2017 to approximately 65.3% as at 30 June 2018. 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 potential Renminbi exchange rate fluctuation, 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 2018, total foreign currency borrowings amounted to the equivalent of approximately RMB14,601.6 million and loans denominated in RMB amounted to approximately RMB18,110.6 million, representing approximately 44.6% and 55.4% of the Group's borrowings respectively.

Cost of borrowing

The effective interest rates of long-term borrowings and short-term borrowings were 3.4% and 3.3% per annum as at 30 June 2018 and 3.5% and 3.3% per annum as at 30 June 2017. The gross interest and finance charges (including interest capitalised but before interest income, exchange losses on financing activities and impact from all the derivative financial instruments) increased slightly to approximately RMB1,160.2 million in FY2018 from RMB1,123.5 million in FY2017.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments during FY2018 were approximately RMB6,386.6 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 RMB4,492.1 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 FY2018, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The global macro-environment is expected to remain volatile, with the trade war casting more variables to the markets. The packaging paperboard industry is experiencing changes resulting from fluctuations in recovered paper supply. Amidst such a challenging market environment, the Group remains confident that the consumption market in China will continue to support the fundamentals of packaging paperboard demand, while diligent and appropriate adjustments on raw material mix will provide the potential for better cost efficiency, thus maintaining ND Paper's competitive advantages. Furthermore, the Group endeavours to invest in projects that are expected to be promising and profitable, after prudent market assessment and due consideration of the impact on the Group's borrowings. With a strong foothold in China, ND Paper is empowered to benefit from opportunities arising in the world. On the one hand, the Group will strive to reinforce its established competitive advantages in production capabilities and customer network in China. On the other hand, it will adopt a more responsive, more effective operating strategy worldwide to enhance upstream and downstream integration along the supply chain in order to secure the necessary resources for its ongoing development and create the optimal synergy. These will allow ND Paper to excel in the industry and bring the best shareholders' value in the long term.

DIVIDEND

An interim dividend of RMB10.0 cents (equivalent to approximately HK12.34 cents) per share for the six months ended 31 December 2017 (six months ended 31 December 2016: RMB5.0 cents) was paid to shareholders on 18 May 2018.

The Board has resolved to recommend the payment of a final dividend of RMB40.0 cents (equivalent to approximately HK45.8 cents) per share for FY2018, which are expected to be paid on or about Friday, 11 January 2019 subject to the approval of the forthcoming annual general meeting (“2018 AGM”). The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 21 December 2018. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 = RMB0.87388 as at 18 September 2018 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (i) from Thursday, 6 December 2018 to Tuesday, 11 December 2018, both days inclusive, for the purpose of ascertaining shareholders’ entitlement to attend and vote at the 2018 AGM. In order to be eligible to attend and vote at the 2018 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 5 December 2018; and
- (ii) from Tuesday, 18 December 2018 to Friday, 21 December 2018, both days inclusive, for the purpose of ascertaining shareholders’ entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 17 December 2018.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

ANNUAL GENERAL MEETING

The 2018 AGM will be held on Tuesday, 11 December 2018 and the notice of 2018 AGM 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 FY2018.

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 FY2018 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 FY2018, 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 FY2018, 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, 18 September 2018

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 Yuanfu and Mr. Zhang Lianpeng; 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*