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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)

**UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

- Revenue decreased by 5.0% to approximately RMB28,835.7 million.
- Gross profit increased by 3.4% to approximately RMB4,917.8 million.
- Gross margin increased from 15.7% to approximately 17.1%.
- Profit attributable to equity holders of the Company for the Period was approximately RMB2,278.7 million.
- The net borrowings to total equity ratio decreased to approximately 50.6%.
- Basic earnings per share increased by RMB0.01 to approximately RMB0.49.
- Interim dividend per share of RMB10.0 cents (equivalent to approximately HK11.09 cents).

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2019 (the “Period”), together with the comparative figures for the corresponding period of the last year.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		31 December	
	<i>Note</i>	2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited and restated)
Revenue	5	28,835,748	30,351,170
Cost of goods sold		<u>(23,917,941)</u>	<u>(25,594,069)</u>
Gross profit		4,917,807	4,757,101
Other income, other expense and other losses — net		248,855	407,864
Selling and marketing costs		(902,831)	(900,843)
Administrative expenses		<u>(925,366)</u>	<u>(831,237)</u>
Operating profit		3,338,465	3,432,885
Finance costs — net		(464,370)	(599,519)
— Finance income	7	65,904	78,813
— Finance costs	7	(530,274)	(678,332)
Share of profit of associates and joint ventures — net		<u>28,358</u>	<u>32,037</u>
Profit before income tax		2,902,453	2,865,403
Income tax expense	8	<u>(609,238)</u>	<u>(580,918)</u>
Profit for the Period		<u>2,293,215</u>	<u>2,284,485</u>
Profit attributable to:			
— Equity holders of the Company		2,278,682	2,266,830
— Non-controlling interests		<u>14,533</u>	<u>17,655</u>
		<u>2,293,215</u>	<u>2,284,485</u>

		Six months ended	
		31 December	
	<i>Note</i>	2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited and restated)
Basic earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	0.49	0.48
Diluted earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	0.49	0.48

Details of dividends to equity holders of the Company for the Period are set out in Note 10.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 December	
	2019	2018
	RMB'000	RMB'000
	(Unaudited) and restated)	
Profit for the Period	2,293,215	2,284,485
Other comprehensive income:		
<i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>22,622</u>	<u>11,951</u>
Total comprehensive income for the Period	<u>2,315,837</u>	<u>2,296,436</u>
Total comprehensive income attributable to:		
— Equity holders of the Company	<u>2,294,473</u>	<u>2,275,970</u>
— Non-controlling interests	<u>21,364</u>	<u>20,466</u>
	<u>2,315,837</u>	<u>2,296,436</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2019 <i>RMB'000</i> (Unaudited)	30 June 2019 <i>RMB'000</i> (Unaudited and restated)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	11	57,621,386	55,945,290
Right-of-use assets	11	1,696,160	—
Land use rights	11	—	1,610,376
Intangible assets		276,248	277,562
Investment in associates and joint ventures		147,037	89,687
Other receivables and prepayments	13	260,126	21,029
Deferred income tax assets		37,994	94,252
		60,038,951	58,038,196
Current assets			
Inventories	12	4,639,118	7,715,041
Trade and bills receivables	13	4,711,869	3,984,294
Other receivables and prepayments	13	2,842,950	3,370,571
Financial assets at fair value through profit or loss		64,496	60,565
Tax recoverable		16,372	23,663
Restricted cash		72,514	203,115
Short-term bank deposits		86,756	37,077
Cash and cash equivalents		6,754,867	8,339,494
		19,188,942	23,733,820
Total assets		79,227,893	81,772,016
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	480,531	480,531
Share premium	14	3,884,720	3,884,720
Other reserves		4,262,156	5,563,471
Retained earnings		30,309,052	28,152,107
		38,936,459	38,080,829
Non-controlling interests		374,957	310,250
Total equity		39,311,416	38,391,079

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December	30 June
		2019	2019
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Unaudited and restated)
LIABILITIES			
Non-current liabilities			
Borrowings	15	18,509,690	16,713,613
Lease liabilities		15,469	—
Other payables		120,463	106,695
Deferred income tax liabilities		3,372,487	3,189,475
		<u>22,018,109</u>	<u>20,009,783</u>
Current liabilities			
Borrowings	15	8,311,276	14,594,993
Lease liabilities		18,065	—
Trade and bills payables	16	6,085,463	5,680,241
Contract liabilities		350,702	239,404
Other payables		2,496,473	2,385,816
Current income tax liabilities		636,389	470,700
		<u>17,898,368</u>	<u>23,371,154</u>
Total liabilities		<u>39,916,477</u>	<u>43,380,937</u>
Total equity and liabilities		<u>79,227,893</u>	<u>81,772,016</u>

CASH FLOWS INFORMATION

	Six months ended	
	31 December	
	2019	2018
	RMB'000	<i>RMB'000</i>
	(Unaudited and restated)	
	(Unaudited)	
Profit for the Period	2,293,215	2,284,485
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects/changes in working capital	5,705,710	3,712,946
Cash generated from operations	7,998,925	5,997,431
Income tax paid	(197,011)	(556,120)
Interest paid	(625,001)	(665,237)
Net cash generated from operating activities	7,176,913	4,776,074
Net cash used in investing activities	(3,148,071)	(3,913,079)
Net cash used in financing activities	(5,611,865)	(260,113)
Net (decrease)/increase in cash and cash equivalents	(1,583,023)	602,882
Cash and cash equivalents at beginning of the Period	8,339,494	9,195,900
Exchange (losses)/gains on cash and cash equivalents	(1,604)	30,112
Cash and cash equivalents at end of the Period	<u>6,754,867</u>	<u>9,828,894</u>

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Group are principally engaged in the manufacture and sales of packaging paper, printing and writing paper, high value specialty paper products and pulp in the People's Republic of China (the "PRC"). 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").

The condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. The condensed consolidated interim financial information was approved for issue by the Board on 24 February 2020.

The condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information for the Period has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2019.

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 condensed consolidated balance sheet as at 30 June 2019, the condensed consolidated income statement, the condensed consolidated

statement of comprehensive income, changes in equity and cash flows for six months ended 31 December 2018 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 effect of restatements described above on the condensed consolidated balance sheet as at 30 June 2019 has resulted an increase in the Group's total assets by RMB1,008,147,000.

The effect of restatements described above on the condensed consolidated income statement and the consolidated statement of comprehensive income for the six months ended 31 December 2018 has resulted in an increase in the Group's revenue of RMB23,167,000, an increase in the Group's profit attributable to the equity holders of the Company of RMB7,517,000 and an increase in the Group's total comprehensive income attributable to the equity holders of the Company of RMB7,517,000, respectively.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2019, as described in those annual financial statements, except for the adoption of new standards, amendments and interpretations to standards effective for the financial year beginning on 1 July 2019.

(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:

HKAS 19 (Amendments)	Employee Benefits
HKAS 28 (Amendments)	Long-term Interests in an Associate or Joint Venture
HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over Income Tax Treatments
Annual Improvements to 2015–2017 Cycle	Improvements to HKFRS

Save for the impact of adoption of HKFRS 16 disclosed below, the adoption of other amendments and interpretations to standards 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 six months ended 31 December 2019 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 land use rights and office buildings as details below.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases of office building and land use rights 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.

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:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of 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 HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

(b) Amendments to standards relevant to the Group have been issued but are not effective

The following amendments to standards relevant to the Group 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
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ²

¹ Effective for annual periods beginning on or after 1 July 2020.

² 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 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.

5. REVENUE

Revenue recognised during the Period are as follows:

	Six months ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Sales of packaging paper	24,891,358	26,178,565
Sales of printing and writing paper	3,387,919	3,540,475
Sales of high value specialty paper products	459,538	517,314
Sales of pulp	96,933	114,816
	<u>28,835,748</u>	<u>30,351,170</u>

6. OPERATING PROFIT

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

	Six months ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Raw materials and consumables used	18,801,073	22,602,458
Changes in finished goods	2,984,023	838,846
Employee benefit expenses	1,606,384	1,520,360
Depreciation (<i>Note 11</i>)	1,141,408	1,084,823
Less: amount charged to other expenses	(2,002)	(2,037)
	1,139,406	1,082,786
Amortisation of right-of-use assets and land use rights (<i>Note 11</i>)	<u>30,813</u>	<u>20,117</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Finance income:		
Interest income from bank deposits	<u>65,904</u>	<u>78,813</u>
Finance costs:		
Interest on borrowings	(498,662)	(585,324)
Other incidental borrowing costs	(46,520)	(68,342)
Less: amounts capitalised on property, plant and equipment (<i>Note (a)</i>)	<u>129,113</u>	<u>120,133</u>
	(416,069)	(533,533)
Other finance costs	<u>(114,205)</u>	<u>(144,799)</u>
	<u>(530,274)</u>	<u>(678,332)</u>

- (a) The capitalisation interest rate is approximately 3.5% for the six months ended 31 December 2019 (six months ended 31 December 2018: 3.9%).

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
Current income tax		
— PRC corporate income tax and withholding income tax <i>(Notes (a) and (b))</i>	367,085	330,721
— Vietnam income tax <i>(Note (d))</i>	2,916	—
— USA income tax <i>(Note (c))</i>	—	50,382
— Hong Kong profits tax <i>(Note (e))</i>	—	—
	<u>370,001</u>	<u>381,103</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	250,711	199,815
— Vietnam income tax	3,723	—
— USA income tax	<u>(15,197)</u>	<u>—</u>
	<u>239,237</u>	<u>199,815</u>
	<u><u>609,238</u></u>	<u><u>580,918</u></u>

(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 Period (six months ended 31 December 2018: same).

(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 Period was 5% (six months ended 31 December 2018: 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 Period in respect of operations in USA (six months ended 31 December 2018: same).

(d) **Vietnam income tax**

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit for the Period in respect of operations in Vietnam (six months ended 31 December 2018: nil).

(e) **Hong Kong profits tax**

Hong Kong profits tax has not been provided for as the Group did not have any assessable profits for the Period (six months ended 31 December 2018: nil).

9. **EARNINGS PER SHARE**

— **Basic**

	Six months ended 31 December	
	2019	2018 (Restated)
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>2,278,682</u>	<u>2,266,830</u>
Weighted average number of ordinary shares in issue (<i>shares in thousands</i>)	<u>4,692,221</u>	<u>4,674,221</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.49</u>	<u>0.48</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 Period, 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 period) based on the monetary value of the subscription right 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.

	Six months ended 31 December	
	2019	2018
		(Restated)
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>2,278,682</u>	<u>2,266,830</u>
Weighted average number of ordinary shares for basic earnings per share (<i>shares in thousands</i>)	4,692,221	4,674,221
Adjustment for share options (<i>shares in thousands</i>)	<u>Not applicable</u>	<u>6,973</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>shares in thousands</i>)	<u>4,692,221</u>	<u>4,681,194</u>
Diluted earnings per share (<i>RMB per share</i>)	<u>0.49</u>	<u>0.48</u>

10. DIVIDENDS

	Six months ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend (<i>Note (b)</i>)	<u>469,222</u>	<u>467,422</u>

- (a) 2019 final dividend of RMB18.0 cents per ordinary share, totalling approximately RMB844,600,000 has been approved in the Company's Annual General Meeting on 16 December 2019 out of other reserves of the Company and paid in January 2020.
- (b) The directors recommend the payment of an interim dividend of RMB10.0 cents (six months ended 31 December 2018: RMB10.0 cents) per ordinary share, totalling approximately RMB469,222,000 for the six months ended 31 December 2019 (six months ended 31 December 2018: RMB467,422,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 24 February 2020. This condensed consolidated interim financial information does not reflect this interim dividend payable.

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

	Property, plant and equipment <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	Land use rights <i>RMB'000</i>
Six months ended 31 December 2019			
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 (<i>Note 3</i>)	—	1,626,802	(1,610,376)
	<u>55,945,290</u>	<u>1,626,802</u>	<u>—</u>
Opening net book amount as at 1 July 2019 (Restated)	55,945,290	1,626,802	—
Additions	2,877,031	102,848	—
Disposals	(128,988)	(1,975)	—
Depreciation/amortisation (<i>Note 6</i>)	(1,141,408)	(32,155)	—
Exchange differences	69,461	640	—
	<u>57,621,386</u>	<u>1,696,160</u>	<u>—</u>
Closing net book amount as at 31 December 2019	<u>57,621,386</u>	<u>1,696,160</u>	<u>—</u>
Six months ended 31 December 2018			
Opening net book amount as at 1 July 2018 (original stated)	51,121,444	—	1,482,967
Merger accounting restatement	455,402	—	32,544
	<u>51,576,846</u>	<u>—</u>	<u>1,515,511</u>
Opening net book amount as at 1 July 2018 (restated)	51,576,846	—	1,515,511
Additions	3,951,307	—	119,970
Business combination	385,267	—	—
Disposals	(53,489)	—	—
Depreciation/amortisation (<i>Note 6</i>)	(1,084,823)	—	(20,117)
Exchange differences	32,416	—	413
	<u>54,807,524</u>	<u>—</u>	<u>1,615,777</u>
Closing net book amount as at 31 December 2018 (restated)	<u>54,807,524</u>	<u>—</u>	<u>1,615,777</u>

12. INVENTORIES

	31 December 2019 <i>RMB'000</i>	30 June 2019 <i>RMB'000</i> (Restated)
At cost:		
Raw materials	3,640,908	3,732,808
Finished goods	998,210	3,982,233
	<u>4,639,118</u>	<u>7,715,041</u>

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
Trade receivables (<i>Notes (b)</i>)	3,457,885	2,846,136
Bills receivable (<i>Note (c)</i>)	1,253,984	1,138,158
	<u>4,711,869</u>	<u>3,984,294</u>
Value-added tax recoverable	1,038,638	1,480,525
Other receivables and deposits	517,629	347,285
Prepayments	1,546,809	1,563,790
Less: prepayments included in non-current assets	<u>(260,126)</u>	<u>(21,029)</u>
	<u>2,842,950</u>	<u>3,370,571</u>

- (a) As at 31 December 2019, the fair value of trade, bills and other receivables approximate their carrying amounts due to their short term maturities.
- (b) The Group's credit sales to customers are mainly entered into on credit terms of not more than 60 days.

As at 31 December 2019, the ageing analysis of trade receivables based on invoice date is as follows:

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
0–60 days	3,410,279	2,761,982
Over 60 days	47,606	84,154
	<u>3,457,885</u>	<u>2,846,136</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.

- (c) Bills receivable are mainly with maturity period of 90 to 180 days (30 June 2019: 90 to 180 days). Bills receivable as at 31 December 2019 represents the bank acceptance notes and commercial bills (30 June 2019: same).

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares in thousands	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:					
Six months ended					
31 December 2019					
Balance as at 1 July 2019 and					
31 December 2019	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>3,884,720</u>	<u>4,365,251</u>
Six months ended					
31 December 2018					
Balance as at 1 July 2018					
and 31 December 2018	<u>4,674,221</u>	<u>467,422</u>	<u>478,977</u>	<u>3,765,002</u>	<u>4,243,979</u>

15. BORROWINGS

	31 December 2019 <i>RMB'000</i>	30 June 2019 <i>RMB'000</i> (Restated)
Non-current		
— Long-term bank and other borrowings	<u>18,509,690</u>	<u>16,713,613</u>
Current		
— Short-term bank borrowings	<u>6,277,642</u>	<u>11,400,002</u>
— Current portion of long-term bank and other borrowings	<u>2,033,634</u>	<u>3,194,991</u>
	<u>8,311,276</u>	<u>14,594,993</u>
	<u>26,820,966</u>	<u>31,308,606</u>

(a) The Group's borrowings were repayable as follows:

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
Within 1 year	8,311,276	14,594,993
Between 1 and 2 years	9,932,823	10,452,625
Between 2 and 5 years	8,528,034	6,212,866
Over 5 years	48,833	48,122
	<u>26,820,966</u>	<u>31,308,606</u>

16. TRADE AND BILLS PAYABLES

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
Trade payables (<i>Note (a)</i>)	2,413,341	2,243,538
Bills payable	3,672,122	3,436,703
	<u>6,085,463</u>	<u>5,680,241</u>

(a) As at 31 December 2019, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
0-90 days	2,276,331	1,908,930
Over 90 days	137,010	334,608
	<u>2,413,341</u>	<u>2,243,538</u>

17. CAPITAL COMMITMENTS

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

	31 December 2019 RMB'000	30 June 2019 RMB'000 (Restated)
Not later than one year	1,266,866	1,666,755
Later than one year and not later than five years	316,064	434,618
	<u>1,582,930</u>	<u>2,101,373</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

During the Period, the Chinese packaging paperboard industry operated amidst a capricious and volatile environment. The ongoing negotiation of trade agreement between China and the U.S., coupled with the fluctuation in RMB exchange rate and the tightening of the import quota of recovered paper, have brought certain disturbance to the paper manufacturing industry. Nevertheless, the Group's sales volume for the Period reached a new record high with its profit margins improved, inventory management efficiency enhanced, debt gearing ratio further decreased and cash flow remained at a healthy level.

The Group has enhanced the vertical integration of its production chain as well as accelerated its internationalization process during the Period. For upstream resources, we have broadened our collection scope to include the low-end recovered paper, and entered into long-term cooperation agreements with reputable recovered paper suppliers in the mainland China, with a view to gaining a better control over the stability of raw material supply as well as the quality and cost efficiencies of production. In addition, we have set up a new base in Malaysia to increase the production capacity of recycled pulp by 0.48 million tpa. In respect of paper manufacturing, we added a total production capacity of 0.95 million tpa for linerboard in Shenyang and Quanzhou to enjoy greater economies of scale. Regarding the downstream industry chain, we have successfully expanded our scope of business to include the production of corrugated sheet and corrugated boxes by acquiring the packaging plants, as well as carried out a series of management optimization, all of which allow us to provide one-stop premium services to end-customers.

As at 31 December 2019, the Group's total design production capacity for paper and pulp (recycled pulp and kraft pulp) amounted to 16.47 million tpa and 0.85 million tpa, respectively, while the total annual design production capacity for downstream packaging plants amounted to 1.0 billion sq.m.

In terms of sales and marketing strategy, the newly launched "River Dragon (江龍牌)" brand has effectively expanded our market share in mid-to-low-end markets and hence benefited the overall sales volume and market share of the Group.

Capacity Expansion Plan

We plan to increase the production capacity for packaging paper in Hebei and Dongguan by 0.50 million tpa and 0.60 million tpa respectively in the first quarter of 2020, and in Malaysia by 0.55 million tpa by the end of 2021. Upon completion of these capacity expansion projects, the Group's total design capacity for paper production is expected to further increase to 18.10 million tpa.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB28,835.7 million for the Period, representing a decrease of approximately 5.0% over the corresponding period last year. 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 86.3% of the revenue, with the remaining revenue of approximately 13.7% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's annual design production capacity in packaging paperboard, printing and writing paper, high value specialty paper and pulp products of which including the four US mills capacity as at 31 December 2019 was approximately 17.3 million tpa in aggregation, 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, approximately 1.1 million tpa of 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 sales volume reached approximately 8.5 million tonnes, increase by approximately 13.3% as compared with 7.5 million tonnes in the corresponding period last year. The increase in sales volume was driven by approximately 1.0 million tonnes increase in China business.

The sales volume of linerboard, high performance corrugating medium and coated duplex board for the Period increased by approximately 9.1%, 20.0% and 24.6% respectively, the printing and writing paper and high value specialty paper for the Period decreased by approximately 2.2% and 14.5% respectively, while the recycled pulp and kraft pulp sales volume remained stable, as compared with those in the corresponding period last year.

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 the Period, revenue related to China consumption represented 89.2% of the Group's total revenue, while the remaining revenue of 10.8% represented sales to customers in other countries.

During the Period, revenue from the Group's top five customers in aggregate accounted for approximately 6.2% (six months ended 31 December 2018: 4.4%) of the total revenue, with that to the single largest customer accounted for approximately 1.9% (six months ended 31 December 2018: 1.0%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB4,917.8 million, an increase of approximately RMB160.7 million or 3.4% as compared with RMB4,757.1 million in the corresponding period last year. The gross profit margin increased from 15.7% to approximately 17.1% 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 Period.

Selling and marketing costs

Selling and marketing costs increased slightly by approximately 0.2% from RMB900.8 million in the corresponding period last year to approximately RMB902.8 million in the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 3.0% in the corresponding period last year to approximately 3.1% in the Period. The increase of selling and distribution costs was due to more geographical coverage in the Period.

Administrative expenses

Administrative expenses increased by approximately 11.3% from RMB831.2 million in the corresponding period last year to approximately RMB925.4 million in the Period which was mainly contributed by additional management and administrative costs incurred to support the coming launch of new machines in various bases. As a percentage of Group's revenue, the administrative expenses increased from 2.7% in the corresponding period last year to approximately 3.2% in the Period.

Operating profit

The operating profit for the Period was approximately RMB3,338.5 million, representing a decrease of approximately RMB94.4 million or 2.7% compared with RMB3,432.9 million in the corresponding period last year. The operating profit margin increased to approximately 11.6% in the Period from 11.3% in the corresponding period last year.

Finance costs

The finance costs for the Period decreased by approximately 22.5% from RMB599.5 million in the corresponding period last year to approximately RMB464.4 million in the Period. The decrease in finance cost was mainly contributed by the decrease of total borrowings of approximately RMB4,487.6 million to RMB26,821.0 million as at 31 December 2019 as compared with RMB31,308.6 million as at 30 June 2019.

Exchange losses on operating and financing activities

The exchange losses on operating and financing activities before tax for the Period in aggregation amounted to approximately RMB133.0 million decreased by approximately RMB77.1 million from RMB210.1 million in the corresponding period last year.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB127.6 million for the Period as compared to RMB198.4 million in the corresponding period last year.

Income tax expense

The Group's income tax expenses increased from RMB580.9 million in the corresponding period last year to approximately RMB609.2 million due to the increase in profit before tax.

The Group's effective tax rate were relatively stable at approximately 21.0% in the Period and 20.3% in the corresponding period last year.

Net profit

The profit attributable to the equity holders of the Company for the Period was approximately RMB2,278.7 million, increased by approximately 0.5% as compared to the corresponding period last year.

Working capital

The level of inventory as at 31 December 2019 decreased by approximately 39.9% to approximately RMB4,639.1 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 RMB3,640.9 million and finished goods of approximately RMB998.2 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 22 days and 8 days respectively during the Period, compared with 27 days and 17 days in the same period last year.

The trade and bills receivables as at 31 December 2019 were approximately RMB4,711.9 million, increased by approximately 18.3% from RMB3,984.3 million as at 30 June 2019. The turnover days of trade receivables remained stable at approximately 22 days for the Period and same period last year. As at 31 December 2019, the trade receivables with age less than 60 days accounted for approximately 98.6% of the total trade receivables.

The trade and bills payables increased by approximately 7.1% to approximately RMB6,085.5 million as at 31 December 2019 from RMB5,680.2 million as at 30 June 2019. The turnover days of trade and bills payable were approximately 46 days, compared with 31 days in the same period last year.

Liquidity and financial resources

The working capital and long-term funding required by the Group during the Period 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 the Group's available financial resources as at 31 December 2019, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB6,914.1 million and total undrawn bank facilities of approximately RMB40,885.1 million.

As at 31 December 2019, the shareholders' funds were approximately RMB39,311.4 million, an increase of approximately RMB920.3 million from that as at 30 June 2019.

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. As at 31 December 2019, total foreign currency borrowings amounted to the equivalent of approximately RMB14,509.4 million and loans denominated in RMB amounted to approximately RMB12,311.6 million, representing approximately 54.1% and 45.9% of the Group's borrowings respectively.

OUTLOOK

The sustained uncertainties on global economic growth and the recent outbreak of COVID-19 have posed additional challenges to China's packaging industry. Nevertheless, while China's economy will retain its resilience, we are also confident in the Chinese government's epidemic prevention and control and believe that the market will have a swift recovery under both the support and favorable policies of the state. Moreover, the signing of the phase one Sino-US trade agreement and the commencement of phase two negotiation will benefit Chinese export and RMB exchange rate. With the Chinese government's launch of stringent environmental policies such as the "Plastic Ban Order", tariff exemption on importing kraft pulp and recycled pulp from the US, and possible import tariff exemption on US recovered paper, the edges of large-scale paper manufacturing enterprises will further prevail.

Leveraging its competitive edges as an industrial leader, the Group is prepared to maintain the stability of raw material supply by integrating the domestic and overseas raw materials as well as the market segments. It will also strengthen its market share in the mid-to-high end markets as it taps into the mid-to-low end markets, in addition to maintaining a healthy gearing ratio and sound cash flow management, with the ultimate goal of enhancing the overall profitability.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB10.0 cents (equivalent to approximately HK11.09 cents) per share for the Period, which is expected to be paid to the shareholders by post on or about Friday, 7 August 2020. The dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 24 June 2020. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.90133 as at 24 February 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.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 22 June 2020 to Wednesday, 24 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 19 June 2020.

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 the Period.

AUDIT COMMITTEE REVIEW

The audit committee of the Company, 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 Period.

The unaudited condensed consolidated interim financial information of the Group for the Period has been reviewed by the audit committee, with the directors and the Company's auditor, PricewaterhouseCoopers.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Appendix 14 — Corporate Governance Code to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period.

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 the Period, 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. I would also like to thank our shareholders, bankers 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, 24 February 2020

As at the date of this announcement, the executive directors of the Company 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*