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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 2018**

FINANCIAL HIGHLIGHTS

- Sales increased by 18.2% to approximately RMB30,328.0 million.
- Gross profit dropped by 25.1% to approximately RMB4,712.5 million.
- Gross margin decreased from 24.5% to approximately 15.5%.
- Profit attributable to equity holders of the Company for the Period was approximately RMB2,259.3 million.
- If the exchange losses on operating and financing activities net of tax of approximately RMB198.4 million were excluded, the profit attributable to equity holders of the Company for the Period was approximately RMB2,457.7 million decreased by 43.5% as compared to the corresponding period last year, due to increase in the cost of raw materials and decrease in the selling price of the products.
- The net borrowings to total equity ratio decreased to approximately 62.9%.
- Basic earnings per share decreased by RMB0.45 or 48.4% to approximately RMB0.48.
- Interim dividend per share of RMB10.0 cents (equivalent to approximately HK11.72 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 2018 (the “Period”), together with the comparative figures for the corresponding period of the last year.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited | |
|--|-------------|-------------------------|---------------------|
| | | Six months ended | |
| | | 31 December | |
| | | 2018 | 2017 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| Sales | 5 | 30,328,003 | 25,649,442 |
| Cost of goods sold | | <u>(25,615,497)</u> | <u>(19,359,777)</u> |
| Gross profit | | 4,712,506 | 6,289,665 |
| Other income, other expense and other gains/ (losses) — net | | 479,115 | 604,037 |
| Exchange (losses)/gains on operating activities — net | | (67,429) | 96,063 |
| Selling and marketing costs | | (881,785) | (501,344) |
| Administrative expenses | | <u>(822,457)</u> | <u>(557,049)</u> |
| Operating profit | | 3,419,950 | 5,931,372 |
| Finance costs — net | | (455,084) | (446,958) |
| — Finance income | 7 | 78,813 | 45,763 |
| — Finance costs | 7 | (533,897) | (492,721) |
| Exchange losses on financing activities — net | | (142,670) | (101,004) |
| Share of profit of an associate and a joint venture — net | | <u>32,037</u> | <u>48,361</u> |
| Profit before income tax | | 2,854,233 | 5,431,771 |
| Income tax expense | 8 | <u>(577,265)</u> | <u>(1,102,123)</u> |
| Profit for the Period | | <u>2,276,968</u> | <u>4,329,648</u> |

| | | Unaudited | |
|--|-------------------------------------|-------------------------|------------------|
| | | Six months ended | |
| | | 31 December | |
| | | 2018 | 2017 |
| <i>Note</i> | | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit attributable to: | | | |
| | — Equity holders of the Company | 2,259,313 | 4,329,268 |
| | — Non-controlling interests | 17,655 | 380 |
| | | <u>2,276,968</u> | <u>4,329,648</u> |
| Basic earnings per share for profit attributable to equity holders of the Company | | | |
| | <i>(expressed in RMB per share)</i> | | |
| | <i>9</i> | <u>0.48</u> | <u>0.93</u> |
| Diluted earnings per share for profit attributable to equity holders of the Company | | | |
| | <i>(expressed in RMB per share)</i> | | |
| | <i>9</i> | <u>0.48</u> | <u>0.92</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited | |
|--|-------------------------|------------------|
| | Six months ended | |
| | 31 December | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Profit for the Period | 2,276,968 | 4,329,648 |
| Other comprehensive income: | | |
| <i>(items that may be reclassified subsequently to profit or loss)</i> | | |
| — Currency translation differences | <u>11,951</u> | <u>(17,938)</u> |
| Total comprehensive income for the Period | <u>2,288,919</u> | <u>4,311,710</u> |
| Total comprehensive income attributable to: | | |
| — Equity holders of the Company | <u>2,268,453</u> | 4,318,429 |
| — Non-controlling interests | <u>20,466</u> | <u>(6,719)</u> |
| | <u>2,288,919</u> | <u>4,311,710</u> |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | 31 December 2018 <i>RMB'000</i> (Unaudited) | 30 June 2018 <i>RMB'000</i> (Audited) |
|---|-------------|--|--|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 54,285,110 | 51,121,444 |
| Land use rights | 11 | 1,583,713 | 1,482,967 |
| Intangible assets | | 290,388 | 231,382 |
| Investment in an associate and a joint venture | | 207,858 | 176,188 |
| Deferred income tax assets | | 72,217 | 85,249 |
| Other receivables and prepayments | 13 | 11,500 | 21,305 |
| | | 56,450,786 | 53,118,535 |
| Current assets | | | |
| Inventories | 12 | 6,904,809 | 6,691,091 |
| Trade and bills receivables | 13 | 5,217,963 | 5,998,275 |
| Other receivables and prepayments | 13 | 3,386,287 | 2,979,699 |
| Cash and cash equivalents | | 9,709,586 | 9,044,707 |
| Restricted cash | | 146,562 | — |
| Financial assets at fair value through profit or loss | | 53,229 | — |
| Tax recoverable | | 13,415 | 9,950 |
| | | 25,431,851 | 24,723,722 |
| Total assets | | 81,882,637 | 77,842,257 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 14 | 478,977 | 478,977 |
| Share premium | 14 | 3,765,002 | 3,765,002 |
| Other reserves | | 4,858,092 | 6,457,327 |
| Retained earnings | | 27,276,150 | 25,278,150 |
| | | 36,378,221 | 35,979,456 |
| Non-controlling interests | | 306,597 | 286,131 |
| Total equity | | 36,684,818 | 36,265,587 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

| | | 31 December | 30 June |
|---|-------------|--------------------------|-----------------------|
| | | 2018 | 2018 |
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (Unaudited) | (Audited) |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | <i>15</i> | 17,919,991 | 14,571,089 |
| Deferred income tax liabilities | | 2,961,773 | 2,772,576 |
| Other payables | | 95,321 | 90,767 |
| | | <u>20,977,085</u> | <u>17,434,432</u> |
| Current liabilities | | | |
| Borrowings | <i>15</i> | 15,005,712 | 18,141,114 |
| Trade and bills payables | <i>16</i> | 4,327,745 | 3,172,672 |
| Other payables and contract liabilities | | 4,355,115 | — |
| Other payables and advance from customers | | — | 2,122,238 |
| Current income tax liabilities | | 532,162 | 706,214 |
| | | <u>24,220,734</u> | <u>24,142,238</u> |
| Total liabilities | | <u>45,197,819</u> | <u>41,576,670</u> |
| Total equity and liabilities | | <u>81,882,637</u> | <u>77,842,257</u> |

CASH FLOWS INFORMATION

| | Unaudited | |
|---|-------------------------|----------------|
| | Six months ended | |
| | 31 December | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Profit for the Period | 2,276,968 | 4,329,648 |
| Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects/changes in working capital | 3,718,580 | 984,453 |
| Cash generated from operations | 5,995,548 | 5,314,101 |
| Income tax paid | (552,607) | (650,261) |
| Interest paid | (663,472) | (589,343) |
| Net cash generated from operating activities | 4,779,469 | 4,074,497 |
| Net cash used in investing activities | (3,830,768) | (2,118,908) |
| Net cash (used in)/generated from financing activities | (313,934) | 223,290 |
| Net increase in cash and cash equivalents | 634,767 | 2,178,879 |
| Cash and cash equivalents at beginning of the period | 9,044,707 | 6,472,756 |
| Exchange gains/(losses) on cash and cash equivalents | 30,112 | (33,559) |
| Cash and cash equivalents at end of the period | 9,709,586 | 8,618,076 |

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, recycled printing and writing paper and high value specialty paper products 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 26 February 2019.

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 2018, 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 annual financial statements for the year ended 30 June 2018.

3. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 30 June 2018, except for the adoption of new standards, amendments and interpretation to standards which are effective to the Group for accounting periods beginning on or after 1 July 2018. The adoption of the new standards, amendments and interpretation to standards has no material impact on the Group's results and financial position for the current or prior periods.

HKFRS 9 Financial Instruments/HKFRS 15 Revenue from Contracts with Customers

The Group has assessed and considered there was no material financial impact of the adoption of HKFRS 9 and HKFRS 15, respectively, and therefore there was no adjustment to the opening balance of equity as at 1 July 2018.

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. SALES

Sales recognised during the Period are as follows:

| | Six months ended 31 December | |
|--|------------------------------|-------------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Sales of packaging paper | 26,155,398 | 24,192,370 |
| Sales of printing and writing paper | 3,540,475 | 1,294,686 |
| Sales of high value specialty paper products | 517,314 | 162,386 |
| Sales of pulp | 114,816 | — |
| | <u>30,328,003</u> | <u>25,649,442</u> |

6. OPERATING PROFIT

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

| | Six months ended 31 December | |
|--|------------------------------|------------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Raw materials and consumables used | 22,970,183 | 19,056,222 |
| Changes in finished goods | 842,608 | (1,051,615) |
| Depreciation (<i>Note 11</i>) | 1,078,343 | 991,903 |
| Less: amount charged to other expenses | (2,037) | (2,037) |
| | 1,076,306 | 989,866 |
| Employee benefit expenses | 1,496,860 | 846,752 |
| Amortisation of land use rights (<i>Note 11</i>) | 19,637 | 19,579 |
| | <u>1,496,497</u> | <u>1,056,197</u> |

7. FINANCE INCOME AND FINANCE COSTS

| | Six months ended 31 December | |
|--|------------------------------|------------------|
| | 2018 | 2017 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Finance income: | | |
| Interest income from bank deposits | <u>78,813</u> | <u>45,763</u> |
| Finance costs: | | |
| Interest on borrowings | (583,559) | (485,012) |
| Other incidental borrowing costs | (68,342) | (44,869) |
| Less: amounts capitalised on property, plant and equipment | <u>120,133</u> | <u>38,482</u> |
| | (531,768) | (491,399) |
| Bills discount charge | <u>(2,129)</u> | <u>(1,322)</u> |
| | <u>(533,897)</u> | <u>(492,721)</u> |

8. INCOME TAX EXPENSE

| | Six months ended 31 December | |
|--|------------------------------|------------------|
| | 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)) | 324,708 | 931,543 |
| — United States of America income tax (Note (c)) | 50,382 | — |
| — Hong Kong profits tax (Note (d)) | <u>—</u> | <u>—</u> |
| | 375,090 | 931,543 |
| Deferred income tax | | |
| — PRC corporate income tax and withholding income tax (Notes (a) and (b)) | <u>202,175</u> | <u>170,580</u> |
| | <u>577,265</u> | <u>1,102,123</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 Period (six months ended 31 December 2017: 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 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 Period was 5% (six months ended 31 December 2017: 5%).

(c) United States of America income tax

United States of America income tax has been provided at the federal corporate income tax rate and state income tax rate on the estimated assessable profit for the six months ended 31 December 2018 in respect of operations in United States of America (six months ended 31 December 2017: not applicable).

(d) 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 2017: nil).

9. EARNINGS PER SHARE

— Basic

| | Six months ended 31 December | |
|---|-------------------------------------|------------------|
| | 2018 | 2017 |
| Profit attributable to equity holders of the Company (<i>RMB'000</i>) | <u>2,259,313</u> | <u>4,329,268</u> |
| Weighted average number of ordinary shares in issue (<i>shares in thousands</i>) | <u>4,674,221</u> | <u>4,674,221</u> |
| Basic earnings per share (<i>RMB per share</i>) | <u>0.48</u> | <u>0.93</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 | |
|--|-------------------------------------|------------------|
| | 2018 | 2017 |
| Profit attributable to equity holders of the Company (<i>RMB'000</i>) | <u>2,259,313</u> | <u>4,329,268</u> |
| Weighted average number of ordinary shares for basic earnings per share (<i>shares in thousands</i>) | 4,674,221 | 4,674,221 |
| Adjustment for share options (<i>shares in thousands</i>) | <u>6,973</u> | <u>10,961</u> |
| Weighted average number of ordinary shares for diluted earnings per share (<i>shares in thousands</i>) | <u>4,681,194</u> | <u>4,685,182</u> |
| Diluted earnings per share (<i>RMB per share</i>) | <u>0.48</u> | <u>0.92</u> |

10. DIVIDENDS

| | Six months ended 31 December | |
|--------------------------------------|-------------------------------------|----------------|
| | 2018 | 2017 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interim dividend (<i>Note (b)</i>) | <u>467,422</u> | <u>467,422</u> |

- (a) 2018 final dividend of RMB40.0 cents per ordinary share, totalling approximately RMB1,869,688,000 has been approved in the Company's Annual General Meeting on 18 December 2018 out of other reserves of the Company and paid in January 2019.
- (b) The directors recommend the payment of an interim dividend of RMB10.0 cents (six months ended 31 December 2017: RMB10.0 cents) per ordinary share, totalling approximately RMB467,422,000 for the six months ended 31 December 2018 (six months ended 31 December 2017: RMB467,422,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 26 February 2019. This condensed consolidated interim financial information does not reflect this interim dividend payable.

11. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

| | Property, plant and equipment <i>RMB'000</i> | Land use rights <i>RMB'000</i> |
|--|--|--------------------------------------|
| Six months ended 31 December 2018 | | |
| Opening net book amount as at 1 July 2018 | 51,121,444 | 1,482,967 |
| Additions | 3,869,007 | 119,970 |
| Business combination (<i>Note 18</i>) | 385,267 | — |
| Disposals | (44,681) | — |
| Depreciation/amortisation (<i>Note 6</i>) | (1,078,343) | (19,637) |
| Exchange differences | 32,416 | 413 |
| | <u>54,285,110</u> | <u>1,583,713</u> |
| Closing net book amount as at 31 December 2018 | <u>54,285,110</u> | <u>1,583,713</u> |
| Six months ended 31 December 2017 | | |
| Opening net book amount as at 1 July 2017 | 46,415,144 | 1,520,792 |
| Additions | 2,227,901 | — |
| Disposals | (128,942) | — |
| Depreciation/amortisation (<i>Note 6</i>) | (991,903) | (19,579) |
| Exchange differences | (50,392) | (348) |
| | <u>47,471,808</u> | <u>1,500,865</u> |
| Closing net book amount as at 31 December 2017 | <u>47,471,808</u> | <u>1,500,865</u> |

12. INVENTORIES

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|----------------|---|----------------------------|
| At cost: | | |
| Raw materials | 4,675,662 | 3,619,336 |
| Finished goods | <u>2,229,147</u> | <u>3,071,755</u> |
| | <u>6,904,809</u> | <u>6,691,091</u> |

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|--|---|----------------------------|
| Trade receivables (Notes (b)) | 3,615,759 | 4,071,572 |
| Bills receivable (Note (c)) | <u>1,602,204</u> | <u>1,926,703</u> |
| | <u>5,217,963</u> | <u>5,998,275</u> |
| Value-added tax recoverable | 1,439,697 | 758,644 |
| Other receivables and deposits | 628,135 | 890,383 |
| Prepayments | 1,329,955 | 1,351,977 |
| Less: other receivables included in non-current assets | <u>(11,500)</u> | <u>(21,305)</u> |
| | <u>3,386,287</u> | <u>2,979,699</u> |

- (a) As at 31 December 2018, 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 2018, the ageing analysis of trade receivables based on invoice date is as follows:

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|--------------|---|----------------------------|
| 0-60 days | 3,570,789 | 3,986,566 |
| Over 60 days | <u>44,970</u> | <u>85,006</u> |
| | <u>3,615,759</u> | <u>4,071,572</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 2018: 90 to 180 days). Bills receivable as at 31 December 2018 represents the bank acceptance notes and commercial bills (30 June 2018: same).

14. SHARE CAPITAL AND SHARE PREMIUM

| | Number of ordinary shares in thousands | Nominal value of ordinary shares HK\$'000 | Equivalent nominal value of ordinary shares RMB'000 | Share premium RMB'000 | Total RMB'000 |
|--|---|---|--|-----------------------------|--------------------|
| Issued and fully paid: | | | | | |
| 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> |
| Six months ended 31 December 2017 | | | | | |
| Balance as at 1 July 2017 | 4,674,221 | 467,422 | 478,977 | 8,765,002 | 9,243,979 |
| Reduction of share premium and transfer to contributed surplus | <u>—</u> | <u>—</u> | <u>—</u> | <u>(5,000,000)</u> | <u>(5,000,000)</u> |
| Balance as at 31 December 2017 | <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 2018 RMB'000 | 30 June 2018 RMB'000 |
|--|--------------------------------|----------------------------|
| Non-current | | |
| — Long-term bank and other borrowings | <u>17,919,991</u> | <u>14,571,089</u> |
| Current | | |
| — Short-term bank borrowings | 11,910,230 | 14,841,529 |
| — Short-term financing bills | 300,000 | — |
| — Current portion of long-term bank and other borrowings | <u>2,795,482</u> | <u>3,299,585</u> |
| | <u>15,005,712</u> | <u>18,141,114</u> |
| | <u>32,925,703</u> | <u>32,712,203</u> |

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

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|-----------------------|---|----------------------------|
| Within 1 year | 15,005,712 | 18,141,114 |
| Between 1 and 2 years | 9,966,870 | 7,397,162 |
| Between 2 and 5 years | 7,953,121 | 6,547,829 |
| Over 5 years | — | 626,098 |
| | <u>32,925,703</u> | <u>32,712,203</u> |

16. TRADE AND BILLS PAYABLES

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|------------------------------------|---|----------------------------|
| Trade payables (<i>Note (a)</i>) | 3,986,206 | 2,918,844 |
| Bills payable | <u>341,539</u> | <u>253,828</u> |
| | <u>4,327,745</u> | <u>3,172,672</u> |

(a) As at 31 December 2018, the ageing analysis of trade payables based on invoice date is as follows:

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|--------------|---|----------------------------|
| 0–90 days | 3,636,206 | 1,913,973 |
| Over 90 days | <u>350,000</u> | <u>1,004,871</u> |
| | <u>3,986,206</u> | <u>2,918,844</u> |

17. COMMITMENTS

(a) Capital commitments

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

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|---|---|----------------------------|
| Not later than one year | 1,777,567 | 3,976,565 |
| Later than one year and not later than five years | <u>489,634</u> | <u>515,504</u> |
| | <u>2,267,201</u> | <u>4,492,069</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:

| | 31 December 2018 RMB'000 | 30 June 2018 RMB'000 |
|---|---|----------------------------|
| Not later than one year | 3,404 | 3,271 |
| Later than one year and not later than five years | 6,198 | 7,323 |
| Later than five years | 15,151 | 14,932 |
| | <u>24,753</u> | <u>25,526</u> |

18. BUSINESS COMBINATION

The Group acquired a pulp mill in Fairmont, West Virginia, United States of America, from an independent third party during the six months ended 31 December 2018 (the “Acquisition”). The Acquisition was completed on 31 October 2018. Set out below are the summarised information of the Acquisition.

| | RMB'000 |
|--------------------------------|----------------|
| Purchase considerations — cash | <u>436,027</u> |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value RMB'000 |
|-----------------------------------|-------------------------------|
| Property, plant and equipment | 385,267 |
| Inventories | 55,040 |
| Other receivables and prepayments | 735 |
| Other payables | <u>(5,015)</u> |
| Total identifiable net assets | <u>436,027</u> |
| Goodwill | <u>—</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

As the largest containerboard manufacturer in Asia, the Group 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 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 four paper/pulp mills in the USA, representing the upstream integration of its primary business and an important milestone in its international development and global fiber sourcing strategy.

During the Period, the Chinese packaging paperboard industry operated in an unprecedented challenging environment. The Sino-US trade war has created conservative sentiment in the manufacturing sector, thus slowing down product demand. Furthermore, significantly reduced quota and tightened quality requirements on imported recovered paper, which reflect stringent government environmental policies, resulted in extreme volatility in the supply and pricing of recovered paper, both imports and domestic. During the Period, the volume of domestic recovered paper purchased accounted for approximately 55% of the total volume of the Group's purchase of recovered paper for use in its production bases in China. As the Group's product selling prices generally fell during the Period while inventory took time to be digested, profitability in the Period also declined from the peak in FY2018.

Notwithstanding the decline in profitability, the Group managed to maintain growth trend in its sales volume and revenue. With a comprehensive product range and an extensive network of production bases unmatched by any competitor in the industry, the Group was able to leverage on its advantages in cross-region sales and reduce finished products inventory in a soft market climate, resulting in historical high sales volume and revenue in its primary business in the Period.

During the Period, a wholly-owned subsidiary of the Group in the USA, ND Paper LLC, completed the acquisition of two pulp mills — Fairmont Mill in West Virginia and Old Town Mill in Maine. The Fairmont Mill manufactures and distributes recycled pulp used in a wide range of products, from packaging to tissue paper, with a production capacity of 0.22 million tpa. The Old Town Mill used to manufacture and distribute bleached hardwood kraft pulp, with a capacity of 0.16 million tpa and has been idling since 2015. It will be converted to produce unbleached kraft pulp. Together with Rumford Mill and Biron Mill acquired by ND Paper LLC in FY2018, these four mills in the USA are

expected to offer access to high quality raw material, for the Group’s primary business, with significant synergies, including cost savings, exhibited in a vertically integrated business model.

As at December 31, 2018, the Group’s total design production capacity was 15.3 million tonnes per annum (“tpa”). In February 2019, a new paper machine for linerboard commenced production in Chongqing base, adding 0.55 million tpa to the Group’s production capacity.

Business Strategy and Development Plan

The construction plan of the Group’s four new paper machines in China continued to progress well during the Period. All of them are targeted to commence production within 2019:

| Production Base | Product | Design Capacity | Target Commencement Date |
|------------------------|----------------|------------------------|---------------------------------|
| 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 |

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 production requirements. A series of equipment upgrade and expansion plans for the four mills in the USA are in place. These are expected to be completed and commence production before the end of 2021, increasing the Group’s global production capacity by approximately 1.4 million tpa to exceed 19 million tpa.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB30,328.0 million for the Period, representing an increase of approximately 18.2% 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 86.2% of the revenue, with the remaining revenue of approximately 13.8% generated from its printing and writing paper and high value specialty paper and pulp products.

The Group's annual design production capacity in packaging paperboard, printing and writing paper, and high value specialty paper and pulp products of which including the four recently acquired US mills capacity as at 31 December 2018 was approximately 15.3 million tpa, comprising approximately 7.6 million tpa of linerboard, approximately 3.4 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper and approximately 0.6 million tpa high value specialty paper and pulp products. The four US mills capacity of approximately 1.3 million tpa, including of approximately 0.9 million tpa coated one-side, coated freesheet and coated groundwood grade for printing and writing paper and specialty paper products; and of approximately 0.4 million tpa recycled pulp and kraft pulp products.

The Group sales volume reached approximately 7.5 million tonnes, increased by 19.0% as compared with 6.3 million tonnes in the corresponding period last year. The increase in sales volume was driven by approximately 0.7 million tonnes, 0.1 million tonnes and 0.4 million tonnes increase in China business, Vietnam business and the newly acquired US business respectively.

The sales volume of linerboard, high performance corrugating medium and printing and writing paper for the Period increased by approximately 16.9%, 19.5% and 145.5% respectively, while the coated duplex board for the Period decreased by approximately 4.8% as compared with those in the corresponding period last year after accounted to the recently acquired US operations, mainly contributed by the Rumford and Biron mills. At the same time, these recently acquired mills also market kraft and recycled pulp into the US market for the Period.

The majority of the Group's sales 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 89.0% of the Group's total revenue, while the remaining revenue of 9.1% and 1.9% represented sales made to the markets in US and Vietnam respectively.

During the Period, sales to the Group's top five customers in aggregate accounted for approximately 4.4% (six months ended 31 December 2017: 4.5%) of the total revenue, with that to the single largest customer accounted for approximately 1.0% (six months ended 31 December 2017: 1.1%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB4,712.5 million, a decrease of approximately RMB1,577.2 million or 25.1% as compared with RMB6,289.7 million in the corresponding period last year. The gross profit margin decreased from 24.5% to approximately 15.5%, mainly due to the increase in the cost of raw materials (mainly cost of recovered paper and coal) and decrease in the selling price of the products for the Period.

Selling and marketing costs

Selling and marketing costs increased by approximately 75.9% from RMB501.3 million in the corresponding period last year to approximately RMB881.8 million in the Period which was mainly contributed by the newly acquired mills in the USA in 2018. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.0% in the corresponding period last year to approximately 2.9% in the Period. If the selling and marketing costs of US operations of approximately RMB319.1 million were excluded, the total amount of selling and distribution costs as a percentage of the Group's revenue excluding US revenue, remained stable at approximately 2.0% in the Period and the corresponding period last year.

Administrative expenses

Administrative expenses increased by approximately 47.6% from RMB557.0 million in the corresponding period last year to approximately RMB822.5 million in the Period which was mainly contributed by factors including (i) administrative and legal cost of approximately RMB110.4 million related to the newly acquired mills in the USA in 2018; (ii) additional management and administrative costs incurred to support the coming launch new machines in various bases; and (iii) increase the scale of research and development related expenses. As a percentage of Group's revenue, the administrative expenses increased from 2.2% in the corresponding period last year to approximately 2.7% in the Period.

Operating profit

The operating profit for the Period was approximately RMB3,420.0 million, representing a decrease of approximately RMB2,511.4 million or 42.3% compared with RMB5,931.4 million in the corresponding period last year. The operating profit margin decreased to approximately 11.3% in the Period from 23.1% in the corresponding period last year.

Finance costs

The finance costs for the Period increased by approximately 8.4% from RMB492.7 million in the corresponding period last year to approximately RMB533.9 million in the Period. The increase in finance cost was mainly contributed by the net effect of the increase of interest on borrowings of approximately RMB98.5 million and the increase of incidental borrowing costs of approximately RMB23.5 million and net off by the increase of interest capitalised of approximately RMB81.7 million in the Period as compared with the corresponding period last year.

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 RMB210.1 million (represented by exchange losses on operating activities before tax of approximately RMB67.4 million and exchange losses on financing activities before tax of approximately RMB142.7 million respectively), increased by approximately RMB205.2 million from RMB4.9 million in the corresponding period last year.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB198.4 million for the Period as compared to RMB21.2 million in the corresponding period last year.

Income tax expense

The Group's income tax expenses decreased from RMB1,102.1 million in the corresponding period last year to approximately RMB577.3 million due to the decrease in profit before tax.

The Group's effective tax rate were relatively stable at approximately 20.2% 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 RMB2,259.3 million. If the exchange losses on operating and financing activities net of tax of approximately RMB198.4 million were excluded, the profit attributable to equity holders of the Company for the Period was approximately

RMB2,457.7 million, decreased by approximately 43.5% as compared to the corresponding period last year due to the increase in the cost of raw materials and decrease in the selling price of the products for the Period.

The profit attributable to equity holders of the Company for the corresponding period last year was RMB4,350.5 million if the exchange losses on operating and financing activities net of tax amounted to RMB21.2 million were excluded.

Working capital

The level of inventory as at 31 December 2018 increased by approximately 3.2% to approximately RMB6,904.8 million from RMB6,691.1 million as at 30 June 2018. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB4,675.7 million and finished goods of approximately RMB2,229.1 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 27 days and 16 days respectively during the Period, compared with 24 days and 27 days in the same period last year.

The trade and bills receivables as at 31 December 2018 were approximately RMB5,218.0 million, decreased by approximately 13.0% from RMB5,998.3 million as at 30 June 2018. The turnover days of trade receivables were approximately 22 days, compared to 20 days in the same period last year. As at 31 December 2018, the trade receivables with age less than 60 days accounted for approximately 98.8% of the total trade receivables.

The trade and bills payables increased by approximately 36.4% to approximately RMB4,327.7 million as at 31 December 2018 from RMB3,172.7 million as at 30 June 2018. The turnover days of trade and bills payable were approximately 31 days, compared with 20 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 2018, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB9,856.1 million and total undrawn bank facilities of approximately RMB38,694.0 million.

As at 31 December 2018, the shareholders' funds were approximately RMB36,378.2 million, an increase of approximately RMB398.8 million from that as at 30 June 2018.

Debts Management

The Group had outstanding borrowings as at 31 December 2018 of approximately RMB32,925.7 million. The short-term and long-term borrowings amounted to approximately RMB15,005.7 million and RMB17,920.0 million respectively, accounting for approximately 45.6% and 54.4% of the total borrowings respectively. As at the end of the Period, about 99.8% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio of the Group remained relatively stable at approximately 62.9% as at 31 December 2018 and 65.3% as at 30 June 2018. The Board will closely monitor the Group's net borrowings to total equity ratio and reduce the borrowings gradually.

Treasury policies

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

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

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

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

(b) Minimise currency risk

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings. As at 31 December 2018, total foreign currency borrowings amounted to the equivalent of approximately RMB17,040.6 million and loans denominated in RMB amounted to approximately RMB15,885.1 million, representing approximately 51.8% and 48.2% of the Group's borrowings respectively.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants and machineries, equipments and land use rights during the Period were approximately RMB3,422.9 million. These capital expenditures were fully financed by internal resources and bank borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for machineries and equipments of approximately RMB2,267.2 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 31 December 2018, the Group had no material contingent liabilities.

FUTURE OUTLOOK

It is expected that China will continue to implement stringent environmental policies, strengthening the advantages of the large enterprises. The Group remains cautiously optimistic and positive about the Sino-US trade negotiations, and the enormous demand supported by domestic consumption will still be a solid foundation for the Group's primary business in China. There is still growth potential in market demand. The Group endeavors to excel itself by proactively driving product quality enhancements, diversification and vertical integration in global fiber sourcing, improving production efficiency, sales effectiveness and cost control, so as to build the best long term value for its shareholders.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB10.0 cents (equivalent to approximately HK11.72 cents) per share for the Period, which is expected to be paid to the shareholders by post on or about Thursday, 8 August 2019. 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 Thursday, 25 July 2019. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.85302 as at 26 February 2019 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 Tuesday, 23 July 2019 to Thursday, 25 July 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 22 July 2019.

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, 26 February 2019

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*