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 2019

FINANCIAL HIGHLIGHTS

- Sales increased by 3.5% to approximately RMB54,647.4 million.
- Profit attributable to equity holders was approximately RMB3,859.7 million.
- If the exchange losses on operating and financing activities (net of tax) of approximately RMB164.7 million were excluded, the profit attributable to equity holders of the Company decreased by approximately 48.9%, to approximately RMB4,024.4 million due to decrease in the selling price of the products and decrease in profit margin.
- The net borrowings to total equity ratio decreased to approximately 59.7%.
- Basic earnings per share decreased by RMB0.86 to approximately RMB0.82.
- Proposed final dividend of RMB18.0 cents per share (equivalent to approximately HK19.9 cents).
- Dividend payout ratio was approximately 34.0% in FY2019.

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 2019 ("FY2019" or the "Year"), together with the comparative figures for the last financial year ("FY2018") as follows.

CONSOLIDATED INCOME STATEMENT

		For the year ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Sales	*2*	**54,647,446**	52,781,754
Cost of goods sold		**(46,208,286)**	(41,196,507)
Gross profit		**8,439,160**	11,585,247
Other income, other expenses and other gains/(losses) — net		**702,923**	1,101,681
Exchange (losses)/gains on operating activities — net		**(82,887)**	89,408
Selling and marketing costs		**(1,564,156)**	(1,115,105)
Administrative expenses		**(1,705,209)**	(1,226,499)
Operating profit		**5,789,831**	10,434,732
Finance costs — net		**(931,226)**	(921,423)
— Finance income	*4*	**135,373**	102,876
— Finance costs	*4*	**(1,066,599)**	(1,024,299)
Exchange losses on financing activities — net		**(91,605)**	(98,620)
Share of results of an associate and a joint venture		**59,269**	136,603
Profit before income tax		**4,826,269**	9,551,292
Income tax expense	*5*	**(944,547)**	(1,690,041)
Profit for the year		**3,881,722**	7,861,251
Profit attributable to:			
— Equity holders of the Company		**3,859,668**	7,848,075
— Non-controlling interests		**22,054**	13,176
		3,881,722	7,861,251
Basic earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*6*	**0.82**	1.68
Diluted earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*6*	**0.82**	1.68

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**3,881,722**	7,861,251
Other comprehensive income		
(items that may be reclassified to profit or loss)		
Currency translation differences	**11,420**	(7,098)
Total comprehensive income for the year	**3,893,142**	7,854,153
Attributable to:		
— Equity holders of the Company	**3,869,023**	7,845,928
— Non-controlling interests	**24,119**	8,225
	3,893,142	7,854,153

CONSOLIDATED BALANCE SHEET

	Note	30 June 2019 RMB'000	30 June 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**55,318,009**	51,121,444
Land use rights	*8*	**1,578,985**	1,482,967
Intangible assets	*9*	**271,082**	231,382
Investments in an associate and a joint venture		**89,687**	176,188
Other receivables and prepayments		**21,029**	21,305
Deferred income tax assets		**89,579**	85,249
		57,368,371	53,118,535
Current assets			
Inventories	*10*	**7,609,111**	6,691,091
Trade and bills receivables	*11*	**3,984,294**	5,998,275
Other receivables and prepayments		**3,348,794**	2,979,699
Financial assets at fair value through profit or loss		**60,565**	—
Tax recoverable		**23,663**	9,950
Restricted cash		**156,615**	—
Short-term bank deposits		**26,077**	—
Cash and cash equivalents		**8,186,379**	9,044,707
		23,395,498	24,723,722
Total assets		**80,763,869**	77,842,257
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	**480,531**	478,977
Share premium	*12*	**3,884,720**	3,765,002
Other reserves		**5,283,011**	6,457,327
Retained earnings		**27,943,012**	25,278,150
		37,591,274	35,979,456
Non-controlling interests		**310,250**	286,131
Total equity		**37,901,524**	36,265,587

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**30 June 2019** *RMB'000*	30 June 2018 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**16,620,263**	14,571,089
Deferred income tax liabilities		**3,187,971**	2,772,576
Other payables		**106,521**	90,767
		19,914,755	17,434,432
Current liabilities			
Borrowings	*13*	**14,381,962**	18,141,114
Trade and bills payables	*14*	**5,585,508**	3,172,672
Other payables and contract liabilities		**2,509,931**	—
Other payables and advance from customers		**—**	2,122,238
Current income tax liabilities		**470,189**	706,214
		22,947,590	24,142,238
Total liabilities		**42,862,345**	41,576,670
Total equity and liabilities		**80,763,869**	77,842,257

CASH FLOWS INFORMATION

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**3,881,722**	7,861,251
Adjustments for non-cash items/income tax expense/other items with investing or financing cash flows effects/changes in working capital	**6,868,812**	2,929,908
Cash generated from operations	**10,750,534**	10,791,159
Income tax paid	**(783,379)**	(1,252,842)
Interest paid	**(1,329,869)**	(1,138,026)
Net cash generated from operating activities	**8,637,286**	8,400,291
Net cash used in investing activities	**(5,844,997)**	(7,375,845)
Net cash (used in)/generated from financing activities	**(3,684,079)**	1,582,847
Net (decrease)/increase in cash and cash equivalents	**(891,790)**	2,607,293
Cash and cash equivalents at beginning of the year	**9,044,707**	6,472,756
Exchange gains/(losses) on cash and cash equivalents	**33,462**	(35,342)
Cash and cash equivalents at end of the year	**8,186,379**	9,044,707

1. GENERAL INFORMATION AND SUMMARY OF CHANGES IN ACCOUNTING POLICIES

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

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

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 24 September 2019.

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

(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 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration

Save for the impact of adoption of HKFRS 9 and HKFRS 15 disclosed in Note (c) 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.

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

The following new standards, interpretations and amendments to standards relevant to the Group have been issued but are not effective for the financial year beginning on 1 July 2018 and have not been early adopted by the Group:

HKAS 19 (Amendments)	Employee Benefits[1]
HKAS 28 (Amendments)	Long-term Interests in an Associate or Joint Venture[1]
HKFRS 16	Leases[1]
HK(IFRIC) 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements to 2015–2017 Cycle	Improvements to HKFRS[1]
HKAS 1 and HKAS 8 (Amendments)	Definition of material[2]
HKFRS 3 (Amendments)	Definition of business[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 2019.
2 Effective for annual periods beginning on or after 1 July 2020.
3 Effective date to be determined.

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements.

The adoption of HKFRS 9 and HKFRS 15 by the Group resulted in changes in accounting policies. The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the balance sheet as at 30 June 2018, but are recognised in the opening balance sheet on 1 July 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Consolidated balance sheet (extract)	**30 June 2018 As originally presented** *RMB'000*	**HKFRS 15** *RMB'000*	**1 July 2018 Restated** *RMB'000*
Current liabilities			
Advance from customers	**342,508**	**(342,508)**	**—**
Contract liabilities	**—**	**342,508**	**342,508**

2. SALES AND SEGMENT INFORMATION

Sales recognised during the Year are as follows:

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales of packaging paper	**46,943,713**	49,741,364
Sales of printing and writing paper	**6,481,141**	2,706,576
Sales of high value specialty paper products	**994,297**	333,814
Sales of pulp	**228,295**	—
	54,647,446	52,781,754

Segment information

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

The Group is domiciled in the People's Republic of China (the "PRC"). The revenue from external customers attributable to the PRC for the year ended 30 June 2019 is RMB48,554,455,000 (2018: RMB51,205,010,000), and the total of its revenue from external customers from other countries is RMB6,092,991,000 (2018: RMB1,576,744,000).

3. OPERATING PROFIT

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

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Depreciation *(Note 8)*	**2,147,234**	2,044,487
Less: amounts charged to other expenses	**(4,075)**	(4,075)
	2,143,159	2,040,412
Amortisation of intangible assets *(Note 9)*	**14,761**	6,816
Employee benefit expenses	**2,922,217**	1,808,421
Changes in finished goods	**(813,565)**	(1,044,913)
Raw materials and consumables used	**42,591,563**	38,587,323
Amortisation of land use rights *(Note 8)*	**37,686**	37,581
Operating lease expenses	**2,740**	3,033

4. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Finance income:		
Interest income	**135,373**	102,876
Finance costs:		
Interest on borrowings	**(1,176,747)**	(1,036,451)
Other incidental borrowing costs	**(112,889)**	(122,463)
Less: amounts capitalised on property, plant and equipment	**274,274**	135,934
	(1,015,362)	(1,022,980)
Bills discount charge	**(51,237)**	(1,319)
	(1,066,599)	(1,024,299)

5. INCOME TAX EXPENSE

	For the year ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax and withholding income tax *(Notes (a) and (b))*	**516,470**	1,433,354
— United States of America ("USA") income tax *(Note (c))*	**11,422**	—
— Socialist Republic of Vietnam ("Vietnam") income tax *(Note (d))*	**5,858**	—
— Hong Kong profits tax *(Note (e))*	**—**	—
	533,750	1,433,354
Deferred income tax		
— PRC corporate income tax and withholding income tax	**379,568**	256,687
— USA income tax	**24,058**	—
— Vietnam income tax	**7,171**	—
	410,797	256,687
	944,547	1,690,041

(a) PRC corporate income tax

The Group's subsidiaries in the mainland China are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the Group's financial year ended 30 June 2019 (2018: 15%).

(b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the mainland China to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding income tax rate of the intermediate holding company of the Company's mainland China subsidiaries for the year ended 30 June 2019 was 5% (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 year ended 30 June 2019 in respect of operations in USA (2018: nil).

(d) Vietnam income tax

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit for the year ended 30 June 2019 in respect of operations in Vietnam (2018: nil).

(e) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2019 (2018: nil).

6. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**3,859,668**	7,848,075
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,681,076**	4,674,221
Basic earnings per share *(RMB per share)*	**0.82**	1.68

— Diluted

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

For the year ended 30 June 2019, a calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of shares issued for no consideration (2018: same).

	For the year ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**3,859,668**	7,848,075
Weighted average number of ordinary shares for basic earnings per share *(shares in thousands)*	**4,681,076**	4,674,221
Adjustment for share options *(shares in thousands)*	**4,204**	10,694
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,685,280**	4,684,915
Diluted earnings per share *(RMB per share)*	**0.82**	1.68

7. DIVIDENDS

	For the year ended 30 June 2019 *RMB'000*	2018 *RMB'000*
Interim dividend, paid, of RMB10.0 cents (2018: RMB10.0 cents) per ordinary share	**467,422**	467,422
Final dividend, proposed, of RMB18.0 cents (2018: RMB40.0 cents) per ordinary share	**844,600**	1,869,688
	1,312,022	2,337,110

At a meeting held on 24 September 2019, the Board proposed a final dividend of RMB18.0 cents per ordinary share. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2020.

8. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment *RMB'000*	Land use rights *RMB'000*
Year ended 30 June 2019		
Opening net book amount	**51,121,144**	**1,482,967**
Additions	**6,058,351**	**135,611**
Business combination *(Note 16)*	**385,267**	**—**
Disposals	**(148,504)**	**—**
Depreciation/amortisation *(Note 3)*	**(2,147,234)**	**(39,700)**
Exchange differences	**48,685**	**107**
Closing net book amount as at 30 June 2019	**55,318,009**	**1,578,985**
Year ended 30 June 2018		
Opening net book amount	46,415,144	1,520,792
Additions	6,175,020	—
Business combination	808,340	—
Disposals	(203,576)	—
Depreciation/amortisation *(Note 3)*	(2,044,487)	(37,581)
Exchange differences	(28,997)	(244)
Closing net book amount as at 30 June 2018	51,121,444	1,482,967

Amortisation of land use rights amounted to RMB37,686,000 and RMB2,014,000 (2018: RMB37,581,000 and nil) are charged to the "cost of goods sold" of the consolidated income statement and capitalised in construction in progress included in "property, plant and equipment", respectively.

9. INTANGIBLE ASSETS

	RMB'000
Year ended 30 June 2019	
Opening net book amount as at 1 July 2018	**231,382**
Additions	**55,016**
Amortisation *(Note 3)*	**(15,483)**
Exchange differences	**167**
Closing net book amount as at 30 June 2019	**271,082**
Year ended 30 June 2018	
Opening net book amount as at 1 July 2017	230,664
Business combination	1,330
Additions	6,926
Amortisation *(Note 3)*	(7,538)
Closing net book amount as at 30 June 2018	231,382

Amortisation of RMB14,761,000 and RMB722,000 (2018: RMB6,816,000 and RMB722,000) are charged to the "administrative expenses" and capitalised in construction in progress included in "property, plant and equipment", respectively.

10. INVENTORIES

	30 June 2019 *RMB'000*	30 June 2018 *RMB'000*
At cost:		
Raw materials	**3,723,791**	3,619,336
Finished goods	**3,885,320**	3,071,755
	7,609,111	6,691,091

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB46,208,286,000 for the Year (2018: RMB41,196,507,000).

11. TRADE AND BILLS RECEIVABLES

	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**2,790,850**	4,071,572
Bills receivables *(Note (b))*	**1,193,444**	1,926,703
	3,984,294	5,998,275

(a) As at 30 June 2019, the ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
0-30 days	**2,217,195**	3,333,571
31-60 days	**495,793**	652,995
Over 60 days	**77,862**	85,006
	2,790,850	4,071,572

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

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

(b) Bills receivables are mainly with maturity period of 90 to 180 days (2018: 90 to 180 days). Bills receivables as at 30 June 2019 represents the bank acceptance notes and commercial bills (2018: same).

12. SHARE CAPITAL AND SHARE PREMIUM

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

(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 2019	30 June 2018
	RMB'000	*RMB'000*
Non-current		
— Long-term bank and other borrowings	**16,620,263**	14,571,089
Current		
— Short-term bank borrowings	**11,210,493**	14,841,529
— Current portion of long-term bank and other borrowings	**3,171,469**	3,299,585
	14,381,962	18,141,114
Total borrowings	**31,002,225**	32,712,203

The maturity of the borrowings is as follows:

	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
Within 1 year	**14,381,962**	18,141,114
Between 1 and 2 years	**10,430,371**	7,397,162
Between 2 and 5 years	**6,141,770**	6,547,829
Over 5 years	**48,122**	626,098
	31,002,225	32,712,203

14. TRADE AND BILLS PAYABLES

	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**2,210,245**	2,918,844
Bills payables	**3,375,263**	253,828
	5,585,508	3,172,672

(a) As at 30 June 2019, the ageing analysis of trade payables based on invoice date is as follows:

	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
0–90 days	**1,875,637**	1,913,973
Over 90 days	**334,608**	1,004,871
	2,210,245	2,918,844

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 2019	30 June 2018
	RMB'000	*RMB'000*
Not later than one year	**1,663,590**	3,976,565
Later than one year and not later than five years	**391,850**	515,504
	2,055,440	4,492,069

(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 2019	30 June 2018
	RMB'000	*RMB'000*
Not later than one year	**3,417**	3,271
Later than one year and not later than five years	**4,776**	7,323
Later than five years	**14,909**	14,932
	23,102	25,526

16. BUSINESS COMBINATION

The Group acquired a pulp mill in Fairmont, West Virginia, USA, from an independent third party during the year ended 30 June 2019 (the "Acquisition"). The Acquisition was completed on 31 October 2018 (the "Acquisition Date").

Set out below are the summarised information of the Acquisition.

	RMB'000
Purchase considerations — cash	436,027

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of Operations

Strong financial position for the Year albeit complex and volatile operating environment

During the Year, the Chinese packaging paperboard industry operated in an extremely severe environment. The Sino-US trade war which has repeatedly escalated since mid-2018, leading to relatively conservative manufacturing industry chains, as well as slowdown in export and spending appetite of end consumers. Further tightening of the import quota of recovered paper has resulted in unpredictable price volatility of recovered paper. In addition, the fluctuation in RMB exchange rate has also brought certain impact to the paper industry.

As the lingering negative impact of the Sino-US trade disputes continued to erode the confidence of downstream customers and consumers, the product selling prices of both large and small-scale paper manufacturing businesses were generally under pressure, and the Group was no exception. As a result, profitability for the Year declined from its peak in FY2018. Nevertheless, the Group still maintained a strong financial position, with sales and sales volume for the Year reaching a new record high while debt gearing ratio decreased to its lowest level over the last decade and cash flow remained at a healthy level.

As at 30 June 2019, the Group's total design production capacity for paper and pulp worldwide amounted to 15.89 million tonnes per annum ("tpa"). Currently, it has reached 16.37 million tpa.

During the Year, the Group continued to promote innovation, research and development, as well as training in order to enhance the aspects of technology, product, environmental protection, safety and human resources management. As at 30 June 2019, the Group employed a total of approximately 18,500 full-time staff and has obtained 565 patents, while another 150 patent applications or approvals are being processed.

Business Strategy and Development Plan

Broadening of product range and expansion of paper production capacity

The Group makes timely and appropriate adjustments to its sales strategies in response to changes in the macro-environment and market demands. During the Year, while reinforcing our existing mid-to-high-end customer base, we have also promoted products with good value for money under the "River Dragon (江龍牌)" brand with a view to establishing a more diversified product mix and expanding the coverage in mid-to-low-end markets, in order to increase the overall sales volume and market share of the Group.

In terms of paper production capacity, during the Year the Group has commenced production of new production capacity of 0.55 million tpa at the Chongqing base. Currently, the Group has a design production capacity of 15.52 million tpa for paper. According to our original plan, an additional aggregate production capacity of 2.05 million tpa for linerboard would have commenced production in Shenyang, Hebei, Quanzhou and Dongguan by the third quarter of 2019. However, due to executional delays in construction, design works and commissioning tests, the progress was delayed correspondingly. Additionally, we plan to add 0.55 million tpa of linerboard capacity in Malaysia by the end of 2021. Details of the latest production commencement plan for our paper manufacturing projects are as follow:

Production base	**Paper products**	**Design production capacity (tpa)**	**Expected commencement date**
China			
Shenyang	Linerboard	600,000	2019Q4
Quanzhou	Linerboard	350,000	2019Q4
Hebei	Linerboard	500,000	2020Q1
Dongguan	Linerboard	600,000	2020Q1
Malaysia	Linerboard	550,000	2021

Upon completion of all these paper manufacturing projects, the Group's total design capacity for paper production is expected to reach 18.12 million tpa by the end of 2021.

Commencing self-production of recycled pulp to diversify raw material sources

As the imposition of import quota on recovered paper has decreased raw material supply, the amount of domestic recovered paper is expected not enough to satisfy the entire market demand. The resulting supply gap in recovered paper would bring an impact to the paper manufacturing industry that should not be underestimated. Leveraging our solid corporate strengths built over the years, the Group has actively diversified the purchasing channels of domestic recovered paper and closely monitored the quality of domestic recovered paper for early preparation. Meanwhile, we have also formulated a detailed plan for the manufacturing of pulp. In particular, we expect to increase the production capacity of recycled pulp upstream 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.

As at 30 June 2019, the Group's aggregate design production capacity for kraft pulp and recycled pulp was 0.37 million tpa. We have carried out a series of equipment upgrade for our mill in Old Town, U.S. The mill has commenced production of unbleached softwood kraft pulp since August 2019 with a production capacity of 0.16 million tpa. The Group has acquired a company in Malaysia in September with a production capacity of 0.48 million tpa of recycled pulp. Currently, the Group has a total design production capacity of 0.85 million tpa for kraft pulp and recycled pulp.

We plan to further increase the production capacity of our existing mills in the U.S. for recycled pulp by 0.56 million tpa and kraft pulp by 0.20 million tpa by the end of 2021. Details of the latest plan for our kraft pulp and recycled pulp manufacturing projects are as follow:

Production base	Pulp products	Design production capacity (tpa)	Expected commencement date
U.S.			
Biron	Recycled pulp	240,000	2020
Fairmont	Recycled pulp	60,000	2020
	Recycled pulp	60,000	2021
Rumford	Recycled pulp	200,000	2020
	Kraft pulp	80,000	2020
Old Town	Kraft pulp	115,000	2021

Upon completion of all these pulp manufacturing projects, the Group's aggregate design capacity for kraft pulp and recycled pulp production is expected to reach 1.61 million tpa by the end of 2021.

Optimizing the industry chain by downstream expansion

We believe that a vertical industry chain would help further optimize our product and cost structure. As such, in September of 2019, the Group expanded its business towards the downstream industry chain through the acquisition of packaging business in the production of corrugated cardboard and carton boxes. Equipped with advanced automated equipment, the acquired packaging plants are in the proximity of the Group's paper manufacturing bases, with a total annual design production capacity of 1.0 billion sq.m. These would bring synergy to the Group in various aspects, including enhanced operating efficiency, boosting business volume and revenue, reducing operating and financial costs as well as increasing pricing power.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB54,647.4 million for FY2019, representing an increase of approximately 3.5% as compared with FY2018. 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 85.9% of the revenue, with the remaining revenue of approximately 14.1% generated from its printing and writing paper and high value specialty paper and pulp products.

The Group's revenue for FY2019 increased by approximately 3.5% as compared with FY2018, resulting from the increase in sales volume of approximately 8.5% which was mainly contributed by the recently acquired mills in the USA. Revenue of linerboard, high performance corrugating medium, coated duplex board, printing and writing paper, and high value specialty paper and pulp products for FY2019 accounted for approximately 47.9%, 21.3%, 16.7%, 11.9% and 2.2% respectively of the total revenue, compared to 52.2%, 23.7%, 18.4%, 5.1% and 0.6% respectively in FY2018.

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 30 June 2019 was approximately 15.9 million tpa, comprising approximately 8.1 million tpa of linerboard, approximately 3.4 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper and approximately 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's sales volume reached approximately 14.1 million tonnes, increased by 8.5% as compared with 13.0 million tonnes in FY2018. The increase in sales volume was driven by approximately 0.2 million tonnes, 0.1 million tonnes and 0.8 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 FY2019 increased by approximately 5.3%, 2.0% and 130.2% respectively, while the coated duplex board for FY2019 decreased by approximately 3.1% as compared with those in FY2018 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 FY2019.

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 FY2019, revenue related to China consumption represented 88.8% of the Group's total revenue, while the remaining revenue of 9.3% and 1.9% represented sales made to the markets in the US and Vietnam respectively.

For FY2019, sales to the Group's top five customers in aggregate accounted for approximately 4.9% (FY2018: 4.4%) of the Group's total revenue, with that to the single largest customer accounted for approximately 1.4% (FY2018: 1.1%).

Gross profit and Gross profit margin

The gross profit for FY2019 was approximately RMB8,439.2 million, a decrease of approximately RMB3,146.0 million or 27.2% as compared with RMB11,585.2 million in FY2018. The gross profit margin decreased from 21.9% in FY2018 to approximately 15.4% in FY2019, mainly due to the decrease in the selling price of the products for the year impacted by the escalating trade tension between China and the USA.

Selling and marketing costs

Selling and marketing costs increased by approximately 40.3% from RMB1,115.1 million in FY2018 to approximately RMB1,564.2 million in FY2019 which was mainly contributed by the recently acquired mills in the USA. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.1% in FY2018 to approximately 2.9% in FY2019. The increase was mainly attributable to the recently acquired mills in the USA which has different distribution channels as compared to the PRC. If the selling and marketing costs of US operations of approximately RMB552.2 million were excluded, the total amount of selling and distribution costs as a percentage of the Group's revenue excluding US revenue, remained relatively stable at approximately 2.0% in FY2019 as compared to 2.1% in FY2018.

Administrative expenses

Administrative expenses increased by approximately 39.0% from RMB1,226.5 million in FY2018 to approximately RMB1,705.2 million in FY2019 which was mainly contributed by factors including (i) additional management and administrative costs of approximately RMB217.6 million related to the newly acquired mills in the USA; (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 2.3% in FY2018 to approximately 3.1% in FY2019.

Operating profit

The operating profit for FY2019 was approximately RMB5,789.8 million, representing a decrease of approximately RMB4,644.9 million or 44.5% over FY2018. The operating profit margin decreased from 19.8% in FY2018 to approximately 10.6% in FY2019 mainly due to the decrease in gross profit margin of the Group.

Finance costs

The finance costs for FY2019 increased by approximately 4.1% from RMB1,024.3 million in FY2018 to approximately RMB1,066.6 million in FY2019. The increase in finance cost was mainly contributed by the hike of interest rate in FY2019 even though the total borrowings of RMB32,712.2 million in FY2018 decreased to approximately RMB31,002.2 million in FY2019. The increase of interest on borrowings of approximately RMB140.3 million and the increase of bills discount charge of approximately RMB49.9 million were partially offset by the increase of interest capitalised of approximately RMB138.3 million in FY2019 as compared with FY2018.

Exchange losses on operating and financing activities — net

The exchange losses on operating and financing activities before tax for FY2019 in aggregation amounted to approximately RMB174.5 million (represented by exchange losses on operating activities and financing activities before tax of approximately RMB82.9 million and RMB91.6 million respectively), increased by approximately RMB165.3 million from RMB9.2 million in FY2018.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB164.7 million in FY2019 as compared to RMB20.7 million in FY2018.

Income tax expense

Income tax charged for the FY2019 amounted to approximately RMB944.5 million and decreased by approximately 44.1% or RMB745.5 million as compared with FY2018 mainly due to the decrease in profit before tax.

The Group's effective tax rate (income tax expense divided by profit before income tax for the Year) was approximately 19.6% in FY2019 as compared to 17.7% in FY2018.

Net profit

The profit attributable to equity holders of the Company decreased from RMB7,848.1 million in FY2018 to approximately RMB3,859.7 million in FY2019. If the exchange losses on operating and financing activities (net of tax) of approximately RMB164.7 million were excluded, the profit attributable to equity holders of the Company for FY2019 decreased by approximately 48.9%, to approximately RMB4,024.4 million due to decrease in the selling price of the products and decrease in profit margin.

In FY2018, the profit attributable to equity holders of the Company was RMB7,868.8 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB20.7 million were excluded.

Dividend

In FY2019, 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 RMB18.0 cents per share, which will aggregate to approximately RMB844.6 million. The total dividend for the FY2019 amounted to RMB28.0 cents per share (RMB50.0 per share in FY2018). The dividend pay out ratio was approximately 34.0% in FY2019 (29.8% in FY2018).

Working capital

The inventories increased by approximately 13.7% to approximately RMB7,609.1 million in FY2019 from RMB6,691.1 million in FY2018. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB3,723.8 million and finished goods of approximately RMB3,885.3 million.

The raw materials increased by approximately 2.9% to approximately RMB3,723.8 million in FY2019 from RMB3,619.3 million in FY2018. The finished goods increased by approximately 26.5% to approximately RMB3,885.3 million in FY2019 from RMB3,071.8 million in FY2018. The increase in raw materials and finished goods balance was mainly due to the Group's annual design production capacity increased by 0.9 million tpa in FY2019.

In FY2019, raw material (excluding spare parts) turnover days remained relatively stable at approximately 24 days as compared to 25 days for FY2018 while the finished goods turnover days increased to approximately 31 days as compared to 27 days for FY2018.

Trade and bills receivables were approximately RMB3,984.3 million in FY2019, decreased by approximately 33.6% from RMB5,998.3 million in FY2018. During FY2019, the turnover days of trade receivables were approximately 19 days which was within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB5,585.5 million in FY2019, increased by approximately 76.1% from RMB3,172.7 million in FY2018. The turnover days of trade and bills payable were approximately 44 days for FY2019 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 FY2019 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 remained relatively stable of approximately RMB10,750.5 million in FY2019. The decrease of cash generated from profit for the year were offset by the changes in the working capital in particular the increase in trade, bills and other payables and the decrease in trade, bills and other receivables. In terms of available financial resources as at 30 June 2019, the Group had total undrawn banking facilities of approximately RMB52,184.6 million and cash and cash equivalents of approximately RMB8,186.4 million.

As at 30 June 2019, the shareholders' funds were approximately RMB37,901.5 million, an increase of approximately RMB1,635.9 million from that of FY2018. The shareholders' fund per share increased from RMB7.8 in FY2018 to approximately RMB8.1 in FY2019.

Debts Management

The Group's outstanding borrowings decreased by approximately RMB1,710.0 million from RMB32,712.2 million as at 30 June 2018 to approximately RMB31,002.2 million as at 30 June 2019. The short-term and long-term borrowings amounted to approximately RMB14,382.0 million and RMB16,620.2 million respectively, accounting for 46.4% and 53.6% of the total borrowings respectively. As at 30 June 2019, about 99.8% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 65.3% as at 30 June 2018 to approximately 59.7% as at 30 June 2019. 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 2019, total foreign currency borrowings amounted to the equivalent of approximately RMB14,818.5 million and loans denominated in RMB amounted to approximately RMB16,183.7 million, representing approximately 47.8% and 52.2% of the Group's borrowings respectively.

Cost of borrowing

The effective interest rates of long-term borrowings and short-term borrowings were 3.6% and 3.4% per annum as at 30 June 2019 and 3.4% and 3.3% per annum as at 30 June 2018. The gross interest and finance charges (including interest capitalised but before interest income and exchange losses on financing activities) increased to approximately RMB1,340.9 million in FY2019 from RMB1,160.2 million in FY2018.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments during FY2019 were approximately RMB5,814.9 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 RMB2,055.4 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 FY2019, the Group had no material contingent liabilities.

FUTURE OUTLOOK

Turning challenges into opportunities to pursue solid and sustainable development

Crisis creates opportunities. Looking ahead, under the combined influence of supply-side reform and the market factors, large-scale paper manufacturing enterprises are expected to benefit from the industry consolidation. Firstly, non-compliant production will be shut down and suspended as the government continues to strengthen environmental regulation. Secondly, the government's persistent tightening of import quota on recovered paper would result in a tight supply and rising cost of raw materials, which would in turn exert more pressure on the already unfavorable operation of small and medium-sized businesses. Thirdly, driven by the transformation and upgrade of the manufacturing industry of China, large enterprises enjoy the advantage of having more resources to invest in research and development, as well as intelligent manufacturing. The paper manufacturing industry will forge ahead towards the direction of automation and intelligent manufacturing, eliminating small and medium-sized businesses with backward paper manufacturing machineries and equipment from the market.

Faced with both opportunities and challenges, only those who are good at seizing opportunities amid crisis would be able to turn challenges into opportunities in pursuing a solid and sustainable development. Being well prepared, the Group will leverage its competitive edge as an industry leader to consolidate the domestic raw materials and market segments in an effort to ensure stable supply of raw materials, as well as increasing its presence in the mid-to-low end market, while maintaining a healthy debt gearing and sound cash flow, with the ultimate goal of overall profitability improvement.

DIVIDEND

An interim dividend of RMB10.0 cents (equivalent to approximately HK11.72 cents) per share for the six months ended 31 December 2018 (six months ended 31 December 2017: RMB10.0 cents) was paid to shareholders on 8 August 2019.

The Board has resolved to recommend the payment of a final dividend of RMB18.0 cents (equivalent to approximately HK19.9 cents) per share for FY2019, which are expected to be paid on or about Friday, 10 January 2020 subject to the approval of the forthcoming annual general meeting ("2019 AGM"). The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.90255 as at 24 September 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2019 AGM will be held on or before 31 December 2019. A notice convening the 2019 AGM and the book closure of register of members, for the purpose of ascertaining shareholders' entitlement to attend the 2019 AGM and the proposed final dividend, will be published and despatched in the manner as required by the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2019.

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 FY2019 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 FY2019, 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 FY2019, 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, 24 September 2019

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

* *For identification purposes only*