玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

NO ENVIRONMENTAL MANAGEMENT
NO PAPER MAKING

Annual Report 2019/2020

* For identification purposes only

Contents

THE NINE DRAGONS CULTURE

Respect and care for our staff;
Refinement and innovation in
management; Perpetuating a
brand that thrives for a century;
Propagating the spirit of diligence.

Contents printed on Land Dragon
100% Recycled Fiber Offset Paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Cheung Yan *JP (Chairlady)*
Mr. Liu Ming Chung *(Deputy Chairman and Chief Executive Officer)*
Mr. Zhang Cheng Fei *(Deputy Chairman and Deputy Chief Executive Officer)*
Mr. Lau Chun Shun
Mr. Ken Liu *(Deputy Chairman)*
Mr. Zhang Lianpeng
Mr. Zhang Yuanfu *(Chief Financial Officer)*

Independent Non-Executive Directors

Ms. Tam Wai Chu, Maria *GBM, JP*
Mr. Ng Leung Sing *SBS, JP*
Mr. Lam Yiu Kin
Mr. Chen Kefu

EXECUTIVE COMMITTEE

Ms. Cheung Yan *JP (Chairlady)*
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei
Mr. Lau Chun Shun

AUDIT COMMITTEE

Mr. Lam Yiu Kin *(Chairman)*
Ms. Tam Wai Chu, Maria *GBM, JP*
Mr. Ng Leung Sing *SBS, JP*

REMUNERATION COMMITTEE

Ms. Tam Wai Chu, Maria *GBM, JP (Chairlady)*
Mr. Ng Leung Sing *SBS, JP*
Mr. Lam Yiu Kin
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

NOMINATION COMMITTEE

Ms. Cheung Yan *JP (Chairlady)*
Ms. Tam Wai Chu, Maria *GBM, JP*
Mr. Ng Leung Sing *SBS, JP*
Mr. Lam Yiu Kin
Mr. Zhang Cheng Fei

CORPORATE GOVERNANCE COMMITTEE

Mr. Ng Leung Sing *SBS, JP (Chairman)*
Ms. Tam Wai Chu, Maria *GBM, JP*
Mr. Lam Yiu Kin
Ms. Cheung Yan *JP*
Mr. Zhang Cheng Fei

AUTHORISED REPRESENTATIVES

Mr. Zhang Cheng Fei
Ms. Cheng Wai Chu, Judy *ACS, ACIS*

COMPANY SECRETARY

Ms. Cheng Wai Chu, Judy *ACS, ACIS*

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

HONG KONG OFFICE

Unit 1, 22/F., One Harbour Square
181 Hoi Bun Road, Kwun Tong
Kowloon, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

Conyers Dill & Pearman (Bermuda)
Sidley Austin (Hong Kong)
Zhong Lun Law Firm (PRC)

PRINCIPAL BANKERS

Bank of China
Bank of Communications
China Development Bank
China Mincheng Bank
The Export-Import Bank of China
Industrial and Commercial Bank of China
Agricultural Bank of China
China Merchants Bank
Postal Savings Bank of China
Industrial Bank Co., Ltd.

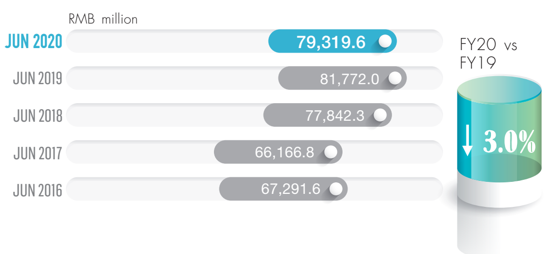
FINANCIAL HIGHLIGHTS

For the year ended 30 June	2020	2019	Change
Operating results (RMB million)			
Revenue	51,341.2	54,609.2	(6.0%)
Gross profit	9,027.3	8,515.1	6.0%
Operating profit	6,061.4	5,823.4	4.1%
Profit before income tax	5,295.6	4,857.9	9.0%
Profit attributable to Company's equity holders	4,168.5	3,879.1	7.5%
Adjusted profit attributable to Company's equity holders(1)	4,430.1	4,043.7	9.6%
Financial position (RMB million)			
Net cash generated from operating activities	8,948.7	8,943.3	0.1%
Net debt	20,596.6	22,728.9	(9.4%)
Shareholders' funds	40,370.6	38,080.8	6.0%
Per share data (RMB cents)			
Earning per share — basic	88.8	82.9	7.1%
Earning per share — diluted	88.8	82.8	7.2%
Dividend per share			
— Interim	10.0	10.0	—
— Final	22.0	18.0	22.2%
Other data (RMB million)			
Capital expenditures	4,794.1	6,005.0	(20.2%)
Key ratio (%)			
Gross profit margin	17.6	15.6	2.0 pts
Operating profit margin	11.8	10.7	1.1 pts
Net profit margin	8.2	7.1	1.1 pts
EBITDA margin	16.7	14.8	1.9 pts
Return on capital employed	9.2	8.5	0.7 pts

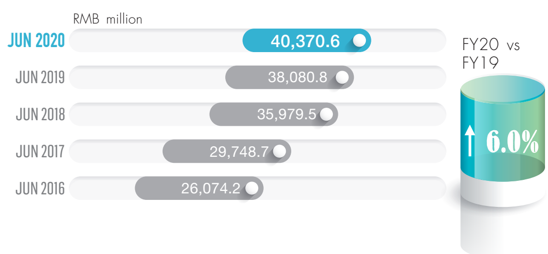
- Gross profit margin increased by approximately 2.0% from 15.6% to 17.6%
- Profit attributable to equity holders of the Company was approximately RMB4,168.5 million, increased by 7.5%
- Adjusted profit attributable to equity holders of the Company increased by approximately 9.6%, to RMB4,430.1 million
- Basic earnings per share increased by RMB5.9 cents to approximately RMB88.8 cents

Note:
(1) Adjusted profit attributable to Company's equity holders excluded the exchange losses on operating and financing activities (net of tax).

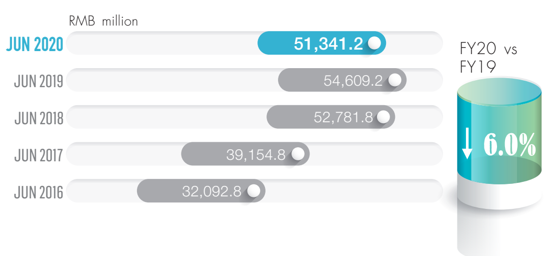
TOTAL ASSETS



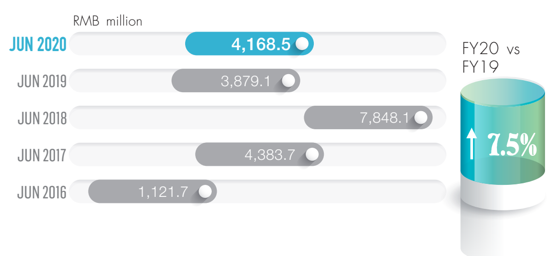
SHAREHOLDERS' FUND



REVENUE



PROFIT ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS



01 MAIN PRODUCTS

LINERBOARD CATEGORY

1) Kraftlinerboard

Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

2) Testlinerboard

Testlinerboard is made of 100% recovered paper. It meets certain customers' requirements for lower cost and environmentally friendly purposes. The Group classifies different classes of products into Land Dragon kraftlinerboard, Sea Dragon testlinerboard, Land Dragon testlinerboard and River Dragon testlinerboard so as to cater to the different needs of the customers.

3) White Top Linerboard

White top linerboard is a three-ply sheet of which the surface layer is bleached, and caters to customers that require a white surface for appearance or superior printability. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

4) Coated Linerboard

Coated linerboard is a four-ply sheet of which the surface layer is coated on bleached kraft pulp. It possesses the characteristics of high performance (as that of kraftlinerboard) and high printability (as that of coated duplex board), which can replace the traditional coated duplex board.

02 HIGH PERFORMANCE CORRUGATING MEDIUM

Compared to standard corrugating medium, high performance corrugating medium, which undergoes surface sizing, achieves superior strength and physical properties for the same basis weight, which reduces packaging weight, bulk and the amount of material used, allowing customers to save on shipping costs. The Group offers high performance corrugating medium ranging from 50–180g/m^2, of which light weight high performance corrugating medium of 50, 60 and 70g/m^2 are at a leading position in the industry. High performance corrugating medium satisfies the needs of the customers for different classes and weights. The Group classifies different classes of products into Nine Dragons, Sea Dragon, Land Dragon and River Dragon so as to cater to the different needs of the customers.

03 COATED DUPLEX BOARD

Coated duplex board is a type of boxboard with a glossy coated surface on one side for superior printability. This product is typically used as packaging material for small boxes that require high quality printability, such as consumer electronic products, cosmetics or other consumer merchandise. It can also be used in combination with high performance corrugating medium and linerboard for the outer layer of corrugated board. The Group classifies different classes of products into Nine Dragons, Sea Dragon, Land Dragon and River Dragon so as to cater to the different needs of the customers.

04 PRINTING AND WRITING PAPER CATEGORY

1) Uncoated Woodfree Paper

Uncoated woodfree paper is suitable for printing books, teaching materials, magazines, notebooks and colour pictures. The Group offers high quality uncoated woodfree paper of 50–80g/m^2. This product has passed FSC certification. The Group classifies different classes of products into Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

2) Office Paper

Office paper is suitable for colour printing and copying, colour inkjet and digital printing, high-speed black and white printing and copying for office uses. The surface of this product is processed with special technologies, minimizing the wear of office equipments. It has passed FSC certification. The recycled fiber multifunction office paper under the Sea Dragon brand is made of recovered paper and is more environmentally friendly.

05 PRODUCTS OFFERED BY U.S. MILLS

1) Printing Paper

The Group's offering of printing and writing papers provides a broad range of products for nearly any project. Our mills produce coated freesheet, coated groundwood and uncoated freesheet grades for a variety of end uses, including catalogs, magazines, retail flyers, and commercial printing.

2) Specialty Paper

The Group's specialty papers are inventive and adaptable, with consistent quality, superior customer service and reliability. With primary focus in label and release liner applications, the Group's Rumford Division has over 20 years of experience selling into these markets.

3) Pulp

The Group's NBSK and NBHK pulp grades are known for their consistency and functional properties.

06 PACKAGING PRODUCTS CATEGORY

1) High Performance Corrugated Cardboard Products

Manufactured by Germany's advanced BHS corrugator machines, our high performance corrugated cardboard is 100% made by the Group's containerboard products. The Group produces Type A, C, B and E corrugated cardboard and double to quintuple wall cardboard. Being highly tenacious and impact resistant, the products are suitable for producing high-end carton boxes and lining boards. The Group also caters to customers' needs to design and produce corrugated cardboard with special functionalities such as waterproof, moisture proof, and anti-counterfeiting, and classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon.

2) High Performance Carton Box Products

The Group produces carton boxes with 1–7 colour water based printing. The products offer high resistance to compression and impact, and clear printing effect. All raw materials meet the latest environmental requirements and are suitable for the packaging of food, electronic appliances, industrial products and logistics purposes, etc. With advanced high-speed printing presses and equipment including fully automated flatbed die-cutting, combination stitcher/gluer machines, the Group is able to meet the diverse needs of customers.

CHAIRLADY'S REPORT

Having an abundant and stable supply of upstream raw materials is the core competence of Nine Dragons Paper. To maintain this edge will be top priority of the Group in the future.

Dear Shareholders,

During FY2020, the global economy and the packaging paper industry in China were faced with historically severe challenges. Tensions between China and the U.S. persisted; pressure was posed on production and sales as the COVID-19 Pandemic has led to logistics control, temporary shortage of recovered paper supply and weakening market demand during the second half of the Year. Coupled with tightened import quota for recovered paper and high volatility of both domestic recovered paper prices and Renminbi exchange rate, the Group has seen unprecedented challenges.

Amidst various exceptional conditions both at home and abroad, Nine Dragons Paper prudently focused on its core business and sought for steady growth. During the pandemic, we adopted stringent preventive measures in a timely manner to ensure the safety and health of more than ten thousands of our employees. Caring about the needs of our home country as always, we contributed our share by donating money and goods worth over RMB33 million, in the hope of riding out the hard times with our fellows. Meanwhile, by capitalizing on our strong edge in raw material procurement, we have restored our plant utilization rate to its normal high level within a short period of time. Thanks to years of support and trust from our customers, sales for the second half of the Year swiftly recovered. The Group's total sales volume for the Year reached a historical high of approximately 15.3 million tonnes, representing a year-on-year increase of 8.5%.

During the Year, we enhanced our cost control and optimized various operation and financial management. Despite the unfavourable market conditions, the overall profitability has still seen an increase with gross profit margin increased by 2.0 percentage points year-on-year to 17.6%. Profit attributable to equity holders increased by 7.5% to approximately RMB4,168 million and basic earnings per share was approximately RMB89 cents. We also maintained strong cash flow and a healthy inventory level, and further reduced the net gearing ratio to 50.5%. This track record serves as the best encouragement in response to all efforts made by our team.

The Board has proposed the distribution of a final dividend of RMB22 cents per share. Together with the interim dividend of RMB10 cents per share, dividend for the Year amounted to RMB32 cents per share with a dividend payout ratio of 36.0%.

Having an abundant and stable supply of upstream raw materials is the core competence of Nine Dragons Paper. To maintain this edge will be the top priority of the Group in the future. During the Year under review, as we planned to enhance our ability in acquiring high quality raw materials and increase our domestic purchase channels for recovered paper, we also actively sought for raw material substitutes. In addition, we are building the Group's first fully-integrated domestic pulp and paper mill in Hubei, which is expected to have a production capacity of 0.6 million tpa for kraft pulp upon completion. The mill will not only render support to the economic recovery of Hubei, but also expand our exposure in the Group's production chain, which is significant to the enhancement of both our raw material procurement and profit. We also plan to build a production capacity of 0.6 million tpa for kraft pulp in Shenyang. Together with the production capacity of 0.48 million tpa for recycled pulp in Malaysia, and 0.22 million tpa and 0.16 million tpa for recycled pulp and kraft pulp respectively in the US mills, the total design production capacity of the Group for pulp will exceed 2 million tpa.

While economies of scale is the crux of the packaging paper industry, from time to time the Group would review changes in the market and raw material supply to adjust its pace of capacity expansion. Currently, Nine Dragons Paper has 14 production bases across the world which are equipped with top-tier equipment and technology. Together, they have a total design production capacity of 17.57 million tpa for paper. By 2022, we plan to add a production capacity of 0.55 million tpa for packaging paper in Malaysia, which will be able to supply to the South East Asia and China markets flexibly. Coupled with the production capacity of 1.2 million tpa for packaging paper provided by the new Hubei pulp base, it is expected the total design production capacity for paper manufacturing of the Group will exceed 19.3 million tpa then.

In terms of downstream industrial chain, the carton boxes and corrugated cardboard business newly acquired during the Year has been streamlined and saw enhanced operational efficiency, which has shown the positive effect of synergy. We intend to further enhance our product R&D, craftsmanship and design, production and sales, logistics and delivery, etc., in order to provide one-stop and enhanced premium services to our end-customers. I believe, leveraging the solid platform of the Group, our downstream business will continue to grow larger and stronger.

Despite the lingering tension between China and the U.S., and the significant impact of the pandemic on the global economy, currently the pandemic has been contained under Chinese Government's effective measures. Coupled with China's high economic potential and resilience, the packaging paper industry will continue to see ample opportunities as its products are necessities which are closely linked to social and household demands. In the short run, the market stimulating measures launched by the Central Government, the gradual resumption of global economic activities and the forthcoming domestic peak season of spending will have a positive impact on driving the market demand. In addition, the tightening of raw material supply will allow less room for raw material cost decline, hence providing certain support for the paper prices. In the long run, the strong resilience of China's economic development, increasing consumer reliance on e-commerce and the new regulations such as Plastic Ban Order and European Union's imposition of tax on plastic packaging will boost the structural demand for packaging paper. Furthermore, the environmental initiatives and tightening raw material supply in various regions will also accelerate the exit of production capacity from small mills, which would help to further enhance the pricing power and overall market share of the leading enterprises.

With 25 years of establishment, Nine Dragons Paper has seen steady and robust development, and has accumulated the strength and confidence to overcome all manner of difficulties. While I have full confidence in the industry outlook, in order to shore up the shortcomings, capitalize on new opportunities in the crisis and embark on new ventures amidst market changes, it is critical to implement the following tasks in the coming year:

1. Actively strengthen the vertical integration of production chain and further tap into the procurement network of domestic recovered paper. We will strategically plan for the production equipment of high quality fiber substitutes, including recycled pulp and kraft pulp, to synergize the complementary advantages in resources;

2. Optimize product quality and perform effective cost control. We will strive to secure our position in high-, middle- and low-end markets as well as maintain our competitive edges in the market;

3. Maintain a healthy gearing ratio and cash flow. We will maximize our profit by reducing borrowing costs and balancing exchange risk; and

4. Pursue sustainable corporate development relentlessly. We will improve our systems in areas such as environmental protection, safety and staff training.

I commit that we will get ourselves well prepared to tackle with changes and challenges, with the determination to provide our customers with "a piece of exemplary quality paper" sustainably. On behalf of all members of the Board, I would like to take this opportunity to express my sincere gratitude to our stakeholders, including all employees, governments at all levels, customers, investors, banks and business partners for their trust and support in Nine Dragons Paper all along.

Cheung Yan
Chairlady

Hong Kong, 22 September 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

Strong financial position with increase in annual profit despite the pandemic

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

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

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

The breakdown is as follows:

Distribution by location	Design production capacity of paper (tpa)	Design production capacity of pulp (tpa)
China		
Dongguan	5,250,000	—
Taicang	3,030,000	—
Tianjin	2,150,000	—
Chongqing	1,900,000	—
Quanzhou	1,000,000	—
Shenyang	950,000	—
Hebei	500,000	—
Leshan	350,000	—
Vietnam	450,000	—
Malaysia	—	480,000
U.S.	890,000	373,000
Total	**16,470,000**	**853,000**

Breakdown by product category	Design production capacity (tpa)
Paper products	
Linerboard	9,080,000
Corrugating medium	3,400,000
Coated duplex board	2,600,000
Printing and writing paper	1,120,000
Specialty paper	270,000
	16,470,000
Pulp products	
Kraft pulp	155,000
Recycled pulp	698,000
	853,000

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

Business Strategy and Development Plan

Enhancing the advantage in vertical integration of production chain

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

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

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

Expanding customer base and maintaining products' high quality

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

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

Gross profit and Gross profit margin

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

Selling and marketing costs

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

Administrative expenses

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

Operating profit

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

Finance costs — net

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

Exchange losses on operating and financing activities — net

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

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

Income tax expense

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

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

Net profit

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

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

Dividend

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

Working capital

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

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

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

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

Liquidity and financial resources

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

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

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

Debts Management

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

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

Treasury policies

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

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

The treasury policies followed by the Group aim to:

(a) **Minimise interest risk**

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

(b) **Minimise currency risk**

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

Cost of borrowing

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

Capital expenditures

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

Capital commitments

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

Contingencies

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

THE GROUP IN THE LAST FIVE YEARS

In millions of RMB

Consolidated Income Statements	For the year ended 30 June 2020	2019	2018	2017	2016
Revenue	51,341.2	54,609.2	52,781.8	39,154.8	32,092.8
Cost of goods sold	(42,313.9)	(46,094.1)	(41,196.6)	(31,178.5)	(26,231.5)
Gross profit	9,027.3	8,515.1	11,585.2	7,976.3	5,861.3
Other income/(expenses) and other (losses)/gains, net	619.3	719.9	1,101.7	681.6	591.0
Exchange (losses)/gains on operating activities, net	(120.2)	(82.9)	89.4	(117.0)	(337.6)
Selling and marketing costs	(1,584.5)	(1,605.3)	(1,115.1)	(837.9)	(736.0)
Administrative expenses	(1,880.5)	(1,723.4)	(1,226.5)	(1,142.3)	(1,047.6)
Operating profit	6,061.4	5,823.4	10,434.7	6,560.7	4,331.1
Finance income	126.3	137.6	102.9	106.7	138.7
Finance costs	(884.0)	(1,070.8)	(1,024.3)	(1,066.0)	(1,410.3)
Exchange losses on financing activities, net	(149.3)	(91.6)	(98.6)	(282.6)	(1,434.5)
Share of results of an associate and a joint venture	141.2	59.3	136.6	116.2	42.4
Profit before income tax	5,295.6	4,857.9	9,551.3	5,435.0	1,667.4
Income tax expense	(1,065.5)	(956.8)	(1,690.0)	(1,025.4)	(518.0)
Profit for the year	4,230.1	3,901.1	7,861.3	4,409.6	1,149.4
Profit attributable to:					
— Equity holders of the Company	4,168.5	3,879.1	7,848.1	4,383.7	1,121.7
— Non-controlling interests	61.6	22.0	13.2	25.9	27.7

Information of Cash Flows	For the year ended 30 June 2020	2019	2018	2017	2016
Net cash generated from operating activities	8,948.7	8,943.3	8,400.3	3,513.3	6,460.5
Net cash used in investing activities	(4,507.1)	(6,100.9)	(7,375.8)	(3,166.4)	(1,360.6)
Net cash (used in)/generated from financing activities	(7,222.9)	(3,732.3)	1,582.8	(4,844.0)	(1,497.5)
Net (decrease)/increase in cash and cash equivalents	(2,781.3)	(889.9)	2,607.3	(4,497.1)	3,602.4

In millions of RMB

Consolidated Assets, Liabilities and Equity	As at 30 June 2020	2019	2018	2017	2016
Total assets	79,319.6	81,772.0	77,842.3	66,166.8	67,291.6
Inventories	5,245.7	7,715.0	6,691.1	4,679.1	3,605.5
Trade and bills receivables	4,596.7	3,984.2	5,998.3	5,399.2	4,597.7
Other receivables and prepayments	2,809.8	3,370.6	2,979.7	1,220.7	954.6
Financial assets at fair value through profit or loss	63.3	60.6	—	—	—
Tax recoverable	14.0	23.7	10.0	50.1	46.7
Short-term bank deposits	35.8	37.1	—	10.8	274.0
Cash and cash equivalents and restricted cash	5,655.1	8,542.6	9,044.7	6,496.8	11,056.1
Total current assets	18,420.4	23,733.8	24,723.8	17,856.7	20,534.6
Property, plant and equipment	58,532.6	55,945.3	51,121.4	46,415.1	44,860.8
Right-of-use assets	1,664.2	—	—	—	—
Land use rights	—	1,610.3	1,483.0	1,520.8	1,521.8
Intangible assets	287.8	277.6	231.4	230.7	245.3
Investments in associate and joint venture	130.4	89.7	176.2	119.8	65.8
Deferred income tax assets	51.8	94.3	85.2	2.4	15.9
Other receivables and prepayments	232.4	21.0	21.3	21.3	47.4
Total non-current assets	60,899.2	58,038.2	53,118.5	48,310.1	46,757.0
Total liabilities	38,523.2	43,380.9	41,576.7	36,082.0	40,870.8
Trade and bills payables	5,472.7	5,680.2	3,172.7	2,291.2	4,098.0
Other payables and advance from customers	—	—	2,122.2	1,842.7	1,315.2
Other payables and contract liabilities	2,503.4	2,625.2	—	—	—
Current income tax liabilities	586.7	470.7	706.2	565.8	434.9
Borrowings	7,926.2	14,595.0	18,141.1	12,116.1	11,992.9
Derivative financial instruments	—	—	—	—	1.1
Total current liabilities	16,489.0	23,371.1	24,142.2	16,815.8	17,842.1
Borrowings	18,361.3	16,713.6	14,571.1	16,833.0	20,852.4
Deferred income tax liabilities	3,554.6	3,189.5	2,772.6	2,433.2	2,176.3
Other payables	118.3	106.7	90.8	—	—
Total non-current liabilities	22,034.2	20,009.8	17,434.5	19,266.2	23,028.7
Capital and reserves attributable to equity holders of the Company	40,370.6	38,080.8	35,979.5	29,748.7	26,074.2
Non-controlling interests	425.8	310.3	286.1	336.1	346.6

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PRINCIPLES

Scope

Established in 1995, the Group is a world-renowned modernized group engaged in recovered paper-based environmentally-friendly paper making with principal business focusing in the production and sales of a broad variety of quality packaging paper products, including linerboard (kraftlinerboard, testlinerboard, white top linerboard and coated linerboard), high performance corrugating medium, coated duplex board, recycled printing and writing paper, specialty paper and pulp. Adhering to the philosophy of "No Environmental Management, No Paper Making", the Group uses recyclable paper as its raw materials, committing itself to environmental protection, energy conservation and emission reduction.

In determining the scope of disclosure in the Group's Environmental, Social and Governance Report (the "Report") for FY2020, the Board of the Group mainly considered the proportion of production capacity of, and revenue from, each production base respectively of the Group. The Board of the Group believes that major impacts of the Group imposed on environmental, social and governance related issues, investors and other stakeholders are properly reflected in the sustainable development initiatives and performance of the eight production bases of the Group in mainland China (namely Dongguan, Taicang, Chongqing, Tianjin, Quanzhou, Shenyang, Leshan and Hebei bases) and one base in Vietnam during the period from 1 July 2019 to 30 June 2020 (the "Year"). This scope is consistent with that in the previous year's Report.

Unless otherwise indicated, the Report does not cover the relevant data on the downstream packaging factories and the Malaysia base acquired in the second half of 2019 because such data cannot reflect their full-year operations. In addition, the Group's mills in the United States are not disclosed in the Report because they only account for approximately 8% of the Group's overall total annual production capacities. The Board will continue to review the importance of such data and consider covering the relevant full-year data in our future reports.

No Environmental Management No Paper Making

Reference Guideline

The Group has been disclosing its performance regarding environment, health and safety, human resources, corporate governance and social responsibility annually since FY2014. The preparation of the Report was with reference to the ESG Reporting Guide in Appendix 27 of the Main Board Listing Rules. Disclosures in the Report were prepared with reference to the information commonly disclosed in paper manufacturing industry and have complied with the mandatory disclosure requirement and the "comply or explain" provisions under the ESG Reporting Guide.

Working Group

The Board of the Group and its five Board Committees (Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee) regularly monitor and review the Company's overall strategy, risk management, financial position, corporate governance, governance on environmental protection and other sustainability initiatives, etc.

The data and information in the Report was derived from the Group's internal documents, records and statistics. The Group's Environmental Protection & Energy Saving Department, Human Resources Department, Information Technology Department, General Management Department, Sales Department, Finance Department, Public Relations Department and Investor Relations Department have formed an inter-department working group to be responsible for the collection, statistics and consolidation of the data and information disclosed in the Report.

Stakeholder Groups and Engagement

The Group values the engagement of and respects the sustainable relationship with each of our stakeholders including business partners, suppliers, clients, investors, regulators, employees and communities. All stakeholders may express their opinions to the Group through a variety of channels listed below to assist in identifying the existing room for improvement by the Group in environmental, social and governance. The opinions and information provided by all parties will be kept confidential and will not be disclosed to any third party.

Stakeholders	Engagement Channels
Employees	• "Chairlady Mailbox (董事長信箱)" established in each of the production bases • The Company's internal specific email box for complaints • Management biweekly meetings, quarterly meetings, half-yearly meetings and annual meetings, etc.
Customers	• Customer visits by customer service team on a regular basis • Customer satisfaction investigation carried out quarterly • Sales hotline and email
Suppliers and business partners	• Service satisfaction survey conducted on a regular basis • "Complaint Handling Guidelines (投訴處理指引)" attached in the commercial contracts entered into with external parties • Notice board about the method of complaints placed at the loading and unloading site in respective production bases
Investors and Shareholders	• Investor enquiry email • Annual General Meeting and Special General Meeting • Investor meetings and conference calls with Investor Relations representatives
Governments and regulators	• Regular communication with the relevant departments of the Company
Media	• Media enquiry email
Public	• General enquiry email

Materiality Identification

Environment and sustainability:	Safety, security and health:
Environmental friendly production	Product safety and quality
Waste treatment	Production and fire safety
Greenhouse gas and wastewater emission	Occupational health and safety
Utilization of energy and water resources	

Corporate governance:	
Staff development, salaries and benefits	Risk management
Supply chain management system	Anti-corruption policy
Platform for consumer complaint	Governance structure and transparency
Privacy protection	

Social issues:	
Poverty alleviation in the community	Disaster aid and relief
Poverty alleviation through industry development	

Environment

The Group recognizes the national concept of ecological civilization of "Clear waters and green mountains are as valuable as mountains of gold and silver" and advocates the recycled economic development model of "Reduce, Reuse and Resource". Adhering to the philosophy of "No Environmental Management, No Paper Making", we not only use recyclable paper as our raw materials, but also continuously step up the efforts on environmental protection by implementing various environmental protection regulations and introducing environmental protection facilities in different production stages so as to ensure our various emission and energy consumption indices outperform government standards.

A1. EMISSIONS

Upholding the principle of green development, energy conservation and emission reduction, the Group monitors its emission in strict compliance with regulations such as "Air Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國大氣污染防治法》), "Emission Standard of Air Pollutants for Thermal Power Plants" (《火電廠大氣污染物排放標準》), "Water Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國水污染防治法》), "Discharge Standard of Water Pollutants for Pulp and Paper Industry" (《製漿造紙工業水污染物排放標準》) and "Law on the Prevention and Control of Environmental Pollution By Solid Waste of the People's Republic of China" (《中華人民共和國固體廢物污染環境防治法》). The Group has well-established emission monitoring and management system, including 24-hour online monitoring, or commissions third party institutions with China Metrology Accreditation (CMA) to regularly collect data for statistical analysis.

Internationally Leading Gas Treatment Facilities and Enclosed Coal Storage Domes

Each of the production bases of the Group has its own heat and electricity boiler to provide steam and electricity for production lines. Currently, coal serves as its major energy source. The adoption of circulating fluidized bed boilers enables reduction in nitrogen oxide at source. For the treatment of exhaust gas, the Group adopts the state-of-the-art and highly efficient desulfurization process (limestone injection and oxidized magnesium wet scrubber at the end), 'two-tier dust removal process (electrostatic bag filter), low-nitrogen combustion and SCR/SNCR denitrification' processes. Through these processes, we have achieved a desulfurization efficiency ratio of over 95%, a denitrification efficiency ratio of over 85% and a dust removal efficiency ratio of over 99.95%. This reduces the generation and emission of pollutants in the flue gas, ensuring various indicators of flue gas outperforming the relevant national emission standards.

Since 2016, the Group has been gradually adding and upgrading ultra-clean facilities, such as the adoption of the latest wet electrostatic precipitating technology to the boilers in an active approach, so as to further reduce dust emission. Currently, the Group has met the national standard of ultra-low emission (with the size of dust smaller than 10mg/m^3), thus effectively improving the quality of the environment.

The Group is the pioneer in the industry in constructing fully automatic and enclosed coal storage domes, which can effectively avoid fugitive dust pollution during the loading, transportation and storage of coal, thereby offering better protection for the surroundings and further improvements to the working and living environment of our staff.

During the Year, each emission indicator of the Group's emissions and greenhouse gases outperformed national or regional standards. Desulfurization, denitrification and dust removal facilities upgraded during the previous financial year for higher emission standards resulted in a year-on-year decrease of 11.3%, 14.0% and 20.0% in SO_2 intensity, NOx intensity and dust intensity, respectively. The total greenhouse gas emission recorded a year-on-year increase of 5.5%, which was mainly attributable to an increase in production capacity and production volume during the Year. However, the greenhouse gas intensity recorded a year-on-year decrease of 0.1%.

Type of Emission	FY2020	FY2019	Change
Sulfur dioxide (SO_2) intensity (tonnes/ten thousand tonnes of paper)	**0.94**	1.06	–11.3%
Nitrogen oxides (NOx) intensity (tonnes/ten thousand tonnes of paper)	**2.76**	3.21	–14.0%
Dust intensity (tonnes/ten thousand tonnes of paper)	**0.16**	0.20	–20.0%

Greenhouse gas emission	FY2020	FY2019	Change
Total emission (tonnes in CO_2 equivalent)	**13,547,004**	12,839,410	+5.5%
Intensity (tonnes in CO_2 equivalent/ten thousand tonnes of paper)	**9,330**	9,339	–0.1%

››Advanced Wastewater Treatment Facilities

The Group adopts internationally leading production technologies for paper making to control the volume of wastewater generated at source. Each of the production lines is installed with an advanced water recycling system which can effectively reduce a large amount of wastewater generated and discharged.

At the end of the wastewater treatment process, we adopt a "four-stage water treatment process (physical + IC anaerobic + aerobic + Fenton advanced treatment)", such that our processed wastewater outperforms the industrial standard, the "Discharge Standard of Water Pollutants for Pulp and Paper Industry" (《製漿造紙工業水污染物排放標準》) (GB3544–2008) and the discharge standards of regions where our production bases are located. A large amount of methane produced during the anaerobic biological treatment of wastewater is transmitted to the boiler for heat and electricity generation as a clean energy after biological desulfurization.

During the Year, various indicators of the Group's discharged water outperformed national or regional standards. Due to the fact that China continued to narrow the quota of imported recovered paper, the Group adjusted the raw material mix accordingly and increased consumption of domestic recovered paper, resulting in an increase of 4.5% in intensity of chemical oxygen demand (COD). Besides, most of the other indicators showed improvements. Among these, intensity of suspended solids (SS) decreased by 13.4% on a year-on-year basis, demonstrating the Group's efficiency and capability in waste water treatment. In addition, the denitrification facilities newly added in the previous year enabled an effective year-on-year decrease of 4.8% and 3.7% in ammonia nitrogen intensity and total nitrogen intensity, respectively.

Discharged water indicators	FY2020	FY2019	Change
Chemical oxygen demand (COD) (tonnes/ten thousand tonnes of paper)	**3.05***	2.92	+4.5%
Ammonia nitrogen (tonnes/ten thousand tonnes of paper)	**0.10**	0.105	–4.8%
Suspended solids (SS) (tonnes/ten thousand tonnes of paper)	**0.58**	0.67	–13.4%
Total nitrogen (tonnes/ten thousand tonnes of paper)	**0.52**	0.54	–3.7%
Chromaticity (times)	**9.97**	9.67	+3.1%
Biological oxygen demand (BOD) (mg/L)	**10.53**	10.98	–4.1%
pH value	**6.71**	6.82	–1.6%

*Note: Given the higher COD of domestic recovered paper, the increase in the proportion of consumption of domestic recovered paper during the Year has resulted in a corresponding increase in COD

While the Group sets the annual emission target, it shall be in compliance with the standards set forth by the authorities governing the ecological environment and maintain the optimal level that it has achieved so as to further foster a year-on-year emission reduction.

The emission target for the next financial year of the Group is an intensity level of greenhouse gases decreased to approximately 9,300 tonnes/ten thousand tonnes of paper. To achieve this, in addition to the implementation of upgrading the environmental protection and treatment facilities for higher emission standards in accordance with the national and provincial requirements, the Group will also optimize the operation of the pollution control facilities in order to further reduce the emission of pollutants.

»Solid Waste Disposal

The hazardous wastes and non-hazardous wastes generated by the Group should be in compliance with the "Solid Waste Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國固體廢物污染環境防治法》). For hazardous wastes, we carry out standardized management in strict compliance with the national management requirements in relation to hazardous waste, with measures including identifying hazardous waste in our plant area in accordance with the "Directory of National Hazardous Wastes" (《危險廢物名錄》), setting up standardized warehouses in plant area for the storage of hazardous waste and commissioning qualified companies with the operating license for disposal of hazardous waste to conduct detoxification treatment.

Since as early as 2003, being the first of its kind, the Group has developed in-house environmentally friendly industrial waste incinerators and sludge drying equipment, to effectively manage its solid wastes. Advanced exhaust gas treatment facilities, bag dust removal unit and semi-dry desulfurization facilities are utilized in incinerators, while emission monitoring units have been installed to ensure real-time online monitoring of gas emission.

In order to enhance our overall utilization rate of solid wastes, we reuse all pulp wastes generated in paper manufacturing in the paper-making workshops and incinerate all solid wastes generated in paper manufacturing after selection, which can generate steam and electricity for production. The water content in sludge is less than 40%, which is an achievement from our research and development as well as continuous promotion and application of the overall utilization techniques of paper making, sludge drying and incineration. We have successfully incinerated sludge generated from wastewater treatment through the frame membrane filter drying process, which does not only reduce secondary pollution, but also turns all dried sludge into renewable fuel, thus saving a large amount of coal and realizing recycling and zero discharge of sludge.

We also sell other solid wastes such as waste coal ashes in the power plants and boiler slag to qualified companies which use such wastes as construction materials.

During the Year, both hazardous wastes and non-hazardous wastes discharge by the Group outperformed national or regional standards. Attributable to the government's intensified management and control over the impurity rate of recovered paper from the source as well as the Group's effective control over solid wastes, which included the addition of two-stage bag dust removal and the identification of hazardous characteristics of ashes which allowed the overall utilization of ashes identified as non-hazardous wastes after converting them into general solid wastes, despite an increase in production volume during the Year, total volume and intensity of hazardous wastes registered a year-on-year decrease of 3.6% and 8.8% respectively; while total volume of non-hazardous wastes only slightly increased by 1.7% and their intensity registered a year-on-year decrease of 3.7%.

Solid Wastes	FY2020	FY2019	Change
Total volume			
Hazardous wastes (tonnes)	**5,711**	5,923	–3.6%
Non-hazardous wastes (tonnes)	**2,781,322**	2,734,613	+1.7%
Intensity			
Hazardous wastes (tonnes/ten thousand tonnes of paper)	**3.93**	4.31	–8.8%
Non-hazardous wastes (tonnes/ten thousand tonnes of paper)	**1,915**	1,989	–3.7%

The targeted intensity of hazardous wastes for the next financial year of the Group is to be maintained below 4.0 tonnes/ten thousand tonnes of paper; the targeted intensity of non-hazardous wastes is at a level not higher than 1,920 tonnes/ten thousand tonnes of paper. To achieve this, the Group will put efforts from the source to reduce the purchase of raw materials and supporting materials which would produce large amount of hazardous wastes. In addition, the Group plans to enhance the overall utilization of hazardous wastes such as de-inked slag and mineral oil in order to reuse any recyclable resources whenever possible.

A2. USE OF RESOURCES

》Forest in the City

"There is no waste on this planet, only misplaced resources". The Group has established its general approach to upholding scientific development, green development and using recovered paper for paper making since its establishment.

Among all raw material we used in our products, recovered paper accounted for over 95% of the total fiber, and over 14.7 million tonnes of recovered paper have been recycled and reused through our production every year. With the completion of the large-scale recovered paper recycling in paper manufacturing, we also recycled and reused various wastes generated during our production processes through research and development, technology upgrades as well as equipment enhancement.

Energy conservation

For energy consumption, each production base of the Group has heat and electricity boiler in place to generate electricity and steam for its production lines with coal as the major energy source. In order to reduce coal consumption, we carry out research, development and upgrade of energy-saving technologies, formulate energy saving and upgrading plans and enhance or eliminate equipment with high energy consumption, including replacing less efficient motors with variable-frequency motors, upgrading drum pulpers and wind turbines and eliminating certain lightings and refrigerating equipment.

Utilization of solid waste

- Development of in-house environmentally-friendly industrial waste incinerators since as early as 2003, being the first of its kind
- Utilizing harmless waste generated from paper production, namely light slag and dehydrated sludge of sewage treatment plants as resources, which significantly reduces waste discharge while lowering coal consumption and reducing the emission of greenhouse gases such as carbon dioxide
- Heat and electricity generated from incineration of solid substances is utilized for paper production

Methane Collection and Treatment System

- Continuous technological upgrades since 2008, including the introduction of methane desulfurization devices
- Methane generated from sewage treatment plants is incinerated for electricity and heat supply to substitute for some coal
- Standard coal of 60,000 tonnes can be reduced per annum upon commencement of operation

Energy Saving Measures in Offices

- Energy-saving lights are used and lights of different zones are controlled with individual switches
- Air-conditioning is constantly set at over 26 degrees Celsius
- Lights and computers are turned off during rest hours or long breaks of the staff

During the Year, each of the Group's energy consumption indices outperformed national or regional standards. Affected by the increase in the Group's production volume with new production capacities for commissioning work, the consumption of coal, steam and electricity increased. However, with its constant efforts in the upgrade with energy-saving motors, the Group has eliminated a batch of equipment with high power consumption and low efficiency. Coupled with effective energy-saving measures, the Group registered a year-on-year decrease of 4.4% in electricity intensity.

Energy	FY2020	FY2019	Change
Total consumption			
Coal (tonnes of standard coal)	**4,471,894**	4,329,977	+3.3%
Steam (tonnes)	**22,389,831**	22,130,897	+1.2%
Electricity (kWh)	**8,608,312,893**	8,525,442,867	+1.0%
Intensity			
Coal (tonnes of standard coal/tonnes of paper)	**0.308**	0.315	–2.2%
Steam (tonnes/tonnes of paper)	**1.54**	1.61	–4.3%
Electricity (kWh/tonnes of paper)	**593**	620	–4.4%

The targeted level of coal consumption intensity of the Group for the next financial year is no more than 0.32 tonnes of standard coal/tonnes of paper. To achieve this, the Group will carry out the upgrade for lowering carbon emission and energy conservation, eliminate less efficient equipment with high energy consumption, as well as enhance its overall utilization of solid wastes and utilization rate of solid waste from incineration.

Water Conservation

The Group attaches great importance to water resources and has devoted itself into the enhancement of water recycling rate during the production process. Each of our paper machines is installed with an advanced water recycling system to reuse the processed wastewater at the source of production, so as to reduce water resources consumption.

During the Year, the Group improved the utilization rate of the water recycling system and continued to increase the recycling of wastewater to the manufacturing workshops. The total water consumption and average water consumption recorded a year-on-year decrease of 6.4% and 6.6% respectively. The recycling rate of wastewater maintained at over 97% during the Year.

Water resources	FY2020	FY2019	Change
Total water consumption (tonnes)	**82,329,938**	87,985,066	–6.4%
Average water consumption (tonnes/tonnes of paper)	**5.7**	6.1	–6.6%
Recycling rate of wastewater (%)*	**97.2**	97.1	+0.1 percentage point

* Estimated value

The targeted water efficiency of the Group for the next financial year is expected to be maintained at an average water consumption of approximately 6.0 tonnes per tonne of paper. To achieve this, the Group will enhance the utilization rate of water recycling by carrying out the upgrade of its water-saving facilities, and optimize the operation of wastewater treatment facilities with a view to enhancing the recycling rate of wastewater, thereby reducing the clean water consumption with this two-pronged approach.

Packaging Materials

Plastics and paper are the Group's major packaging materials. Due to the increase in production capacity and volume during the Year as well as the increase in moist proof packaging in response to the market and customer demand, the total consumption and intensity of major packaging materials both increased.

Major packaging materials	FY2020	FY2019	Change
Total consumption (tonnes)	**10,259**	8,922	+15.0%
Intensity (tonnes/ten thousand tonnes of paper)	**7.07**	6.53	+8.3%

A3. ENVIRONMENT AND NATURAL RESOURCES

Green products

The Group always encourages technological innovation as well as the research and development of green products. We continuously innovate and upgrade our products and support the research and development of lightweighted and high-performance products, including testlinerboard, light weight high performance corrugating medium, recycled printing and writing paper, recycled corrugating medium, unbleached linerboard, white top linerboard, coated duplex board and coated white top linerboard. This series of environmentally friendly product with strong edge in resource conservation is leading the development of light-weighted paper packaging.

Environmental Certifications

The Group obtained the certification of "China Environmental Labelling Product" and was successively granted various certifications under international standardized management systems, including ISO9001 certification for quality management systems, ISO14001 certification for environmental management systems, OHSAS18001 certification for occupational health and safety management systems and FSC™ certification for forest environmental protection systems.

Impact on Natural Resources and the Environment

The Group produces paper with recovered paper, which accounts for over 95% of total raw materials for production. It is estimated that 1 tonne of recovered paper produces approximately 0.8 tonne of finished product of paper. Therefore, in comparison with paper-making solely with kraft pulp, it can save wood of approximately 3 to 4 cubic meters, standard coal of approximately 1.2 tonnes, electricity of 600 kWh and water of over 100 tonnes. Recovered paper recycled by the Group amounted to over 14.70 million tonnes per annum, which significantly reduced logging and consumption of water resources and energy, thereby reducing waste discharge and relieving the burden of the environment.

The Group proactively solves the problem of odour in the plant area. We have adopted the advanced anaerobic IC treatment technology in the treatment of wastewater generated from paper production, through which the organic substances in wastewater can be decomposed by anaerobic microorganisms. We collect the methane generated from the process as clean energy to be incinerated in boilers. Concerning the odor generated from various pools in sewage treatment plants, including acidification pools and thickening pools, we implement tank topped-out and ventilation to the odor source, and carry out biological treatment and alkaline sprinkling cleaning treatment of the odor, or send it to boilers for incineration.

The Group is highly concerned about its noise emission, and ensure compliance with the national "Emission Standard of Noise for Industrial Enterprises at Boundary" (《工業企業廠界環境噪音排放標準》) (GB12348–2008). We have installed acoustic insulation panels and mufflers for equipment that produce heavy noise, and set up noise-insulated control rooms in the workshops at paper manufacturing bases and packaging bases to prevent staff from working under high noise levels for prolonged hours. In addition, noise protection devices, such as earplugs, are provided and employees are required to wear them during inspection around the workshops. We also conduct noise monitoring around the plant area on a regular basis, and actively communicate with local residents, so as to minimize the impact on their daily life.

Advocacy of Transparent Management	Construction of Environmental Protection Management System
To ensure open and transparent environmental information, we have set up an LED display screen at the main entrance of our plant area and displayed key environmental data for the paper manufacturing industry to the public, such as sulphur dioxide and COD, which is monitored in real time by local environmental authorities via intranet	A range of systems including a centralized control system on environmental protection, an operational management ledger, and a ledger for facilities and equipment inspection and maintenance
	The centralized control system on environmental protection incorporates the core environmental protection equipment, process operation parameters and online monitoring data into the environmental protection SMS alarm platform, so as to maintain 24-hour online monitoring of the environmental protection operation condition of all bases of the Group

A4. CLIMATE CHANGE

Extreme weather becomes more prevalent every year as a result of climate change. The frequent occurrence of high temperature, chilly conditions, typhoons and rainstorms may affect the procurement of recovered paper, as well as the operation of production facilities, and pollution prevention and treatment facilities in the paper industry, while bringing about certain impact on the transportation of raw materials, auxiliary materials and finished goods.

In response to a wide range of possibilities, the Group will keep abreast of the changes in weather conditions in advance, so that we can activate the emergency response mechanism under extreme weather. We will make reasonable adjustments to the production plan to secure normal transportation of raw materials and supplementary materials, as well as normal operation of our facilities, thereby mitigating the adverse impacts arising from climate change.

》Employment and Labor Practices

Employees are the cornerstone of the Company's success, and "Respect and care for our staff" is one of the core values of the Group. It would be impossible for the Group to have the current sustainable and stable development without the support of its employees. We not only care about our employees' well-being but also their personal and career development.

B1. EMPLOYMENT

》Employment and Benefits

The Group ensures compliance with regulations and contracts in relation to employment in the jurisdiction where it operates by conducting its recruitment in a fair, open and impartial manner, and providing its employees with competitive remuneration and benefits. For instance, our employee recruitment in Mainland China is in strict compliance with regulations such as the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Labor Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》). Meanwhile, we have formulated comprehensive internal systems, namely the "Recruitment Management System" (《招聘管理制度》) and the "Professional Title Evaluation System" (《職稱評審制度》), to ensure equality in the workplace, regardless of the employees' gender, age (except for minors), region and ethnicity. Candidates who meet the job requirements will be able to obtain equal working opportunities. All recruited employees will enter into labor contracts in writing with the Company once they join and report to the Company, which adequately protect the rights of labors.

Upholding the mission of "Taking a leading position in the industry in terms of production output and efficiency, quality management of employees and software management as well as employees' benefits and remuneration", we provide employees with competitive remuneration and benefits among its peers in accordance with the"Remuneration and Benefits Management System" (《薪酬福利管理制度》), and offer attendance bonus to encourage high-caliber staff. In addition to contributions to retirement insurance, work injury insurance, medical insurance, maternity insurance, unemployment insurance and housing provident fund as required by the government, we also offer other benefits, including meal allowance, shift allowance, high temperature allowance, subsidies for environment protection, phone bill allowance and business travel allowance.

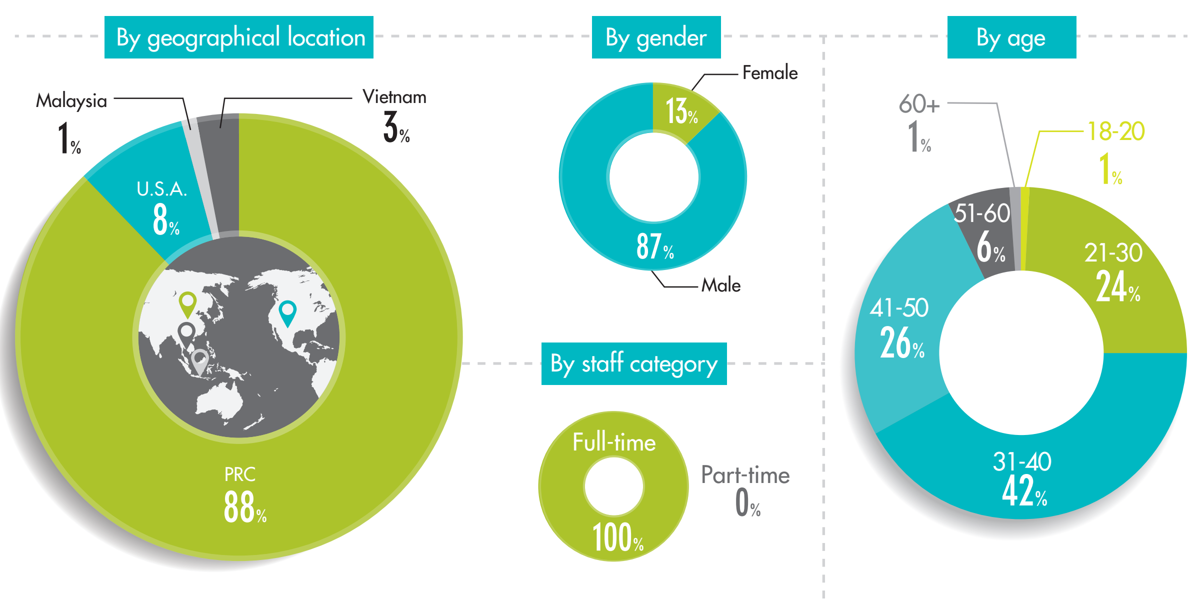
The Group has built its own housing complexes with pleasant environment to provide dormitories to all employees. Besides, with a view to enriching employees' life after work, the Group also provides various living and entertainment facilities, such as gym rooms, swimming pools, basketball courts, football fields and badminton courts. We attach great importance to the meal quality and nutrition in staff canteens, for example, the canteen in Dongguan base uses fresh ingredients supplied by our own ecological park. During the hot summer season, our plants in different areas will arrange the delivery of some cooling refreshments to employees.

In respect of working hours and holidays, the Group, in strict compliance with laws and regulations, ensures that employees can at least have one day off after six days of work. Pursuant to the "Regulation on Public Holidays for National Annual Festivals and Memorial Days" (《全國年節及紀念日放假辦法》), we arrange day offs for employees on national statutory holidays and give overtime pay to those who are unable to take day off in accordance with the regulation. Pursuant to the "Regulation on Paid Annual Leave for Employees" (《職工帶薪年休假條例》), we provide paid annual leaves to all employees. Pursuant to the "Special Rules on Labor Protection for Female Employees" (《女職工勞動保護特別規定》), we provide maternity leave and breastfeeding leave to female employees. Advocating work-life balance, the Group encourages employees to enhance work efficiency and avoid overtime. During the Year, the average overtime hours of employees was 34 hours, representing a year on-year decrease of 10.5%.

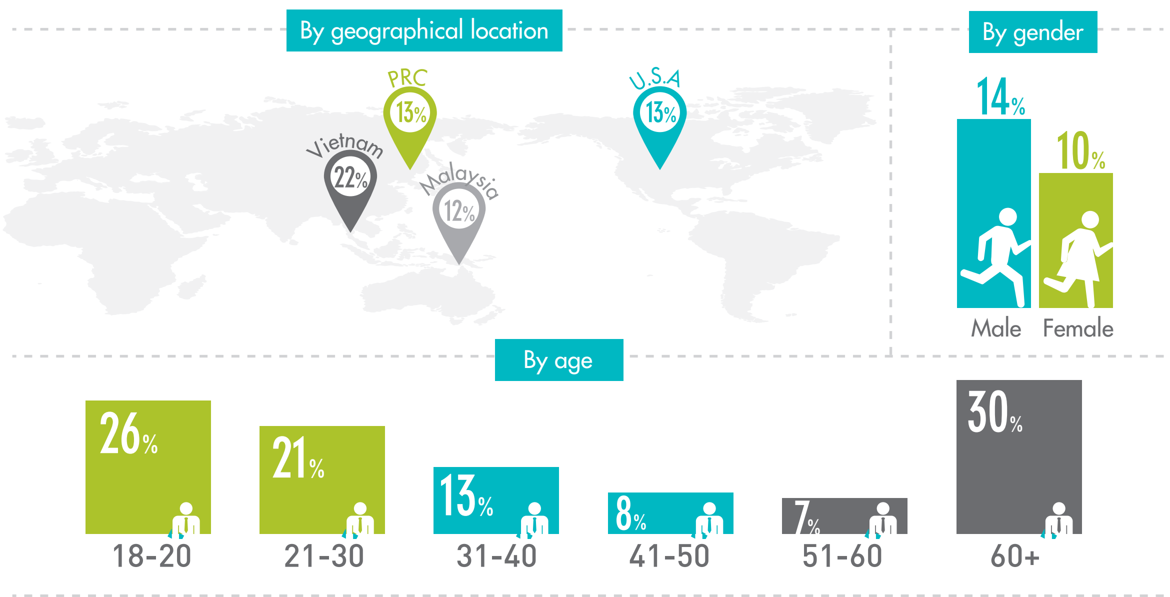
With an aim to further foster the sense of belonging and team spirit, the Group has formed various leisure and recreation clubs, including photography club, badminton club, dance club and volunteer club. Diverse recreational and cultural events have also been held, such as various sports events, Chinese New Year banquets, Lantern Festival Fun Fair and Mid-autumn Festival barbeque gatherings.

As at 30 June 2020, the Group employed a total of 18,740 full-time staff, 16,481 are from the PRC (including Hong Kong), 602 from Vietnam, 164 from Malaysia and 1,493 are from the United States.

»The breakdown of staff



The staff turnover rate



B2. HEALTH AND SAFETY

Upholding the principles of "Safety first" (「安全第一」) and "No fire, No injury" (「不輕傷一個人、不着一把火」), the Group strives to reduce the health and safety risks in its production sites and workplaces.

The Group maintains social insurance, including work injury insurance, for all employees pursuant to regulations such as the Prevention and Control of Occupational Diseases of the People's Republic of China (《中華人民共和國職業病防治法》) and the Regulation on Work-related Injury Insurance (《工傷保險條例》). Furthermore, the Group sets up a fire safety management department, and strictly implements relevant safety regulations and practices formulated by the Group, including Safety Incidents Reporting Management Practices (《集團安全事故匯報管理規範》), Material Stacking Management Practices (《集團物料堆垛管理規範》), Fire Safety Management Practices (《集團消防安全管理規範》), Proposal for Handling of Hazardous Chemical Incidents (《危險化學品事故處置方案》), and Hazardous Waste Stacking Management Practices (《集團危廢物料堆垛管理規範》), amongst others.

The Group provides a broad range of safety protection supplies for all workers, including safety helmets, safety shoes, earplugs, earmuffs, gloves and heat insulation gear, and organizes physical examination in respect of occupational health for staff every year.

Fire safety is a key integral part of corporate governance, particularly the top priority for the paper manufacturing industry. In addition to demanding for strictly complying with the Fire Safety Management Practices by our employees, we have also formed a firefighting team. We highly value the physical training and responsiveness of the team and regular fire drills for coping with fire emergency.

In order to improve employees' capability to deal with emergencies, we organize a large number of emergency drills every year. The Group held over 1,303 emergency drills during the Year.

In response to the outbreak of the COVID-19 pandemic, we have immediately formed a COVID-19 pandemic prevention and control team, establishing various pandemic prevention and control mechanisms as well as safety measures, including: requesting staff from severely infected areas not to return to office temporarily during the pandemic; setting up a dedicated quarantine area for conducting quarantine and observation of employees from or having bypassed severely infected areas; requiring employees to report and register their travel history; regularly disinfecting the plant area, office buildings and employees' dormitories; measuring and registering the body temperatures of employees when entering the plant area, office buildings and employees' dormitories; distributing face masks and providing hand sanitizers to the staff; giving priority to those staff who are responsible for pandemic prevention and control, and waste paper inspection when providing safety protection supplies such as protective gear, N95 face masks and protective gloves; employees are required to wear face masks and maintain safe distancing during the pandemic; requiring employees to abide by alternated shifts and dining time while also dining isolated, and conducting specialized training on the knowledge on prevention and control of COVID-19 for employees.

During the Year, the total working days lost due to work injuries were 4,961 days (FY2019: 10,014 days), which were mainly attributable from minor work injuries. Regarding the management and control of work injury of the Group, our next focused task will integrate with innovation. We strive to accomplish the goal of "No fire, No injury" fundamentally by eliminating the potential risks with innovative means and reformed safe work practices.

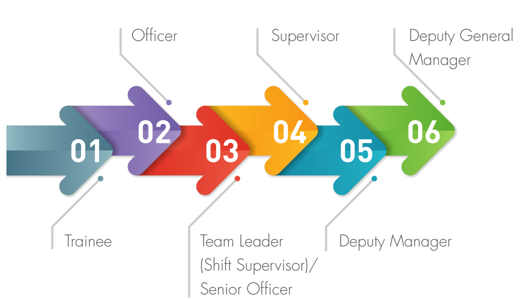
B3. DEVELOPMENT AND TRAINING

The Group values each of its employees. Attaching importance to the human resources power, our personnel management focuses on enhancing staff morale, rendering staff members with hope, momentum, vibrancy and the caring and warmth in the big family of Nine Dragons Paper.

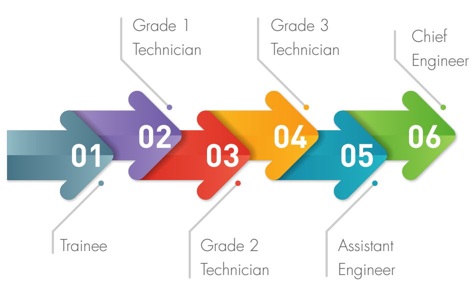
Staff Development

The Group has established a management path and a technology path for employees' selection, encouraging them to take both paths for career development. Employees in positions requiring professional techniques can achieve promotion and development by following the professional technique path. With their positions remaining unchanged, they can realize improvement in their position rank and remuneration package in the enterprise.

Management Path



Professional Technique Path



Staff Training

The Group provides a continuous learning environment for its employees by offering various internal and external trainings, which enable them to acquire the latest industry knowledge and techniques, thereby staying abreast of industry standards and market trends. It also provides related training programs to all employees.

External trainings include special operations training and certification, middle-level executive reserve cultivation, Nine Dragons Class student cultivation, professional skills training, etc. During the Year, a total of 2,241 participants (FY2019: 2,529) from the Group joined the external trainings. Total funding provided by the Company was approximately RMB3.56 million (FY2019: RMB3.68 million).

During the Year, the Group organized a total of 7,495 (FY2019: 8,296) internal trainings, and a total of 178,024 participants (FY2019: 218,843) joined such trainings, among which 415 (FY2019: 460) were senior management; 10,630 (FY2019: 10,219) were middle-level management.

In terms of training hours, the Group carried out 208,256 hours (FY2019: 267,066 hours) of training in total during the Year, with average training hours of 12.2 hours (FY2019: 15.2 hours) per employee, among which average training hours of male employees were 11.8 hours, average training hours of female employees were 14.5 hours; 816 hours (FY2019: 935 hours) were attended by senior management; 11,540 hours (FY2019: 13,620 hours) were attended by middle-level management.

In terms of the types of training carried out by the Group, 54,584 participants (FY2019: 57,560) joined professional skills training; 86,383 participants (FY2019: 117,413) joined safety training; 4,137participants (FY2019: 5,857) joined clean and civilized production training; 16,202 participants (FY2019: 21,723) joined conceptual guidance and professional ethics training; and 16,718 participants (FY2019: 16,291) joined other types of training during the Year.

Overall, many training programs were cancelled by reason of the pandemic outbreak during the Year, and hence the number and hours of training has decreased as compared to the previous year.

B4. LABOR STANDARDS

The Group strictly complies with the minimum age requirement as stipulated by laws and regulations of the places in which it operates and prohibits itself from recruiting children under age of 16. The youngest among the existing employees in the Group are over 18. In the event of any discovery of child labor or use of forced labor, the Group will cease the breach immediately and review the vulnerabilities so as to improve the relevant management systems.

The Group has a staff union in place with members from different departments, who can represent the interests of grass-roots employees. The Company attaches importance to organizing staff union activities and demonstrating its roles so as to put our humanized management concepts into practice.

The Group has been at the forefront of the industry in fulfilling its social responsibilities. Nine Dragons Paper Industries (Dongguan) Co., Ltd. has taken the lead in introducing SA8000 Social Responsibility Management System in the industry since 2013, and passed the certification and was awarded the certificate in February 2015. Nine Dragons Paper Industries (Taicang) Co., Ltd. has also passed the SA8000 Social Responsibility Management System certification and was awarded the certificate in September 2016.

B5. SUPPLY CHAIN MANAGEMENT

The Group has a series of rigorous selection criteria for the evaluation of qualified suppliers. A comprehensive evaluation is conducted on suppliers in terms of company qualification (including time of inception, registered capital, shareholders of the company, scope of operation, necessary qualifications and certificates of the industry, etc.), entities of the company, manufacturing capability (including main products and production capacity, production equipment, inventory, etc.), technical competence (including patents, number of technicians, etc.), aftersale service ability, ISO certification, the capability of quality management and control, honour(s) awarded to the company, business relationships among the suppliers, corporate reputation, geographical advantages of the suppliers, etc. The suppliers are required to provide all information for filing and evaluation in accordance with the Group's requirements. Suppliers evaluated as qualified are recorded into the system as qualified suppliers and the failed are listed as unqualified suppliers.

The Group identifies whether the supplier is in normal operating condition by tracking the business and enterprise information of suppliers on a regular basis. Re-evaluation is made for suppliers with abnormal operating condition. Meanwhile, the suppliers will be tracked regularly to identify any breach of fiduciary duties, and suppliers with such acts of breach will be frozen.

As at 30 June 2020, the number of suppliers of the Group totaled 8,236 (FY2019: 7,819), among which the suppliers of the China bases amounted to 6,994 (FY2019: 6,674) and the suppliers of the Vietnam base amounted to 1,242 (FY2019: 1,145).

B6. PRODUCT RESPONSIBILITY

The packaging paper products of the Group are applicable to various consumer goods. As an enterprise that shouldered its social responsibility, product safety and quality is one of our key commitments to customers.

»Quality assurance

Quality is the core competitiveness of manufacturing industry, and an intrinsic support for perpetuating a brand that thrives for a century. All bases of the Group are making proactive efforts in facilitating works in relation to ISO9000 quality management system, ISO14000 environmental management system, OHSAS18001 occupational health and safety management system and FSC™ certification for forest environmental protection systems. We add no environmentally and physically harmful substances during the process of production. In addition, we carry out precise management and control through domestically and internationally advanced online monitoring and production and quality management system, i.e. DCS, QCS and other systems, and regularly inspect the substances of papers, which are concerns of the customers, through authoritative testing organizations such as SGS.

»Follow-up of complaints and recall of products

Benefited from its professional customer service team and well-established workflow of customer service, the Group is able to carry out all-direction works, including pre-sale, sale and after-sale works. We highly value the feedback of customers, and hence actively visit our customers on a regular basis and actively and professionally answer the questions raised by them. Also, we convene analysis meeting periodically and carry out customer satisfaction investigation works quarterly, so as to continue to improve the quality of products and level of service to the satisfaction of customers genuinely.

For each complaint, the Group designates sales personnel and aftersale service personnel to follow up, conduct onsite handling and provide solutions, so as to reach a consensus between the customers and the Group. The Group responds to the complaints promptly. After verification, complaints within the province, and complaints in remote areas within the province or in other provinces will be handled and closed in 3 working days and 5 working days, respectively. The Group is also committed to achieving the response rate of 100% for complaints from all clients. The Group stipulates that all evidences such as vouchers and records in relation to the complaints must be filed to ensure there are relevant records and evidences available for inspection or for reference.

The Group has a set of comprehensive product traceability management system, under which each product has an independent barcode and label (qualification certificate) that are accurately traceable with SAP, PIMS system, etc. Furthermore, the Group has a stringent product recall management system in place.

During the Year, the complaint rate, calculated based on the number of complaints received for every 10,000 tonnes of products sold, was 0.029% (FY2019: 0.037%), mainly involving minor quality issue, while none of any cases of recall of sold or shipped products for safety and health reasons has occurred.

»Safeguarding and protecting intellectual property rights

The Group has specifically established the Internal Audit Department, contract review personnel and external legal team which have comprehensive study in the relevant practices and legal knowledge involving intellectual property rights. In addition, the Group has various well-established management and regulations and systems. It also makes reference to the local laws and regulations in relation to intellectual property rights in the places of business when drafting various external documents including purchase/sales contracts, supply agreements and quotations. In order to enhance protection on intellectual property rights of the Group, the related management of the Company receives the corresponding training on a regular basis.

»Consumer data protection and privacy policies

The Group develops a stringent information confidential system (e.g. "The Group's Internal Information Confidential Management Practices" (集團內部信息保密管理規範)). For the purpose of ensuring that customer data and privacy are given adequate protection, and as required by the Information Confidential Management Practices, the related responsible persons must keep complete secrecy of all the confidential materials and confidential information, and shall never spread them without authorization. Meanwhile, the responsible persons shall keep confidential of the data and information, and confidential materials and confidential information leak resulting from mismanagement is not allowed. The responsible persons shall not photograph, copy and make private copies of any confidential documents and data without authorization, and shall not discuss the secret matters in public places and refer to any secret matters in private communication. The copies of confidential materials shall be regarded and managed as if they are the original, and the waste pages generated during the process of copying shall be destroyed in a timely manner. The passing of confidential materials, for which personal service is required, shall be performed in compliance with secrecy measures. We shall implement classified management for documents and shall manage and control the limits of authority of the responsible persons to browse and download such documents in accordance with secrecy requirements.

During the Year, the Group has no such case regarding the leakage of personal information of any customers.

B7. SOUND CORPORATE GOVERNANCE

The Group firmly believes that sound and effective corporate governance, which is a fundamental element in the development of all enterprises, is essential for safeguarding the interests of all stakeholders. In order to maintain the highest level of corporate governance, the Group has adopted a set of comprehensive corporate governance principle, emphasizing the need for an excellent Board, effective internal management and control and stringent disclosure practices, as well as the transparency and accountability for all stakeholders. In addition, the Group constantly updates such practices with a view to fostering a corporate culture with high standards of integrity.

ANTI-CORRUPTION

The Group has specifically established a specialized "Group Audit Regulatory Department" (集團審計監管部) to prevent corruption and investigate corruption cases. Appointed by the Group, the Group Audit Regulatory Department is independent from the management and capable of maintaining objectivity and independence in its governance structure and practical work. Regular operating management audits and special audits are conducted by the Group Audit Regulatory Department quarterly to each of the production bases, while the "Regulatory Commission (監管會)" is also set up in each of the production bases respectively to supervise and manage daily works. Technically, the Group applies the SAP and OA (office automation) systems to achieve routinization and standardization of all businesses, and makes continuous revision and improvement based on feedbacks to minimize the practicability of corruption and related loopholes. In addition, the Group Audit Regulatory Department shall maintain all whistle-blowing of corruption and bribery by any employees in confidentiality and make relevant investigations. During the Year, no outstanding and concluded litigation in relation to corruption was brought against the Group and its employees.

The Group provides anti-corruption education and training for the staff holding key positions on a regular basis. Specialized anti-corruption education and training were arranged for new employees during orientation. The legal department of the Group provides anti-corruption education and training to relevant employees on a quarterly basis. In addition to group-wide anti-corruption trainings, each functional department also promotes anti-corruption education at their department meetings. Further, the "Letter of Undertaking of Integrity (廉潔承諾書)" shall be signed by all the purchasing, sales and supervision personnel and employees holding positions related to economic activities in all other departments of the Group and each of its production bases. The Group and each of its production bases enter into the "Non-improper Commercial Practices Agreement (禁止不正當商業行為協議)" concurrently while entering into commercial contracts with external parties.

All the in-service staff of the Group are strictly prohibited from taking part-time jobs or participating in the operation of business in relation to the Group's activities without permission. Any in-service personnel, whose families (including his/her immediate relatives, spouse and children) establish a company by themselves, is required to file registration with the regulatory department. In the event that the organizations, in which the relatives and friends of the in-service personnel (including his/her immediate relatives, spouse, children, classmates, friends, etc.) work, are doing business with the Group, such personnel shall submit a list of those relatives and friends to the Group and avoid contact with them during the course of business. It is strictly prohibited from divulging any information of the Group to the ex-service personnel.

The Group has communication channels in place for accepting opinions and processing complaints. Internally, we collect the employees' complaints and suggestions through a specific email box for complaints, i.e. the "集團投訴 claim_group/NDDG/ndpaper" and "Chairlady Mailbox (董事長信箱)" established in each of the production bases. Externally, we conduct a service satisfaction survey with customers and suppliers on a regular basis by issuing questionnaires to collect their advice, complaints and suggestions. The commercial contracts entered into with external parties are attached with the "Complaint Handling Guidelines (投訴處理指引)" and there is a notice board about the method of complaints being placed at the loading and unloading site in respective production bases. Among all the matters complained about, those related to each production base will be investigated and handled by the Regulatory Commission thereof, and for those with more significant influence or covering a wider range, a special investigation will be conducted and handled by the Group Audit Department.

COMMUNITY

The Group has been proactively performing its social responsibility and participating in national and local economic development, thereby sparing no efforts in poverty alleviation in the community. In addition to assistance to the poor and vulnerable groups, we support education and poverty alleviation through industry development in poverty-stricken areas, aiming to boost local economic development and create long-term job opportunities. Besides,we are committed to improving the infrastructures in rural areas and improving the living environment of the villagers. During the Year, we also endeavoured to support the prevention and control efforts in fighting the COVID-19 pandemic.

During the current financial year, the Group donated money and materials worth over RMB100 million in various public welfare activities, including:

- Proactively supporting the national initiatives to combat the COVID-19 pandemic: RMB31 million was donated in cash and urgently needed medical supplies worth about RMB2.4 million were procured from various overseas regions and transported back to Mainland China. A Hubei-aid transportation team comprising members of our staff was dispatched to Wuhan with the medical supplies;
- Enthusiastically supporting efforts against the pandemic overseas: medical supplies worth over RMB1.6 million in aggregate were donated to the United States (including over ten thousand medical protective gears and over 100,000 medical face masks); 50,000 medical face masks worth over RMB100,000 in aggregate were donated to Brazil; and supplies worth approximately RMB170,000 in aggregate were donated to Malaysia;
- The Group has always insisted on targeted poverty alleviation and consistently participated in "Guangdong Poverty Alleviation Day" with accumulated donations of over RMB230 million. With these donations for the poverty-stricken areas, the Group focused on supporting the local education, poverty alleviation through industry development, providing assistance to the poor and underprivileged groups, improving the infrastructures in rural areas and improvement of the living environment of villagers, benefitting various underdeveloped areas, including western and northern Guangdong;
- The Group has established the "Nine Dragons Class" with persistence for many years. Poverty alleviation was achieved by way of vocational education with over 1,000 students trained to date. The program provided funding for higher education as well as job opportunities for underprivileged students in remote regions, which served as a sound platform for children from poor families, encouraging them to make positive changes to the future of themselves and their families through their own diligent efforts. This also cultivates for the nation and the industry workers of the new era with consciousness and skills for sustainable development, while keeping a heart of gratitude and love towards the society;
- The Group has established a number of "Caring Bases" to care for poor children staying in mountain regions;
- A total amount of over RMB7 million was donated to support the "A Piece of Caring Paper" activity of China Charity Federation, helping children with congenital heart disease while actively promoting waste paper recycling;
- The Group has actively engaged in poverty alleviation work for ethnic minorities in poverty-stricken areas by donating RMB5 million to improve the education facilities at Ga-la Middle School in Ganzi Yajiang, as well as donating RMB1 million to "Lighting Life in Tibet", a charity project initiated by overseas Chinese;
- The Group proactively participated in disaster relief and made donation for the construction of "Heart Resettling Houses" in disaster-stricken areas several times and donated RMB37 million in aggregate for earthquake disaster relief in Wenchuan, Yushu and Ya'an to assist people in those areas to rebuild their homes;
- The Group has actively supported the nation for successfully hosting the 2022 Beijing Winter Olympic Games and donated RMB20 million for the construction of the Overseas Chinese Ice-Snow Museum;
- The Group has been awarded a number of honors such as "National Poverty Alleviation Award", "China Charity Prize", Advanced Private Enterprise among "Ten thousand enterprises assisting ten thousand villages across the nation", "Chinese Merchants Contribution Award" and "Guangdong Poverty Alleviation Cotton Tree Golden Cup";
- In Hong Kong, a total of over HK$8.6 million have been donated to various organizations, including New Home Association, Our Hong Kong Foundation and Hong Kong Federation of Women in an effort to build a loving community.

MAJOR COMMUNITY ACTIVITIES PARTICIPATED IN FY2020

1. SUPPORT DURING THE COVID-19 PANDEMIC

Since the outbreak of the COVID-19 Pandemic, the Group actively donated RMB31 million in cash to China Charity Federation to support the hardest-hit Hubei province. Given the practical difficulties of critical shortage of materials for pandemic prevention and control in domestic affected areas, the Group mobilized all its forces to purchase the relevant medical supplies in the United States and Brazil urgently. Eventually, with the tremendous efforts from its management and teams, the Company successfully purchased tens of thousands of protective suits and N95 masks valuing approximately RMB2.4 million in total.

Due to continuous spreading of the pandemic, traffic restrictions have been in place in various cities. In order to relieve the pressure on domestic logistics and deliver materials as quickly as possible, our vehicle fleet from Dongguan base undertook the tough task of domestic transportation by establishing the "Aiding-Hubei Pandemic Materials Transporter" (捐助物資馳援湖北運輸隊) to deliver protective suits and other medical supplies to Hubei immediately and give them to various major hospitals receiving critical patients. In addition, we donated a lot of medical masks for the pandemic prevention work in various places, including Liaoning, Tianjin, Beijing, Dongguan.

Funded by the Group, China Charity Federation provided a special disinfection fund to the Blue Sky Rescue to purchase professional disinfectant sprayers and disinfection drugs used for the disinfection work in mobile cabin hospitals, communities, large-scale public transit hubs and other areas in Wuhan with high-density traffic flows. In collaboration with China Charity Federation, we also provided 60 blood purification devices to Hubei for critical patients.

2. TARGETED POVERTY ALLEVIATION PROJECTS

In poverty-stricken areas, Nine Dragons Paper focuses on education, poverty alleviation through industry development, support to the underprivileged groups, improving the infrastructure in rural areas and improvement of the living environment of villagers, benefitting various underdeveloped areas in China.

• Guangdong Poverty Alleviation Day

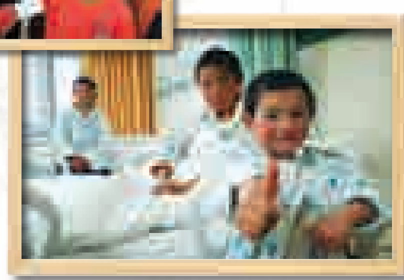
In June 2020, the Group donated RMB42 million during the activity of Guangdong Poverty Alleviation Day (廣東扶貧濟困日) to support the targeted poverty alleviation and rural revitalization in Guangdong and was awarded the "Guangdong Poverty Alleviation Cotton Tree Golden Cup" (廣東扶貧濟困紅棉杯金杯) and was honoured as an Outstanding Contributing and Caring Enterprise in the event of the 10th anniversary of Guangdong Poverty Alleviation Day (廣東扶貧濟困日10周年突出貢獻愛心企業) at both the provincial and municipal levels.

• Ten Thousand Enterprises Assisting Ten Thousand Villages

In October 2019, the Group was honoured as an Advanced Private Enterprise in "Ten Thousand Enterprises Assisting Ten Thousand Villages" targeted poverty alleviation programme (全國萬企幫萬村精准扶貧行動先進民營企業).

• "A Piece of Caring Paper" campaign

The Group financed "A Piece of Caring Paper" campaign (一張紙獻愛心行動) organized by China Charity Federation with accumulated donations of over RMB7 million to help many children with congenital heart disease and patients with echinococcosis from the poverty-stricken families in Tibet, Xinjiang, Gansu and Qinghai.



• Great Love in Small City

Great Love in Small City (小城大愛), a project of the Group to help the needy children in neighboring district, has been lasted for five years and helped more than 170 persons.

• Support Guangdong rural revitalization

Rural roads rebuilding

Before

After

School construction

Before

After

Construction of public service center

Before

After

Financing new home construction for low-income families

Old dilapidated home

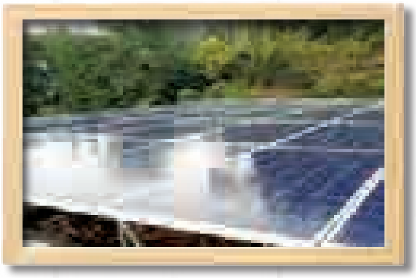
New home

Village road rebuilding and road lamp installation

Financing construction of mulberry growing and silkworm raising base

Financing water channel construction

Financing construction of photovoltaic power generation project



Financing primary school campus improvement

Financing construction of pearl cultivation base and providing unemployment solutions to low-income families

• Funding Caring for Poverty-stricken Mother Program in Guangdong rural areas

The Group helped 164 mothers suffered from severe diseases among the poverty-stricken population in the rural areas in 14 prefecture-level cities in Guangdong.

3. ASSISTING LEARNING AND TEACHING & SCHOOL-ENTERPRISE COOPERATION PROGRAM

• Continuing to open Nine Dragons Class

The 15th Nine Dragons Class was opened in September 2019, providing two majors, i.e. pulp & paper and equipment, to 85 students. The project has been launched for 15 years and provided trainings to 1,025 persons, which not only realized education-oriented poverty alleviation but also developed modern industrial workers with environmental awareness and advanced technological skills for the country.

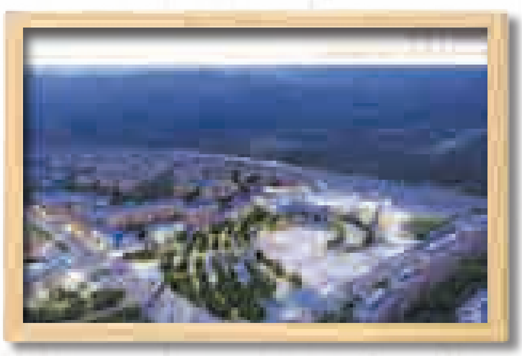
• Other education-oriented poverty alleviation projects

The Group subsidized several middle and primary schools and communities for the improvement of school facilities, establishment of various education funds and scholarships and financed various teaching and research activities.

4. CARING FOR THE ELDERLY

5. FINANCING CONSTRUCTION OF OVERSEAS CHINESE ICE-SNOW MUSEUM

- In order to support the 2022 Winter Olympic Games to be organized in Beijing, China, the Group donated RMB20 million in January 2020 for the construction of Overseas Chinese Ice-Snow Museum (華僑冰雪博物館).



A. Environmental	Key Performance Indicator	
Aspect A1: Emissions		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	**A1**	✓
The types of emissions and respective emissions data	A1.1	✓
Greenhouse gas emissions (in tonnes) and intensity	A1.2	✓
Total hazardous waste produced and intensity	A1.3	✓
Total non-hazardous waste produced and intensity	A1.4	✓
Emissions targets set and steps taken to achieve them	A1.5	✓
How hazardous and non-hazardous wastes are handled, waste reduction targets set and steps taken to achieve them	A1.6	✓
Aspect A2: Use of Resources		
Policies on the efficient use of resources, including energy, water and other raw materials	**A2**	✓
Direct and/or indirect energy consumption by type in total and intensity	A2.1	✓
Water consumption in total and intensity	A2.2	✓
Energy use efficiency targets and steps taken to achieve them	A2.3	✓
Whether there is any issue in sourcing water that is fit for purpose, water efficiency targets and steps taken to achieve them	A2.4	✓
Total packaging material used for finished products with reference to per unit produced	A2.5	✓
Aspect A3: The Environment and Natural Resources		
Policies on minimising the issuer's significant impact on the environment and natural resources	**A3**	✓
Significant impacts of activities on the environment and natural resources and actions taken to manage them	A3.1	✓
Aspect A4: Climate Change		
Policies on identification and mitigation of significant climate-related issues which have or may have significant impact on the issuer	**A4**	✓
Significant climate-related issues which have or may have significant impact on the issuer and actions taken to manage them	A4.1	✓

B. Social	Key Performance Indicator	
Employment and Labour Practices		
Aspect B1: Employment		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	**B1**	✓
Total workforce by gender, employment type (full time or part time), age group and geographical region	B1.1	✓
Employee turnover rate by gender, age group and geographical region	B1.2	✓
Aspect B2: Health and Safety		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	**B2**	✓
Aspect B3: Development and Training		
Policies on improving employees' knowledge and skills for discharging duties at work and description of training activities	**B3**	✓
The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	B3.1	✓
The average training hours completed per employee by gender and employee category	B3.2	✓
Aspect B4: Labour Standards		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	**B4**	✓
Description of measures to review employment practices to avoid child and forced labour	B4.1	✓
Description of steps taken to eliminate such practices when discovered	B4.2	✓
Aspect B5: Supply Chain Management		
Policies on managing environmental and social risks of the supply chain	**B5**	✓
Number of suppliers by geographical region	B5.1	✓
Practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	B5.2	✓
Practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	B5.3	✓
Practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	B5.4	N/A

B. Social	Key Performance Indicator	
Aspect B6: Product Responsibility		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	**B6**	✓
Percentage of total products sold or shipped subject to recalls for safety and health reasons	B6.1	✓
Number of products and services related complaints received and how they are dealt with	B6.2	✓
Description of practices relating to observing and protecting intellectual property rights	B6.3	✓
Quality assurance process and recall procedures	B6.4	✓
Consumer data protection and privacy policies, and how they are implemented and monitored	B6.5	✓
Aspect B7: Anti-corruption		
The policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	**B7**	✓
Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	B7.1	✓
Preventive measures and whistle-blowing procedures, and how they are implemented and monitored	B7.2	✓
Anti-corruption training provided to directors and staff	B7.3	✓
Aspect B8: Community Investment		
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	**B8**	✓
Focus areas of contribution	B8.1	✓
Resources contributed to the focus area	B8.2	✓

INVESTOR RELATIONS

ND Paper has been firmly adhering to a high standard of corporate governance and disclosures. Our proactive approach to investor relations has made us highly recognized by investors worldwide. We have adopted a variety of channels and methods to ensure effective two-way communications and close contacts with shareholders, investors and financial institutions in the capital market in order to build a long-term trusted relationship with various investors. ND Paper has also persistently disseminated relevant and uniform information to investors. Such protocol allows the Group's business development, operating strategies and industry updates to be regularly communicated and interpreted effectively to facilitate investment decisions. Corporate website, press releases and the annual and interim reports provide the means for investors and the public to timely receive latest information about ND Paper's operations and future outlook.

The Group maintains a tri-lingual corporate website in English, Traditional Chinese and Simplified Chinese which consists of a comprehensive section on investor relations. While this section serves as a convenient centralized collection of all regulatory required announcements, reports and circulars after their dissemination via the HKSE website, other sections of the corporate website provide updated information on various facets of the Group's operations.

Participation by management in one-on-one and group investor meetings, conference calls and regional and global investor forums from time to time also allows business visions and financials to be well interpreted and analyzed. Under the threat of COVID-19 pandemic, in order to reduce the risk of infection, the Group has changed the format of most of the investor meetings and activities held in 2020 to an online format, including the interim results presentation and non-deal roadshow. Though we were not able to meet with the investors in person, it did not hinder our daily communication with the investors and conveyance of important messages. In FY2020, ND Paper has organized 6 non-deal roadshows covering Hong Kong and Mainland China. It has participated in 13 investor conferences and events in Hong Kong, Mainland China, Singapore and Macau, as well as more than 60 one-on-one meetings/conference calls and more than 20 group conference calls arranged by various financial institutions.

Currently, Nine Dragons Paper is a constituent of Hang Seng Composite Index and its Sub-indexes, Hang Seng Stock Connect Hong Kong Index, Hang Seng SCHK High Dividend Yield Index, Hang Seng SCHK Mainland China Companies Index, Hang Seng SCHK ex-AH Companies Index, Hang Seng China (Hong Kong-listed) 100 Index, Hang Seng High Dividend Yield Index, Hang Seng Stock Connect Greater Bay Area Index Series, Hang Seng Large Mid Cap Value Tilt Index and Hang Seng Mainland China Companies High Dividend Yield Index.

Major Investor Relations Activities in FY2020

Time	Event	Organizer/Arranger	Location
August, 2019	Group conference call	Macquarie	
September, 2019	Annual Results Investor and Analyst Briefing	Nine Dragons Paper	Hong Kong
September, 2019	Post-results non-deal roadshow	Citi	Hong Kong
September, 2019	Post-results non-deal roadshow	Bank of America Merrill Lynch	Hong Kong
October, 2019	Group conference call with Europe and US Investors	UBS	
October, 2019	Group conference call	First Shanghai Securities	
October, 2019	Group conference call with Taiwan Investors	KGI Securities	
October, 2019	Group conference call with Taiwan Investors	Cathay Securities	
October, 2019	Non-deal roadshow	CICC	Shenzhen
October, 2019	Group conference call with US, Europe and Brazil Investors	J.P. Morgan	

Time	Event	Organizer/Arranger	Location
October, 2019	Investor luncheon	Daiwa Capital Markets	Hong Kong
October, 2019	Site visit	ICBC	Dongguan
November, 2019	Bank of America Merrill Lynch 2019 China Conference	Bank of America Merrill Lynch	Beijing
November, 2019	Citi China Investor Conference 2019	Citi	Macau
November, 2019	UBS Asia Energy, Utilities and Basic Materials Conference	UBS	Hong Kong
November, 2019	Daiwa Investment Conference Hong Kong 2019	Daiwa Capital Markets	Hong Kong
November, 2019	Group conference call	HSBC	
November, 2019	Morgan Stanley Eighteenth Annual Asia Pacific Summit	Morgan Stanley	Singapore
November, 2019	Group conference call with Taiwan Investors	Cathay Securities	
December, 2019	Bank of America Merrill Lynch APAC Resources Conference	Bank of America Merrill Lynch	Shenzhen
February, 2020	Interim Results Investor and Analyst Briefing Call	Nine Dragons Paper	
February, 2020	Post-results non-deal roadshow (conference calls)	Citi	
February, 2020	Post-results non-deal roadshow (conference calls)	Bank of America	
March, 2020	Post-results non-deal roadshow (conference calls)	Macquarie	
March, 2020	Group conference call	HSBC	
March, 2020	Group conference call with US Investors	Morgan Stanley	
March, 2020	Daiwa Investment Conference (conference calls)	Daiwa Capital Markets	
March, 2020	Group conference call	Haitong	
March, 2020	Group conference call	Industrial Securities	
March, 2020	Group conference call	ICBC	
March, 2020	Group conference call	First Shanghai Securities	
March, 2020	Group conference call with Europe Investors	Macquarie	
March, 2020	Group conference call with Taiwan Investors	Cathay Securities	
March, 2020	Group conference call	Goldman Sachs	
March, 2020	Group conference call with Taiwan Investors	SinoPac Securities	
March, 2020	Group conference call with Taiwan Investors	KGI Securities	
March, 2020	Group conference call with Hong Kong, China and Japan Investors	Mizuho Securities	
April, 2020	Group conference call with China Investors	Guoyuan International	
April, 2020	Group conference call with US Investors	Citi	
May, 2020	Morgan Stanley Virtual China BEST Conference	Morgan Stanley	
June, 2020	Group conference call with Taiwan Investors	Cathay Securities	
June, 2020	BofA 2020 Innovative China Virtual Conference	Bank of America	
June, 2020	Citi Industrials/Logistics/SME Virtual Conference	Citi	
June, 2020	Group conference call with Hong Kong, Singapore and UK Investors	Macquarie	
June, 2020	Business update analyst briefing call	Nine Dragons Paper	
June, 2020	CITIC Securities Capital Market Forum 2020 (online)	CITIC Securities	
June, 2020	J.P. Morgan China Investor Virtual Conference	J.P. Morgan	
June, 2020	Group conference call with Taiwan Investors	KGI Securities	

All shareholders are entitled to attend ND Paper's Annual General Meetings and other general meetings either in person or by proxy. Two-way communications are encouraged in such general meetings, so that shareholders present can have an update about the Group's business in addition to a good understanding of the matters being discussed and resolved, while their questions and opinions are heard by the Board and company management.

The last Annual General Meeting was held at the Auditorium, Sun Hung Kai Centre in Hong Kong on 16 December 2019 and a Special General Meeting was held at the Studio, W Hotel in Hong Kong on 27 July 2020. All resolutions proposed in these two meetings were duly passed by shareholders by way of poll. When the Group organized the Special General Meeting, it has also adopted various epidemic prevention measures. These included control of guest number in the event venue according to government's guidance; monitoring the body temperature of guests and requesting them to complete the health declaration form upon entry, and providing hand sanitizers in the venue, etc.

Investor Relations Contact:
Nine Dragons Paper (Holdings) Limited
Corporate Communications Department
Unit 1, 22/F, One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong
Tel: (852) 3929–3800
Fax: (852) 3929–3890
Email: ir@ndpaper.com

CORPORATE GOVERNANCE

The Company strives to attain and maintain the highest standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safe guarding interests of shareholders and other stakeholders. The Company has accordingly adopted sound corporate governance principles that emphasis a quality Board, effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

During FY2020, the Company has complied with the CG Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted 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 Year, they were in compliance with provisions of the Model Code.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive/inside information, have been requested to comply with the provisions of the Model Code.

BOARD

As the date of this Annual Report, the Board comprised eleven Directors, including seven executive Directors and four INEDs.

Ms. Cheung Yan is the spouse of Mr. Liu Ming Chung, sister of Mr. Zhang Cheng Fei and the aunt of Mr. Zhang Lianpeng. Mr. Lau Chun Shun and Mr. Ken Liu are the sons of Ms. Cheung Yan and Mr. Liu Ming Chung, nephews of Mr. Zhang Cheng Fei and cousins of Mr. Zhang Lianpeng. Mr. Zhang Lianpeng is the son of Mr. Zhang Cheng Fei, nephew of Ms. Cheung Yan and Mr. Liu Ming Chung and cousin of Mr. Lau Chun Shun and Mr. Ken Liu. Save as disclosed above, the Board members have no financial, business, family or other material/relevant relationship with each other.

The Board is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are:

- formulating the long-term strategies of the Group and supervising their implementation;
- reviewing and approving, if thought fit, the business plans and financial budgets of the Group;
- approving, if thought fit, the annual and interim results of the Group;
- reviewing and supervising the risk management and internal control of the Group;
- ensuring a high standard of corporate governance and compliance; and
- overseeing the performance of the management.

Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the Chief Executive Officer. A Director who considers a need for independent professional advice in order to perform his/her duties as a Director may convene, or request the Company Secretary to convene a meeting of the Board to approve the seeking of independent legal or other professional advice.

All Directors are appointed for a specific term. In accordance with the Company's Bye-laws, at each annual general meeting, all Directors will be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at the annual general meeting at which he retires. Any Director appointed to fill a casual vacancy shall hold office until the first annual general meeting of the Company after his appointment and be subject to re-election at such meeting. The election of each Director is done through a separate resolution.

The attendance record of each Director at Board Meetings, Board Committee meetings and general meetings for the Year is set out below:

	Board	Private	Remuneration Committee	Audit Committee	Nomination Committee	Corporate Governance Committee	2019 AGM
Number of Meetings	5	1	1	3	1	1	1
Executive Directors							
Ms. Cheung Yan (Chairlady)	5/5	1/1			1/1	1/1	1/1
Mr. Liu Ming Chung (Deputy Chairman and Chief Executive Officer)	5/5		1/1				1/1
Mr. Zhang Cheng Fei (Deputy Chairman and Deputy Chief Executive Officer)	5/5		1/1		1/1	1/1	1/1
Mr. Lau Chun Shun	5/5						1/1
Mr. Ken Liu (Deputy Chairman)	5/5						1/1
Mr. Zhang Yuanfu (Chief Financial Officer)	5/5						1/1
Mr. Zhang Lianpeng	5/5						1/1
Independent Non-Executive Directors							
Ms. Tam Wai Chu, Maria	5/5	1/1	1/1	3/3	1/1	1/1	1/1
Mr. Ng Leung Sing	5/5	1/1	1/1	3/3	1/1	1/1	1/1
Mr. Lam Yiu Kin	5/5	1/1	1/1	3/3	1/1	1/1	1/1
Mr. Chen Kefu	5/5	1/1					1/1

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

To avoid concentration of power and control, the position of the Chairlady and the Deputy Chairman cum Chief Executive Officer are segregated and each plays a distinctive role but complementing each other. The Chairlady is responsible for supervising the functions and performance of the Board, while the Deputy Chairman cum Chief Executive Officer is responsible for the management of the businesses of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The composition of the Board, with 4 INEDs out of the 11-member Board, reaches the requirements of the Listing Rules which provides that every board of Directors of a listed issuer must include at least 3 INEDs and the number of INEDs must represent at least one-third of the Board.

The Company has received, from each of the INEDs, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

CONTRIBUTIONS OF INEDS

The Company strives to build an effective Board, whose capability is appropriate for the scale, complexity and strategic positioning of our business. With this in mind, the INEDs are highly regarded incumbents with the following expertise and experience present in one or more of them:

- Significant board, financial and general management experience across a range of sectors and knowledge of corporate governance issues;
- In-depth and up-to-date knowledge of the global markets and economic, political and regulatory development;
- Considerable experience and qualification in financial administration, banking, legal and/or compliance;
- Broad experience in government organisations, public bodies and/or regulatory authorities;
- Leadership role in large-scale companies or organizations;
- Deep knowledge of commercial expertise;
- Alert of corporate social responsibility issues.

All of them have a wealth of experience in diverse fields and possess the requisite upright character, integrity and business insight for the proper discharge of their duties as independent directors. In pursuit of the Group's objectives and business endeavors, by offering independent and constructive advice, they provide valuable contributions and insights to the Board and instill integrity into every aspect of our business which is also aligned to our values. Their considerable pool of knowledge, experience, skills and expertise are crucial to the Board's deliberations. They have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through active participation.

In addition, the INED act as custodian of the policies and practices that define and safeguard the reputation of the Company and are well placed to carry out their role. They have devoted time to satisfying themselves that our corporate governance practices and compliance policies accord with latest requirements. Their drive, enthusiasm and commitment, along with their proven ability to build and lead a strong Board, brings significant value to all stakeholders of the Group.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the code provisions in paragraph A.4.3 of Appendix 14 of the Listing Rules, any further appointment of INED serving more than 9 years should be subject to a separate resolution to be approved by shareholders. Ms. Tam Wai Chu, Maria has served on the Board for more than 9 years. To comply with Code Provision A.4.3, Ms. Tam will retire voluntarily and re-elect as Director at the AGM held on 7 December 2020.

The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules and affirmed that Ms. Tam remains independent. The Board considers that Ms. Tam remains independent of management and free of any relationship which could materially interfere with the exercise of her independent judgment. There is no evidence that length of tenure is having any adverse impact on her independence. The Nomination Committee reviewed and assessed the independence of Ms. Tam and the Board also reviewed and satisfied that Ms. Tam remains independent notwithstanding the length of her service.

The Board as well as the Nomination Committee have reviewed the independence of all INEDs and have concluded that all of them are independent within the definition of the Listing Rules. Further, up to the date of this report, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any INEDs has been impaired.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, profitability and cash flows of the Group. In preparing the financial statements of the Group for FY2020, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movements of the Group at any time.

The Directors recognize the responsibility for preparing the consolidated financial statements of the Group. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of reporting responsibilities of the Company's external auditor in connection with the financial statements of the Company are set out in the Independent Auditor's Report on pages 84 to 88.

EXECUTIVE COMMITTEE

The Board has established the Executive Committee, which is responsible for the management and administration of the business of the Company and any matters which are within the ordinary course of the Company's business under the control and supervision of the Board and in accordance with the provisions of the Bye-laws.

The members of the Executive Committee shall be executive Directors, but the Executive Committee shall not at any time consist of more than four members. No change shall be made to the composition of the Executive Committee except with the approval of all the Directors in writing. The Chairlady of the Board shall be the Chairlady of the Executive Committee.

Currently, the members of the Executive Committee include Ms. Cheung Yan (Chairlady), Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun.

REMUNERATION COMMITTEE

The Board has set up a Remuneration Committee with a majority of the members being INEDs. Currently, it comprises three INEDs and two executive Directors, namely, Ms. Tam Wai Chu, Maria (Chairlady), Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei.

A separate report prepared by the Remuneration Committee which summarized its works performed during FY2020, and also set out details of the share options to the Directors and the employees on pages 61 to 62 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

AUDIT COMMITTEE

Currently, the Audit Committee of the Company consists of three INEDs, namely, Mr. Lam Yiu Kin (Chairman), Ms. Tam Wai Chu, Maria and Mr. Ng Leung Sing. Mr. Lam is a qualified accountant with extensive experience in financial reporting and controls. Ms. Tam is a barrister and practicing in Hong Kong. Mr. Ng possesses extensive banking, finance and management experience in Hong Kong.

A separate report prepared by the Audit Committee which summarized its works performed during FY2020 is set out on pages 63 to 64 of this Annual Report.

NOMINATION COMMITTEE

Currently, the Nomination Committee comprises three INEDs and two executive Directors, namely, Ms. Cheung Yan (Chairlady), Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Zhang Cheng Fei.

The Nomination Committee was established by the Board with written terms of reference in compliance with the CG Code. The full terms of reference are available on ND Paper's website (http://www.ndpaper.com) and the Stock Exchange's website.

During FY2020, the Nomination Committee reports directly to the Board and the work performed by the Nomination Committee are:

- reviewed the policy for the nomination of Directors and set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship which shall take into consideration the principle of diversity;

- reviewed the structure, size, composition and diversity of the Board and make recommendations on any proposed changes to the Board;

- assessed the independence of INEDs;

- made recommendations to the Board on the appointment or re-appointment of Directors; and

- reviewed the board diversity policy and make recommendations on any required changes to the Board.

Starting from August 2013, the Nomination Committee undertakes an additional function delegated from the Board to review the board diversity policy adopted in August 2013, and makes recommendations on any required changes to the Board. The board diversity policy sets out the approach to achieve diversity on the Board, including makes good use of the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole. The Company believes that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Nomination Committee discusses and agrees annually the relevant measurable objectives that the Board has set for implementing this policy and makes recommendations to the Board for adoption. It also monitors the implementation of this policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this policy.

The Nomination Committee meets at least annually and at such other times as it shall require. The Company Secretary acts as the secretary to the Committee. The Committee is provided with sufficient resources enabling it to perform its duties, and it can seek independent professional advice at ND Paper's expense if necessary.

The Nomination Committee has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of board diversity of the Company.

As at the date of this report, the Board comprises eleven directors. Four of them are INEDs drawn from a diverse background, spanning business management, investment management, public administration, financial services, legal, compliance and accounting, thereby ensuring critical review and control of the management process. The Board has maintained a balanced composition in terms of gender, age, professional experience, skills and knowledge. It has performed effectively by providing sound judgment on strategic issues and effective oversight of and guidance to management. The biographies of the Directors as at the date of this report set out in pages 69 to 71 to this Annual Report demonstrate a diversity of skills, expertise, experience and qualifications.

Having reviewed the implementation of the Board Diversity Policy and the structure, size and composition of the Board, the Nomination Committee of the Board considered that the requirements of the Board Diversity Policy had been met.

During the Year, one Nomination Committee meeting was held with full attendance by the committee members. The Company Secretary prepared full minutes of the Nomination Committee meetings, and the draft minutes were sent to all committee members.

CORPORATE GOVERNANCE COMMITTEE

Currently, the Corporate Governance Committee comprises three INEDs and two executive Directors, namely Mr. Ng Leung Sing (Chairman), Ms. Tam Wai Chu, Maria, Mr. Lam Yiu Kin, Ms. Cheung Yan and Mr. Zhang Cheng Fei.

The Corporate Governance Committee was established by the Board with written terms of reference in compliance with the CG Code. The full terms of reference are available on ND Paper's website (http://www.ndpaper.com) and the Stock Exchange's website.

During FY2020, the Corporate Governance Committee reports directly to the Board and the work performed by the Corporate Governance Committee are:

- developed and reviewed the Company's policy and practices on corporate governance and made recommendations to the Board;

- reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements;

- developed, reviewed and monitored the code of conduct applicable to employees and Directors;

- reviewed the annual corporate governance report and recommended to the Board for consideration and approval for disclosure;

- reviewed the time required from a Director to perform his responsibilities;

- reviewed the Committee's terms of reference and recommended to the Board on any changes; and

- reviewed and monitored the training and continuous professional development of Directors.

The Corporate Governance Committee meets at least annually and at such other times as it shall require. The Company Secretary acts as the secretary to the Committee. The Committee is provided with sufficient resources enabling it to perform its duties, and it can seek independent professional advice at ND Paper's expense if necessary.

During the Year, one Corporate Governance Committee meeting was held with full attendance by the committee members. The Company Secretary prepared full minutes of the Corporate Governance Committee meeting, and the draft minute was sent to all committee members.

RISK CONTROL COMMITTEE

The Risk Control Committee comprises senior and experienced members of management. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analyzing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for minimizing and eliminating risks; reviewing and reporting to the Board in respect of the effectiveness of internal control.

INDUCTION AND PROFESSIONAL DEVELOPMENT

Every newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment to make sure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities in the Company.

A summary of Directors' and Company Secretary's participation in the Directors' training program and other external training for the Year is as follows:

	Attending briefings/ seminars	Reading materials/ regulatory updates/ management monthly updates
Executive Directors		
Ms. Cheung Yan	✓	✓
Mr. Liu Ming Chung	✓	✓
Mr. Zhang Cheng Fei	✓	✓
Mr. Lau Chun Shun	✓	✓
Mr. Ken Liu	✓	✓
Mr. Zhang Lianpeng	✓	✓
Mr. Zhang Yuanfu	✓	✓
Independent Non-Executive Directors		
Ms. Tam Wai Chu, Maria	✓	✓
Mr. Ng Leung Sing	✓	✓
Mr. Lam Yiu Kin	✓	✓
Mr. Chen Kefu	✓	✓
Company Secretary		
Cheng Wai Chu, Judy	✓	✓

Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses. They are requested to provide their respective training records to the Company Secretary.

COMPANY SECRETARY

The Company Secretary supports the Chairlady, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairlady and Chief Executive Officer, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

During FY2020, the Company Secretary confirmed that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

CONSTITUTIONAL DOCUMENTS

During FY2020, there was adoption of new Bye-Laws approved at the annual general meeting held on 16 December 2019.

If any amendment to the Bye-Laws is necessary, according to the relevant law governing the Company, the Company will propose the amendment for shareholders' approval at a general meeting of the Company.

DIVIDEND POLICY

Pursuant to Code Provision E.1.5, the Company has adopted a policy with regard to the declaration of dividends on 18 December 2018. Such policy aims to allow shareholders to participate in the Company's profits and for the Company to retain adequate reserves for future growth. The Company intends to return surplus cash to the shareholders through the payment of dividends, which is subject to the Company's capacity to pay from accumulated and future earnings, cash availability and future commitments at the time of declaration of dividend. The Company may also consider declaring special dividends from time-to-time, in addition to the semi-annual dividends. The Company's income and its ability to pay dividends are dependent upon, among other things, the dividends received from the Company's subsidiaries, which, in turn, would depend on such subsidiaries' distributable profits, operating results, financial condition, capital expenditure plans and other factors. The payment of dividend is also subject to any restrictions under the Bermuda law and the Bye-Laws.

The Board has complete discretion on whether to pay dividends, subject to the approval of the shareholders of the Company, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group.

Dividend Policy reflects the Company's view on the financial and cashflow position of the Group prevailing at the time of its adoption. The Board will review the policy from time-to-time and may adopt changes as appropriate at the relevant time.

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of communications with the shareholders of the Company, both individual and institutional as well as potential investors. In February 2012, the Company adopted a Shareholders Communication Policy of the Company which aims to set out the provisions with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders of the Company to exercise their rights in an informed manner, and to allow shareholders of the Company and potential investors to engage actively with the Company.

Disclosure of information on Company's Website

The Company endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. The Company maintains a corporate website at http://www.ndpaper.com where important and updated information about the Group's activities and corporate matters such as annual and interim reports, announcements, business development and operations, corporate governance practices and other information are available for review by shareholders and other stakeholders. When announcements are made through the Stock Exchange, the same information is made available on the ND Paper's website.

Annual General Meeting

The annual general meeting provides an important opportunity for constructive communication between the Board and the Shareholders. The Chairman and the chairmen of the Board Committees maintained an on-going dialogue with the Shareholders and answered all questions raised by the Shareholders throughout the last annual general meeting held on 16 December 2019.

Investor Relations

During the Year, the Company strived to improve transparency and communications with shareholders and investors. Meetings and conference calls with investors and analysts were held, in order for the Company to understand their views and to keep them abreast on the latest developments. Inquiries on the Company were also dealt with in an informative and timely manner. At the same time, the Company reached out to the investment community by participating in investment conferences and road shows. In order to maintain high standards of corporate governance, the Company will keep a proactive dialogue with the shareholders and investors. Feedbacks and suggestions can be addressed to the Company at info_hk@ndpaper.com.

Shareholders' enquiries

1. Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch Registrar, Tricor Investor Services Limited.

2. Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

3. Shareholders may make enquiries to the Board in writing to the Company Secretary at the office of the Company at Unit 1, 22/F., One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, by email to info_hk@ndpaper.com or by fax to (852) 3929 3894.

Procedure for Shareholders

Set out below are procedures by which Shareholders may: (1) convene a special general meeting and (2) put forward proposals at Shareholders' meetings. These procedures are generally governed by the provisions of the Company's Bye-Laws and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies. Shareholders who have enquiries regarding the below procedures may write to the Company Secretary, whose contact details are set out in paragraph 3 of Shareholders' enquiry above.

1. Procedures by which Shareholders may convene a special general meeting

1.1 Shareholders or a group of Shareholders holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition carrying the right of voting at general meetings of the Company may by written requisition deposit at the Company's principal place of business at Unit 1, 22/F., One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for the attention of the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

1.2 The requisition must specify the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form each signed by one or more of those requisitionists.

1.3 The signatures and the requisition will be verified by the Company's share registrars. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised.

1.4 If the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene such meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. In addition, such meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

2. Procedures for putting forward proposals at a Shareholders' meeting

2.1 The Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as a special general meeting whenever necessary.

2.2 Shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at the AGM; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

2.3 The written request/statements must be signed by the Shareholder(s) concern and deposited at the Company's principal place of business at Unit 1, 22/F., One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, for the attention of the Board of Directors or the Company Secretary, not less than six (6) weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one (1) week before the general meeting in the case of any other requisition.

2.4 If the written request is in order, the Company Secretary will ask the Board of Directors of the Company (i) to include the resolution in the agenda for the AGM; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board of Directors sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the Shareholder(s) concerned in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid or the Shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the general meeting.

REMUNERATION COMMITTEE

The Remuneration Committee was established in March 2006. The functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and practices and establishing recruitment policies that enable the Company to recruit, retain and motivate high-calibre staff to reinforce the success of the Company and create value for the Shareholders.

In addition, the Remuneration Committee supervises and enforces the 2016 Share Option Scheme of the Company in an effective manner. Currently, the Remuneration Committee consists of Ms. Tam Wai Chu, Maria (Chairlady), Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of Executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

Major responsibilities and functions of the Remuneration Committee are:

- make recommendations to the Board on the Company's policy and structure of all Directors' and senior management's remuneration; and the establishment of a formal and transparent procedure for developing remuneration policy;
- review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management; and
- make recommendations to the Board on the remuneration of INED.

SUMMARY OF MAJOR WORK DONE IN FY2020

During FY2020, the Remuneration Committee held one meeting. The following is a summary of the major tasks completed by the Remuneration Committee during the Year:

- reviewed the remuneration level for Directors;
- recommended the Board to approve the fee of the Directors and senior management;
- reviewed and approved the remuneration packages and service contracts of Directors;
- reviewed the movement of the share options under the 2016 Share Option Scheme;
- reviewed the bonus payments to the Directors and the Bonus Distribution policy; and
- reviewed the terms of reference of the Remuneration Committee.

SHARE OPTION SCHEME

2016 Share Option Scheme

The 2006 Share Option Scheme was expired on 3 March 2016. In order to provide the Company with the flexibility of granting share options to the Directors, employees and other persons as incentives or rewards for their contribution or potential contribution to the Group after the expiry of the 2006 Share Option Scheme, the Directors has adopted the Share Option Scheme on 11 December 2015, which has a term of 10 years and will expire on 3 March 2026. Terms of the 2016 Share Option Scheme are substantially the same as those under the 2006 Share Option Scheme.

The principal terms of 2016 Share Option Scheme are as follows:

It is a share incentive scheme established to recognise and acknowledge the contributions or potential contributions of the eligible participants to the Group. Pursuant to 2016 Share Option Scheme, the Board may, at its discretion, offer to grant an option to any director, employee, executive, officer or any supplier, customer, consultant, agent and adviser of the Group.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the 2016 Share Option Scheme to eligible participants in any 12-month period up to the Grant Date shall not exceed 1% of the Shares in issue as at the Grant Date. Any further grant of options in excess of this 1% limit shall be subject to the approval of Shareholders at a general meeting.

The subscription price of a Share in respect of any particular option granted under the 2016 Share Option Scheme shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the Grant Date; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the Grant Date; and (iii) the nominal value of a Share.

The maximum number of shares in respect of which options may be granted under the 2016 Share Option Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, being 10% of the Shares in issue as at the adoption date of the 2016 Share Option Scheme, being 466,622,081 shares. Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2016 Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

As at 30 June 2020 and the date of the Annual Report, no option was granted under the 2016 Share Option Scheme.

DIRECTORS' SERVICES CONTRACTS

None of the Directors who are proposed for re-election at the 2020 AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT DETAILS

Details of the emoluments of the Directors and the senior management are set out in note 22 to the financial statements.

AUDIT COMMITTEE

MEMBERS

As at the date of this Annual Report, all the members of the Audit Committee are appointed from the INEDs, namely, Mr. Lam Yiu Kin (Chairman), Ms. Tam Wai Chu, Maria and Mr. Ng Leung Sing.

TERMS OF REFERENCE

Based on the terms of reference of the Audit Committee, members of the committee shall, among other things, oversee the Group's relationship with its external auditor, monitor the external auditor's independence and objectively, develop and implement policy on the engagement of an external auditor to supply non audit services, review the preliminary results, interim results and annual financial statements, monitor the compliance with statutory requirements and Listing Rules, review the scope, extent and effectiveness of the Group's internal audit functions, review arrangement for concerns about possible improprieties in financial reporting, internal control or other matters, and, where necessary, commission independent investigations by legal advisers or other professionals.

SUMMARY OF MAJOR WORK DONE IN FY2020

The Audit Committee holds regular meetings and organizes additional meetings if and when necessary. During FY2020, the Committee held three meetings. The following is a summary of the tasks completed by the Audit Committee during FY2020:

- reviewed the financial statements for FY2020 and for the six months ended 31 December 2019 before submission to the Board focusing particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from the audit;

  (iv) the going concern assumption;

  (v) compliance with accounting standards; and

  (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

- reviewed the external auditor's audit plan, audit's management letter and audit engagement letter;

- considered and approved FY2020 external audit fees;

- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor;

- reviewed the connected transactions and continuing connected transactions of the Group;

- reviewed the purchase terms and the fairness of the Group's basis of selecting its recovered paper suppliers;

- reviewed the terms of reference of Audit Committee and dividend policy of the Group;

- reviewed and approved loan agreements with covenants relating to specific performance of the controlling shareholders that give rise to a disclosure obligation under section 13.18 of the Listing Rules;

- reviewed the exchange rate risk and hedging policy; and

- reviewed the Company's financial reporting system and internal control system.

REVIEW OF CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Audit Committee also reviewed the terms and conditions of connected transactions and continuing connected transactions of the Group which took place during FY2020. Details of the connected transactions and continuing connected transactions are disclosed in the Director's Report contained in this Annual Report.

FINANCIAL REPORTS

The Audit Committee reviewed and considered the reports and statements of the management to ensure that the consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in Hong Kong and Appendix 16 to the Listing Rules. The Committee also met with the external auditor of the Group, PricewaterhouseCoopers, to consider the scope and results of their independent audit of the consolidated financial statements.

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Audit Committee assisted the Board to perform its duties to maintain an effective internal control system for the Group. The Audit Committee reviewed the Group's procedure and workflow for environmental and risk assessment and its initiatives for business risks management and control.

REVIEW OF THE GROUP'S ACCOUNTING AND FINANCIAL REPORTING FUNCTION

The Audit Committee reviewed the resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget, and was satisfied with their adequacy and effectiveness.

RE-APPOINTMENT OF EXTERNAL AUDITOR

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor during FY2020. The Audit Committee recommended to the Board that, subject to Shareholders' approval at the 2020 AGM, PricewaterhouseCoopers be re-appointed as the Company's external auditor for FY2021.

For FY2020, the external auditor of the Company received approximately RMB8.6 million for audit services and RMB0.2 million for tax and other services.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognizes and acknowledges that certain aspects of risks are inherent in its businesses and operations and the markets in which the Group operates, and undertakes to determine, evaluate and monitor significant risks ongoingly in pursuit of its corporate initiatives and strategic objectives such that sustainable growth and long term shareholder value are achieved. The Board has established and maintained comprehensive risk management and internal control systems to identify and manage the significant risks of its businesses and operations and the external environment.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Risk Management and Internal Control Framework (the "Framework") is a tool specifically designed by the Group for its risk management and internal control purpose. The Framework comprises an organizational control structure which emphasizes segregation of duties that facilitates the identification, assessment, management and report of significant risks. The Framework encompasses a well-defined internal control structure which focuses on monitoring the efficiency and effectiveness of the Group's operations and activities and compliance with applicable laws and regulations.

The risk management and internal control process is embedded in the Group's daily businesses and operations, which involves understanding the context, identifying potential exposures, assessing the likelihood of consequences, determining the risk level, establishing appropriate mitigating measures followed by appropriate reporting.

The Business Unit leaders organize their risk management and internal controls through constant monitoring and discussion with peers, evaluate the overall operational and business environment for material risks, design appropriate control measures to address the potential exposures, escalate and report the significant risks to the Risk Control Committee, and provide assurance. The Functional Unit heads exercise the risk management and internal controls in their daily businesses, operations and decision making processes, escalate and report material risks to the Business Unit heads. On annual basis, the Business Unit leaders submit material risks assessments to the Risk Control Committee for review and consolidation.

Phase 1 Establish Risk Context ↓	Risk Control Committee establishes risk assessment criteria and risk context for the Group. ↓
Phase 2 Risk Identification ↓	Departments identify the risks that potentially impact the key processes of their operations. ↓
Phase 3 Risk Assessment ↓	Departments assess and score the risks identified along with their impact on the business and the likelihood of their occurrence. ↓
Phase 4 Risk Response ↓	Departments assess effectiveness of existing controls and provide proposals where required. ↓
Phase 5 Risk Reporting & Monitoring	Departments monitor risk mitigating activities. Risks are regularly reported at appropriate management levels within the Group.

The Group's Internal Audit Department takes the responsibility to review and assess the risk management and internal control system, summarizes and presents to the Audit Committee a Risk Assessment Report, and confirms the adequacy and effectiveness of the Group's risk management and internal control system.

RISK CONTROL COMMITTEE

At the top of the risk governance structure is the Board Level Control. The Board oversees the running and ensures adequacy and effectiveness of the Framework. The Executive Committee set up a Risk Control Committee, which comprises senior and experienced members of management, to implement the Framework. The Risk Control Committee supervises the risk management and internal control process, facilitates its implementation with appropriate guidelines and tools, tracks material risks and mitigating activities, and determines significant control failings or weaknesses that have been identified. The Risk Control Committee entrusts the execution of the risk management and internal control process to the Business and Functional Units. Through discussion with the respective Business and Functional Unit leaders on any critical and significant risks and how the risks have been or will be managed, the Risk Control Committee summarizes and compiles a Risk Assessment Report for discussion with the Board.

PRINCIPAL RISKS

Business Risk

According to the Group's policies, business risks including, in particular, slow response to customer's need, insufficient competitiveness of price, unreliable customer credit profile, possible business secret leaking and unstable product quality etc., are reviewed and analyzed from time to time. Control activities are conducted to eliminate, transfer or alleviate business uncertainty.

Financial Risk

The Group's financial risk management policies governs the Group's cost control, asset management, treasury management, logistics supervision, financial reporting promptness management, investment return assurance, interest risk management, currency risk management to credit risk management, and ensures overall financial risks are well under supervision and control. The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies.

Compliance Risk

Clear systems and procedures are established to ensure compliance with the relevant legislation and regulations. Besides, we engage the professional firms and consulting companies to keep us abreast of the latest developments in different fields including legal, financial, environment, operation and business.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company:

1. included in its Code of Conduct a strict prohibition on the unauthorized use of confidential or inside information; and

2. has established and implemented procedures for responding to external enquiries about the Group's affairs.

Only the senior management of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

Operational Risk

A full set of procedures has been established to prevent operational problems. These operational problems can be insufficient management effectiveness and efficiency, inefficient procurement, operational accident, unusual damage to key equipment or its components, information system failure, inability to retain high caliber staff or inadequate equipment utilization. Once deemed necessary, risk control activities would be carried out to address risks in order to achieve management target.

Other External Risks and Uncertainties

Impact of local, national and international laws and regulations

The Group faces local business risks in different countries and regions. Such risks might have a significant impact on the financial condition, operations and business prospects of the Group in the relevant markets. The investments of the Group in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time. In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investment of the Group, and delay or impede its business operations and hence adversely affect revenue and profit.

Natural disasters or events, terrorism and diseases

The business of the Group could be affected by events such as earthquakes, typhoons, tropical cyclones, inclement weather, acts or threats of terrorism, or outbreaks of highly contagious diseases, which would directly or indirectly reduce the supply of essential goods or services or reduce economic activities on a local, regional or global scale. Any of these disasters might damage the businesses of the Group.

ASSESSMENT

The Board has reviewed the report of the Risk Control Committee. In addition, proper whistleblowing arrangement was in place in the Group and across the different business units so that employees can report their concerns, or any misconduct, improper or fraudulent acts committed by other personnel in the Group. All reported whistleblowing concerns were handled and investigated confidentially and independently and followed up by appropriate remedial actions.

The Board has considered and endorsed the assessment of the effectiveness of risk management and controls systems in the Group, namely that throughout FY2020 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate. The resources, qualifications, experience, training programmes and budget of the employees of the Group's accounting and financial reporting and internal audit functions were adequate. The Group has complied with the risk management and internal control code provisions in FY2020.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company complies with the requirements of Part XIVA of the SFO and the Listing Rules. The Company discloses inside information to the public as soon as reasonably practicable after any inside information has come to its knowledge unless the information falls within any of the "Safe Harbours" as provided for in the SFO. Before the information is fully disclosed to the public, the Company ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact, to provide for equal, timely and effective access by the public to the inside information disclosed.

For the purpose of handling and disseminating inside information in accordance with the SFO and the Listing Rules, the Company has taken various procedures and measures, including arousing the awareness to preserve confidentiality of inside information with the Company, sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly, and disseminating information to specified persons on a need-to-know basis.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

PROFILE OF EXECUTIVE DIRECTORS

Ms. Cheung Yan, *JP*, 63, has been the Chairlady of the Company since 2006. She is a director of several subsidiaries of the Company. She is one of the founders of the Group and is in charge of the Company's overall corporate development and the Group's strategic planning. Ms. Cheung has over 24 years of experience in paper manufacturing and over 34 years of experience in recovered paper recycling and international trade. Ms. Cheung was a member of the National Committee of the Chinese People's Political Consultative Conference. She is currently executive vice chairman of the China Overseas Chinese Entrepreneurs Association, vice president of China Paper Association, vice president of China Paper Industry Chamber of Commerce, Honorary Life President of the Guangdong Overseas Chinese Enterprises Associations, vice chairman of Guangdong Federation of Industry and Commerce, Honorary President of World Dongguan Entrepreneurs, Chairman of Hong Kong Federation of Overseas Chinese Associations and President of New Home Association. Ms. Cheung is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2007, Ms. Cheung was awarded the "Entrepreneur of the Year in China 2007" by Ernst & Young and in 2008, she was accredited as a "Leader Figure" ("領袖人物獎") in "China Cailun Award" ("中華蔡倫獎") by China Paper Industry Chamber of Commerce and was awarded "China Charity Award 2008" ("2008年中華慈善獎") by the Ministry of Civil Affairs of the PRC. In May 2009, Ms. Cheung was awarded "Outstanding Entrepreneur in Pulp and Paper Manufacturing Industry in China" ("全國製漿造紙行業優秀企業家") by China Paper Association. She was awarded "Chinese Chamber of Commerce Contributions Award" ("華商貢獻獎") in the city of Chongqing in January 2010, and the title of "Outstanding Person on Energy Saving and Emission Reduction in China 2009" ("2009中國節能減排功勳人物") by All-China Environment Federation in May 2010, "Outstanding Contribution Award on Poverty Alleviation and Benefiting the Community by a Businessman in the Private Sector in Guangdong Province" ("廣東省非公有制經濟人士扶貧濟困回報社會突出貢獻獎") in July 2010. Ms. Cheung was also awarded "Outstanding Entrepreneur in China" ("全國優秀企業家") by China Enterprise Association in May 2014, "Asian CEO of the Year" ("亞洲最佳CEO獎") by RISI and "Outstanding Contribution Award in Paper Industry in China" ("全國造紙行業傑出貢獻獎") by China Paper Association in June 2014. Ms. Cheung was appointed by the Government of the HKSAR as a Justice of the Peace (JP) in July 2016. She was given the "National Poverty Alleviation Award" ("全國脫貧攻堅獎—奉獻獎") by the State Council of the PRC in 2018. Ms. Cheung was awarded the title of "Senior Economist" (Entrepreneur in Technology Field) ("正高級經濟師(科技型企業家)") by the Guangdong Province in January 2020. Ms. Cheung is the wife of Mr. Liu Ming Chung, the sister of Mr. Zhang Cheng Fei, the mother of Mr. Lau Chun Shun and Mr. Ken Liu and the aunt of Mr. Zhang Lianpeng.

Mr. Liu Ming Chung, 58, has been the Deputy Chairman and Chief Executive Officer of the Company since 2006. He is a director of various subsidiaries of the Company. He is one of the founders of the Group and is responsible for the overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment and human resources management of the Group. Mr. Liu has over 29 years of experience in international trade and over 21 years of experience in corporate management. Mr. Liu graduated with a bachelor degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2000, Mr. Liu was appointed as a member of the Ninth Committee of the Chinese People's Political Consultative Conference of Guangzhou of Guangdong province and a consultant of the Committee for Affairs of Hong Kong, Macao, Taiwan Compatriots and Overseas Chinese. In 2001, Mr. Liu was awarded a member of All-China Youth Federation. Mr. Liu is the husband of Ms. Cheung Yan, the brother-in-law of Mr. Zhang Cheng Fei, the father of Mr. Lau Chun Shun and Mr. Ken Liu and the uncle of Mr. Zhang Lianpeng.

Mr. Zhang Cheng Fei, 52, has been an Executive Director and Deputy Chief Executive Officer of the Company since 2006 and was re-designated as an Executive Director, Deputy Chairman and Deputy Chief Executive Officer of the Company since June 2018. He is a director of various subsidiaries of the Company. He is one of the founders and is responsible for the overall management of the operations and business of the Group including marketing, finance, procurement, sales and IT departments. Mr. Zhang has over 26 years of experience in procurement, marketing and distribution and is a member of the Third Committee of the Chinese People's Political Consultative Conference of Chongqing. Mr. Zhang is the father of Mr. Zhang Lianpeng, the younger brother of Ms. Cheung Yan, Mr. Liu Ming Chung's brother-in-law and the uncle of Mr. Lau Chun Shun and Mr. Ken Liu.

Mr. Lau Chun Shun, 39, joined the Company as a Non-executive Director in 2006 and was re-designated as an Executive Director of the Company in August 2009. He is a director of various subsidiaries of the Company. He is responsible for the management and operation of the Group including marketing and distribution, procurement and sales departments. Mr. Lau has over 11 years of experience in procurement, marketing and distribution, sales and corporate management. Mr. Lau holds a bachelor degree in Economics from the University of California, Davis and a master degree in Industrial Engineering from Columbia University. Mr. Lau is a member of the Chinese People's Political Consultative Conference of Dongguan, Vice Chairman of Dongguan Federation of Industry and Commerce and Vice President of New Home Association. Mr. Lau is the son of Ms. Cheung Yan and Mr. Liu Ming Chung, the brother of Mr. Ken Liu, the nephew of Mr. Zhang Cheng Fei and the cousin of Mr. Zhang Lianpeng.

Mr. Ken Liu, 28, has been the Executive Director and Deputy Chairman of the Company since 2018. He is also the Chief Executive Officer (North America) of various subsidiaries of the Company in charge of business in North America. Mr. Ken Liu graduated cum laude in Government from Harvard University. He was previously a consultant at PricewaterhouseCoopers in U.S. where he advised technology, telecom, and banking companies for approximately two years. Since March 2016, Mr. Ken Liu has been the vice chairman of ACN, one of the largest recovered paper suppliers to the Group, where he was responsible for overseeing its corporate development, marketing strategy and general management. Mr. Ken Liu is the son of Ms. Cheung Yan and Mr. Liu Ming Chung, the brother of Mr. Lau Chun Shun, the nephew of Mr. Zhang Cheng Fei and the cousin of Mr. Zhang Lianpeng.

Mr. Zhang Lianpeng, 28, joined the Company as a Non-executive Director in 2017 and was re-designated as an Executive Director of the Company in August 2018. Mr. Zhang graduated from The New York University with a Bachelor of Arts Degree. He previously worked in the U.S. and has experience in administration, project management, accounting and corporate financing. Mr. Zhang is the son of Mr. Zhang Cheng Fei, the nephew of Ms. Cheung Yan and Mr. Liu Ming Chung and the cousin of Mr. Lau Chun Shun.

Mr. Zhang Yuanfu, 57, has been an Executive Director of the Company since 2008. He is also a director of various subsidiaries of the Company. He also serves as the Group's Chief Financial Officer in charge of financial matters and investor relations. Prior to joining the Group, Mr. Zhang served as the chief financial officer, qualified accountant and company secretary of Weichai Power Co., Ltd. for more than 5 years and also worked in a number of Hong Kong listed companies in charge of accounting and financial management. He has more than 34 years of experience in auditing, accounting and corporate finance. Mr. Zhang holds a bachelor degree in Economics. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

PROFILE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, *GBM, JP*, 74, has been an INED of the Company since 2006. She serves as an independent non-executive director of Sinopec Kantons Holdings Limited, Wing On Company International Limited and Macau Legend Development Limited, all are listed on The Stock Exchange of Hong Kong Limited. Ms. Tam was a deputy to the National People's Congress of The People's Republic of China. She is the deputy director of the Hong Kong Basic Law Committee and a director of the Joint Committee for the Promotion of The Basic Law of Hong Kong. She is qualified as a barrister-at-law at Gray's Inn, London and has practice experience in Hong Kong.

Mr. Ng Leung Sing, *SBS, JP*, 71, has been appointed as an INED of the Company since March 2013. Mr. Ng is the chairman of Bank of China (Hong Kong) Trustees Limited and a director of BOCHK Charitable Foundation Limited. Mr. Ng is a Hong Kong Deputy to the 10th, 11th, 12th and 13th National People's Congress, People's Republic of China. He is also an independent non-executive director of SmarTone Telecommunications Holdings Limited, Hanhua Financial Holding Company Limited and Grand Brilliance Group Holdings Limited, all are listed companies in Hong Kong. Mr. Ng was a member of The Court of The Lingnan University from 1999 to 2011, the General Manager of Bank-wide Operation Department of Bank of China (Hong Kong) Limited from August 2005 to July 2009, the executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. He was previously a member of the Legislative Council of the Hong Kong Special Administrative Region, an independent non-executive director of MTR Corporation Limited and a member of the managing board of The Kowloon-Canton Railway Corporation, Hong Kong. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Mr. Lam Yiu Kin, aged 65, has been appointed as an INED of the Company since 2016. Mr. Lam is a fellow member of each of the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England & Wales, the Chartered Accountants of Australia and New Zealand, and Hong Kong Institute of Certified Public Accountants ("HKICPA"). He graduated from The Hong Kong Polytechnic University with a higher diploma in Accountancy in 1975. He was conferred an Honorary Fellow of The Hong Kong Polytechnic University in 2002.

Mr. Lam was previously a member of the Listing Committee and the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, and a partner of PricewaterhouseCoopers from 1993 to 2013. From 2014 to 2015, Mr. Lam was an independent non-executive director of Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited), a company listed on the Growth Enterprise Market of the Stock Exchange and from 2015 to 2017, Mr Lam was an independent non-executive director of Mason Group Holdings Limited (formerly known as Mason Financial Holdings Limited). In all, Mr. Lam has over 40 years of extensive experience in accounting, auditing and business consulting. Mr. Lam is currently an independent non-executive director of each of Global Digital Creations Holdings Limited; Spring Asset Management Limited as the manager of Spring Real Estate Investment Trust; Vital Innovations Holdings Limited; Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.; Shougang Concord Century Holdings Limited; COSCO SHIPPING Ports Limited; WWPKG Holdings Company Limited; CITIC Telecom International Holdings Limited; Bestway Global Holding Inc. and Topsports International Holdings Limited.

Mr. Chen Kefu, aged 78, has been appointed as an INED of the Company since 2018. He graduated from the Mathematics Department of Fudan University majoring in Mechanics in 1967. He was promoted to Professor by Tianjin Municipal Science and Technology Commission in 1991 and was elected as a member of the Chinese Academy of Engineering in 2003. Member of the Chinese Academy of Engineering is the highest academic title in engineering technology established in the PRC, which is a lifelong honor. Mr. Chen has served South China University of Technology in PRC since December 1992, and is currently the Director of the Academic Committee of the State Key Laboratory of Pulp and Paper Engineering of South China University of Technology and Professor of School of Light Industry and Engineering. Mr. Chen has devoted himself to the research and teaching of light industry, pulp and paper engineering for a long time, won various national science and technology awards, and has made contribution to the paper industry.

PROFILE OF SENIOR MANAGEMENT

Mr. Zhang Yian, 46, joined the Group in June 2001. He has served as the General Manager of Nine Dragons Paper Industries (Dongguan) Co., Ltd. since June 2018 and has worked for the Group for over 19 years. Prior to joining the Group, Mr. Zhang worked for Hunan Taoyuan textile printing and dyeing company for over 6 years and was responsible for equipment's management. He graduated from Hunan Province Changde College (currently renamed as Hunan University of Arts and Science) and Hunan University (major in Industrial Economy Management).

Mr. Meng Feng, 48, has served as the General Manager of Nine Dragons Paper Industries (Taicang) Co., Ltd. in charge of supervision and management since December 2010. Mr. Meng has over 27 years production management experience in the large-scale paper manufacturing industry. Prior to joining the Group, he worked in Shandong Chenming Paper Industries Co., Ltd as a senior management and also acted as the general manager of a subsidiary. He graduated from Shandong Weifang Radio & Television Institute (major in Economic Information & Management Professional).

Mr. Yin Xianwen, 52, joined the Group in 2002 and has served as the General Manager of Nine Dragons Paper Industries (Tianjin) Co., Ltd. since November 2017. Mr. Yin has over 28 years' experience in management in paper manufacturing industry. Prior to joining the Group, he worked for Shandong Huazhong Paper Manufacturing Co., Ltd. He graduated from East China Normal University (major in Electronic Science and Technology) and is an engineer in automatic control.

Mr. Sun Zuohua, 46, joined the Group in June 2011 and has served as the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. since December 2014. Prior to joining the Group, he has worked in Shandong Chenming Paper Holdings Limited and was served as a general manager of a subsidiary. He has over 25 years of experience in paper manufacturing management. Mr. Sun was graduated from Shandong Weifang University of Science and Technology, major in Economic Management.

Mr. Xin Gang, 46, joined the Group in 1998 and has served as the General Manager of Nine Dragons Paper Industries (Quanzhou) Co., Ltd. in charge of supervision and management since September 2012. Mr. Xin has over 24 years of experience in production, technology and management in the paper manufacturing industry. He graduated from Shandong Institute of Light Industry in 1996 with a bachelor degree in Pulp and Paper Manufacturing.

Mr. Liao Banghong, 47, joined the Group in July 1996 and has served as the General Manager of Nine Dragons Paper Industries (Shenyang) Co., Ltd. since May 2019. Mr. Liao has over 24 years of experience in paper manufacturing marketing and management. He graduated from Hubei Industries College (currently renamed as Hubei University of Technology) with a bachelor degree in Pulp and Paper engineering.

Mr. Li Dengzheng, 46, joined the Group in 2016 and has served as the General Manager of Nine Dragons Paper Industries (Hebei) Co., Ltd. since November 2017. Mr. Li has over 25 years' experience in management in paper manufacturing industry. Prior to joining the Group, Mr. Li worked for Shandong Chenming Paper Co., Ltd. He graduated from Shandong University of Technology (major in Electric Engineering and Automation specialty).

Mr. Ye Jian, 45, joined the Group in 2003 and has served as the General Manager of Nine Dragons Pulp and Paper (Leshan) Co., Ltd. in charge of operations and management since July 2014. Mr. Ye has 25 years of experience in production, technology and management in the paper manufacturing industry. Prior to joining the Group, he worked in Ningbo Zhonghua Paper Industry Co., Ltd. He graduated from Quzhou College of Technology, Zhejiang Province.

Mr. Yao Jifei, 52, joined the Group in 2015. He has served as the General Manager of the Vietnam base of Nine Dragons Group since 2018. He has over 31 years of paper manufacturing, technology and management experience. Prior to joining the group, he served in Anhui Shanying Paper, Zhangjiagang Huaxing Paper Co., Ltd. He graduated from Tianjin University of Science and Technology with a bachelor's degree.

Mr. Shi Rongjiu, 40, joined the Group in 1999 and has served as the General Manager of ND Paper (Malaysia) Sdn. Bhd. in charge of operation and management since July 2019. Mr. Shi has 21 years of experience in production, technology and management in the paper manufacturing industry. He graduated from GuangXi Light Industry College.

Mr. Paul Einarson, 45, joined the Group in July 2018 and has served as Senior Vice President, Management and Technology of ND Paper Inc. in the USA since that time. Mr. Einarson has over 23 years of experience in the paper manufacturing industry. Prior to joining the group, he worked at Catalyst Paper Inc. and its predecessor companies in functions including technology, human resources, finance and strategy. He graduated from the University of Victoria, Canada (major in Commerce) in 1997 and received his Masters of Business Administration from Western University, Canada in 2012.

Mr. Zhang Duling, 50, joined as the Group's General Manager of the Sales Department in charge of sales management and operation of the Group. He joined the Group in July 1998. Prior to joining the Group, he worked as the Manager of the sales department of Dongguan Chung Nam Paper Manufacturing Co., Ltd. He has approximately 24 years of experience in sales and marketing in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Chu Yiu Kuen, Ricky, 49, has served as the Group's Deputy Chief Financial Officer in charge of financial operation since October 2008. Mr. Chu has more than 26 years of experience in auditing, accounting and financing. Prior to joining the Group, Mr. Chu had worked in a major international accounting firm for over 8 years and the Listing Division of the Stock Exchange for over 2 years where he accumulated extensive experience in floatation and business advisory of a wide variety of business. Mr. Chu obtained a bachelor degree in Economics and is a member of Hong Kong Institute of Certified Public Accountants.

Mr. Zhong Hongxiang, 52, has served as the Group's General Manager of the Paper Making Technology Department in charge of paper making production and technology. Mr. Zhong joined the Group since 1996 and has over 30 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining the Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated from Fujian College of Forestry with a diploma in Stock Preparation and Paper Manufacturing Technology.

Ms. Wan Ho Yi, 38, has served as Director of Investor Relations for the Group in charge of investor relations and corporate administration since May 2019. Prior to that, Ms. Wan had worked as an auditor in one of the Big Four accounting firms. She also gained extensive experience in investor relations and corporate communications by working in an international financial communications consulting firm and a Hong Kong listed company. She graduated from the Chinese University of Hong Kong with a degree in Business Administration (majors in Finance and Marketing).

DIRECTORS' REPORT

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for FY2020.

PRINCIPAL BUSINESSES

The Group is engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard, white top linerboard and coated duplex board), high performance corrugating medium, recycled printing & writing paper, specialty paper, high performance corrugated sheet, high performance corrugated box and pulp, providing one-stop packaging services for customers.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors of the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

(a) Review of the Company's business — "Management's Discussion and Analysis";

(b) The Company's risk management framework — "Internal Controls and Risk Management";

(c) The Company's financial risk management — "Note 3 to the Consolidated Financial Statements";

(d) Future development in the Company's business — "Chairlady's Report";

(e) Analysis using financial key performance indicators — "Financial Highlights" and "Management's Discussion and Analysis";

(f) Discussion on the Company's environmental policies and performance — "Environmental, Social and Governance";

(g) Discussion on the Company's compliance with the relevant laws and regulations — "Corporate Governance", "Independent Auditor's Report" and "Directors' Report; and

(h) An account of the Company's key relationships with its employees, customers and suppliers and others — "Environmental, Social and Governance" and "Directors' Report".

The above sections form part of the Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for FY2020 are set out in the accompanying financial statements on page 89.

An interim dividend of RMB10.0 cents per share for the six months ended 31 December 2019 (six months ended 31 December 2018: RMB10.0 cents) was paid to shareholders on 7 August 2020. The Board has resolved to recommend the payment of a final dividend of RMB22.0 cents (equivalent to approximately HK25.1 cents) per share for FY2020, which are expected to be paid on or about Friday, 15 January 2021 subject to the approval of 2020 AGM. The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 18 December 2020. The translation of RMB into HKD is made at the exchange rate of HK$1.00 = RMB0.87576 as at 22 September 2020 for illustration purpose only. The actual translation rate for the purpose of dividend payment in HKD will be subject to exchange rate at the remittance date.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on pages 16 to 17.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2020 are set out in note 9 to the financial statements.

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

Details of the movements in the property, plant and equipment, right-of-use assets and land use rights of the Group during the Year are set out in notes 6 and 7 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 14 to the financial statements.

RESERVES

Details of the change in reserves of the Group and the Company during the Year are set out in note 15 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 June 2020, the Company's reserve available for cash distribution and/or distribution in specie, representing the retained earnings, amounted to approximately RMB498,015,000. In addition, the Company's share premium account and contributed surplus of approximately RMB3,884,720,000 and RMB2,678,274,000, respectively, as at 30 June 2020 may be distributed to shareholders in certain circumstance prescribed by Section 54 of the Companies Act 1981 of Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate amount of purchases attributable to the Group's five largest suppliers represented about 58.4% of the Group's total purchases and the purchase attributable to the Group's largest supplier was about 44.1% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's five largest customers was approximately 6.7% of total turnover of the Group.

ACN and ACN Tianjin are two of the Group's five largest suppliers. ACN is a company indirectly owned by Ms. Cheung Yan and Mr. Liu Ming Chung. ACN Tianjin is a company indirectly owned as to 70% by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng. Ms. Cheung Yan is the wife of Mr. Liu Ming Chung, the sister of Mr. Zhang Cheng Fei, the mother of Mr. Lau Chun Shun and Mr. Ken Liu and the aunt of Mr. Zhang Lianpeng. Mr. Liu Ming Chung is the husband of Ms. Cheung Yan, the brother-in-law of Mr. Zhang Cheng Fei, the father of Mr. Lau Chun Shun and Mr. Ken Liu and the uncle of Mr. Zhang Lianpeng.

Save as disclosed herein, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the Directors and Senior Management of this Annual Report.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Year.

DIRECTORS

The Directors who held office during the Year and up to the date of this report are:

Executive Directors

Ms. Cheung Yan
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei
Mr. Lau Chun Shun
Mr. Ken Liu
Mr. Zhang Lianpeng
Mr. Zhang Yuanfu

INEDs

Ms. Tam Wai Chu, Maria
Mr. Ng Leung Sing
Mr. Lam Yiu Kin
Mr. Chen Kefu

In accordance with Bye-laws of the Company, Ms. Cheung Yan, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Ms. Tam Wai Chu and Mr. Chen Kefu will retire from office by rotation and, being eligible, offer themselves for re-election at the 2020 AGM.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2020, the Directors and chief executive of the Company and their associates had the following interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

The Company

(A) Interests in the Company

The table below sets out the aggregate long positions in the Shares and underlying shares of the Directors and the chief executive of the Company as at 30 June 2020.

Name of Directors	Long Position/ Short Position	Number of Shares: Personal Interests	Family Interests	Corporate Interests (Note 1)	Total	Approximate percentage of shareholdings
Ms. Cheung Yan	Long Position	90,097,758	31,594,184	2,992,120,000	3,113,811,942	66.36%
Mr. Liu Ming Chung	Long Position	31,594,184	90,097,758	2,992,120,000	3,113,811,942	66.36%
Mr. Zhang Cheng Fei	Long Position	34,399,821	–	–	34,399,821	0.73%
Mr. Lau Chun Shun	Long Position	14,149,000	–	2,992,120,000	3,006,269,000	64.07%
Mr. Ken Liu	Long Position	1,382,000	–	2,992,120,000	2,993,502,000	63.80%
Mr. Zhang Yuanfu	Long Position	1,051,000	865,000	–	1,916,000	0.04%
Ms. Tam Wai Chu, Maria	Long Position	1,216,670	–	–	1,216,670	0.03%

(B) Interests in Associated Corporation — Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung Yan	Long Position	Settlor of The Cheung Family Trust	37,073	37.073%
	Long Position	Interest of spouse	37,053	37.053%
Mr. Liu Ming Chung	Long Position	Settlor of The Liu Family Trust	37,053	37.053%
	Long Position	Interest of spouse	37,073	37.073%
Mr. Zhang Cheng Fei	Long Position	Settlor and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of trusts (Note 4)	90,000	90.000%
Mr. Ken Liu	Long Position	Beneficiary of trusts (Note 4)	90,000	90.000%
Mr. Zhang Lianpeng	Long Position	Beneficiary of trusts (Note 5)	25,874	25.874%

Notes:

(1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by YC 2013 Company Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust, (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

(2) The Zhang Family Trust is an irrevocable trust. The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust are revocable discretionary trusts.

(3) Ms. Cheung Yan and Mr. Liu Ming Chung are the settlor of The Cheung Family Trust and The Liu Family Trust respectively. Ms. Cheung Yan is the spouse of Mr. Liu Ming Chung. Each of Ms. Cheung Yan and Mr. Liu Ming Chung is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

(4) Mr. Lau Chun Shun and Mr. Ken Liu are two of the beneficiaries of each of The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust. They are therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

(5) Mr. Zhang Lianpeng is a beneficiary of each of The Zhang Family Trust and The Golden Nest Trust.

Save as disclosed above, none of the Directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation as at the 30 June 2020, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Directors or chief executive of the Company, as at 30 June 2020, the following persons had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Best Result (Note)	Long Position	Beneficial Owner	2,992,120,000	63.77%
YC 2013 Company Limited	Long Position	Interest of controlled corporation	2,992,120,000	63.77%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	63.77%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Cheung Family Trust and The Liu Family Trust	2,992,120,000	63.77%

Note:

Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by YC 2013 Company Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at 30 June 2020, as far as the Company is aware of, there was no other person who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out in the Continuing Connected Transactions and note 29 the consolidated accounts of this Annual Report.

Save for the above, there was no contract of significance connected to the business of the Group (within the meaning of the Listing Rules), to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any director of the Company had a direct or indirect material interest, subsisting at the end of the Year or at any time during the Year.

DONATIONS

The Group's charitable and other donations during the Year amounted to approximately RMB96,639,000 (2019: RMB45,918,000).

CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosure is included in respect of the Company's loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company as at the date of this Annual Report.

In August 2018, the Company has a facility agreement with China Development Bank, Hong Kong Branch in an aggregate amount of USD145 million for a term of 3 years. It would constitute an event of default if (i) any one of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei (together, the "Controlling Shareholders"), the Controlling Shareholders of the Company, ceases to be a Director of the Company; or (ii) the Controlling Shareholders cease to have joint management control of the Company; or (iii) the Controlling Shareholders and the family members of Ms. Cheung Yan, together, cease to beneficially own in aggregate, directly or indirectly, at least 51% of the issued share capital (which carries full voting rights) of the Company. Upon the occurrence of any of the above events, the outstanding liability under the loan facilities will become immediately repayable.

In June 2019, ND Paper (U.S.) Limited as borrower, the Company and Nine Dragons Paper (BVI) Group Limited as guarantors entered into a facility agreement with Bank of China (Hong Kong) Limited and Bank of Communications Co., Ltd., Hong Kong Branch as lenders for a facility up to HKD3,900 million for a term of 3 years. Under the terms of the facility agreement, if Ms. Cheung Yan and her family members (including and not limited to Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu and Mr. Zhang Liangpeng), in aggregate, ceases to hold and control 51% or more equity interest of the Company, or ceases to maintain management control over the Company, the facility will become immediately due and repayable.

In July 2019, the Company and Bank of China (Hong Kong) Limited, Ho Chi Minh City Branch entered into a guarantee agreement pursuant to which the Company agreed to guarantee the obligations of Cheng Yang Paper Mill Co., Ltd., a non-wholly owned subsidiary of the Company, for a 3-year loan up to EUR140 million. Under the terms of the facility agreement, if Ms. Cheung Yan, and her families (including but not limited to Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu and Mr. Zhang Lianpeng), in aggregate, ceases to hold and control 51% or more equity interest of the Company, or ceases to maintain management control over the Company, the Facility will become immediately repayable.

In July 2020, River Dragon Paper Industries Co., Ltd. as borrower, the Company, Nine Dragons Paper (BVI) Group Limited and Zhang's Enterprises Company Limited as guarantors entered into a facility agreement with Bank of China (Hong Kong) Limited and Bank of Communications Co., Ltd., Hong Kong Branch as mandated lead arrangers and bookrunners for a facility of approximately USD300 million for a term of 3 years. Under the terms of the facility agreement, if Ms. Cheung Yan and her family members (including but not limited to Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu and Mr. Zhang Lianpeng), in aggregate, ceases to hold and control 51% or more equity interest of the Company, or ceases to maintain management control over the Company, the Facility will become immediately due and repayable.

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

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

RELATED PARTY TRANSACTIONS

During FY2020, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Related party transactions are disclosed in note 29 to the financial statements.

CONTINUING CONNECTED TRANSACTIONS

During FY2020 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be continuing connected transactions for the Company under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the following continuing connected transactions.

(a) Longteng Packaging Materials and Chemicals Purchase Agreement

Dongguan Longteng is a company wholly-owned by Mr. Zhang Cheng Ming and his family members. Mr. Zhang Cheng Ming is a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan, the uncle of Mr. Lau Chun Shun, Mr. Liu Ken and Mr. Zhang Liangpeng. On 8 May 2017, Dongguan Longteng and the Company entered into a purchase agreement (the "Longteng Packaging Materials and Chemicals Purchase Agreement"), pursuant to which the Company agreed to purchase packaging materials and chemicals from Dongguan Longteng for the Group's production requirements from 1 July 2017 to 30 June 2020.

During FY2020, the actual amount of transactions under the Longteng Packaging Materials and Chemicals Purchase Agreement was RMB15 million and was within the annual cap of RMB100 million. The Longteng Packaging Materials and Chemicals Purchase Agreement was approved by the independent shareholders at the special general meeting held on 29 June 2017.

(b) Cheng Ming Group Chemicals Purchase Agreement (formerly known as Hong Kong International Paper Chemicals Purchase Agreement)

Cheng Ming Group (H.K.) Limited ("Cheng Ming Group") (formerly known as Hong Kong International Paper Manufacturing Chemical Technology Limited) is a company wholly-owned by Mr. Zhang Cheng Ming and his family members. On 8 May 2017, Cheng Ming Group and the Company entered into a purchase agreement (the "Cheng Ming Group Chemicals Purchase Agreement"), pursuant to which the Group agreed to purchase packaging materials and chemicals from Cheng Ming Group for the Group's production requirements from 1 July 2017 to 30 June 2020.

During FY2020, the actual amount of transactions under Cheng Ming Group Chemicals Purchase Agreement was RMB477 million and was within the annual cap of RMB1,550 million. Cheng Ming Group Chemicals Purchase Agreement was approved by the independent shareholders at the special general meeting held on 29 June 2017.

(c) Longteng Packaging Paperboard Supply Agreement

On 8 May 2017, Dongguan Longteng and the Company entered into a supply agreement (the "Longteng Packaging Paperboard Supply Agreement"), pursuant to which the Group agreed to supply packaging paperboard products to Dongguan Longteng from 1 July 2017 to 30 June 2020.

During FY2020, the actual amount of transactions under the Longteng Packaging Paperboard Supply Agreement was RMB379 million and was within the annual cap of RMB1,000 million. The Longteng Packaging Paperboard Supply Agreement was approved by the independent shareholders at the special general meeting held on 29 June 2017.

(d) ACN Recovered Paper Purchase Agreement

ACN is indirectly wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung. On 8 May 2017, ACN and the Company entered into a purchase agreement (the "ACN Recovered Paper Purchase Agreement"), pursuant to which the Group agreed to purchase recovered paper from ACN from 1 July 2017 to 30 June 2020.

During FY2020, the actual amount of transactions under the ACN Recovered Paper Purchase Agreement was RMB3,317 million and was within the annual cap of RMB23,000 million. The ACN Recovered Paper Purchase Agreement was approved by the independent shareholders at the special general meeting held on 29 June 2017.

(e) Tianjin ACN Wastepaper Purchase Agreement

Tianjin ACN is a company which is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng. On 8 May 2017, Tianjin ACN and the Company entered into a purchase agreement (the "Tianjin ACN Wastepaper Purchase Agreement"), pursuant to which the Group agreed to purchase recovered paper from Tianjin ACN from 1 July 2017 to 30 June 2020. On 6 March 2019, Tianjin ACN and the Company entered into a supplemental agreement to revise the annual caps ("Tianjin ACN Supplemental Wastepaper Purchase Agreement"). Pursuant to the Tianjin ACN Supplemental Wastepaper Purchase Agreement, the annual caps for the purchases of wastepaper from Tianjin ACN was increased from RMB16,000 million to RMB45,000 million for FY2020 and approved by the independent shareholders at the special general meeting held on 14 June 2019. For details of the revision of annual caps for Tianjin ACN Wastepaper Purchase Agreement should refer to the Company's announcement and circular dated 6 March 2019 and 30 April 2019 respectively.

During FY2020, the actual amount of transactions under the Tianjin ACN Wastepaper Purchase Agreement and Tianjin ACN Supplemental Wastepaper Purchase Agreement was RMB18,017 million and was within the annual cap of RMB45,000 million.

During FY2020, the continuing connecting transactions disclosed in the 2018/2019 Annual Report including Come Sure Raw Paper Materials Supply Agreement, Taicang Packaging Paperboard Supply Agreement and Dongguan Zhangmutou Packaging Paperboard Supply Agreement ceased to be the continuing connected transactions/connected transactions of the Company. Details should refer to the announcement of the Company dated 26 July 2019 in which the Company announced that the Group entered into several agreements to acquire nine companies at a cash consideration of RM628 million, which were principally engaged in the production and sale of paper packaging in the PRC and were controlled by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei who are executive directors and controlling shareholders of the Company.

Save as disclosed above, there were no other non-exempted connected transaction or non-exempted continuing connected transaction discloseable under the Listing Rules during FY2020 and up to the date of this report.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions mentioned above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of the business of the Group;

(b) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(c) in accordance with the relevant agreements governing such transactions; and

(d) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the non-exempt continuing connected transactions in accordance with Main Board Listing Rule 14A.56.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the applicable laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-Laws, every director shall be indemnified and held harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his/her duty, or supposed duty, in his/her respective offices or trusts.

The Company has appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the Year and up to the date of this report as required under the Listing Rules.

AUDITOR

The Group's financial statements for FY2020 have been audited by PricewaterhouseCoopers who retires and, being eligible, offer itself for re-appointment. A resolution to re-appoint PricewaterhouseCoopers and to authorize the Directors to fix its remuneration will be proposed at the 2020 AGM.

On behalf of the Board

Cheung Yan
Chairlady

Hong Kong, 22 September 2020

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

Independent Auditor's Report
To the Shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 89 to 160, which comprise:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report *(continued)*
To the Shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matter identified in our audit is revenue recognition on sales of goods.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on sales of goods	
Refer to note 2.24 to the consolidated financial statements. During the year ended 30 June 2020, the Group has recognised revenue from sales of goods of RMB51,341,190,000. Revenue is recognised at the point in time when the control of the goods is transferred to the customer, which generally coincides with delivery and acceptance of the goods sold. We focused on this area due to the huge volume of revenue transactions generated in various locations and from many customers, and thus significant time and resource were devoted in this area.	We understood, evaluated and validated management's key controls in respect of the Group's sales transactions from sales contracts, sales orders, sales invoices, through to recording of sales based on the goods delivery notes accepted by customers. In addition, we tested the general control environment of the Group's information technology systems and the specific automatic controls that were related to revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the accounting system. We checked the sales contract template prepared by the Group, and analysed and evaluated the Group's accounting policies on the revenue recognition of sales of goods based on the interview with management, understanding of the Group's business and our audit experience. We selected sales contracts entered into by the Group and its customers on a sample basis and compared the key contract terms with the sales contract template; we also examined the sales orders, sales invoices and goods delivery notes accepted by customers relevant to those selected sales contracts. We circulated confirmations to selected customers to confirm the balances of trade receivables as at the balance sheet date and transaction amounts of revenue for the year. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers through the whole year. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date by inspecting the goods delivery notes to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's accounting policy of revenue recognition.

Independent Auditor's Report *(continued)*
To the Shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report *(continued)*
To the Shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report *(continued)*
To the Shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yeung Chor Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 September 2020

CONSOLIDATED BALANCE SHEET

	Note	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated, Note 2.1(c))
ASSETS			
Non-current assets			
Property, plant and equipment	6	58,532,630	55,945,290
Right-of-use assets	7	1,664,201	—
Land use rights	7	—	1,610,376
Intangible assets	8	287,808	277,562
Investments in associates and a joint venture	10	130,421	89,687
Prepayments	12	232,384	21,029
Deferred income tax assets	17	51,774	94,252
Total non-current assets		60,899,218	58,038,196
Current assets			
Inventories	11	5,245,724	7,715,041
Trade and bills receivables	12	4,596,702	3,984,294
Other receivables and prepayments	12	2,809,823	3,370,571
Financial assets at fair value through profit or loss		63,301	60,565
Tax recoverable		13,957	23,663
Restricted cash		95,601	203,115
Short-term bank deposits		35,788	37,077
Cash and cash equivalents	13	5,559,508	8,339,494
Total current assets		18,420,404	23,733,820
Total assets		79,319,622	81,772,016
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	480,531	480,531
Share premium	14	3,884,720	3,884,720
Other reserves	15	4,729,359	5,563,471
Retained earnings		31,276,011	28,152,107
		40,370,621	38,080,829
Non-controlling interests		425,774	310,250
Total equity		40,796,395	38,391,079

	Note	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated, Note 2.1(c))
LIABILITIES			
Non-current liabilities			
Borrowings	16	**18,361,282**	16,713,613
Other payables	18	**118,335**	106,695
Deferred income tax liabilities	17	**3,554,644**	3,189,475
Total non-current liabilities		**22,034,261**	20,009,783
Current liabilities			
Borrowings	16	**7,926,241**	14,594,993
Trade and bills payables	18	**5,472,683**	5,680,241
Contract liabilities		**380,307**	239,404
Other payables	18	**2,123,008**	2,385,816
Current income tax liabilities		**586,727**	470,700
Total current liabilities		**16,488,966**	23,371,154
Total liabilities		**38,523,227**	43,380,937
Total equity and liabilities		**79,319,622**	81,772,016

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 89 to 160 were approved by the board of directors of the Company on 22 September 2020 and were signed on its behalf.

Ms. Cheung Yan
Chairlady

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June 2020 RMB'000	2019 RMB'000 (Restated, Note 2.1(c))
Revenue	19	**51,341,190**	54,609,245
Cost of goods sold	21	**(42,313,896)**	(46,094,151)
Gross profit		**9,027,294**	8,515,094
Other income, other expenses and other gains — net	20	**619,269**	719,855
Exchange loss on operating activities — net		**(120,237)**	(82,880)
Selling and marketing costs	21	**(1,584,493)**	(1,605,266)
Administrative expenses	21	**(1,880,451)**	(1,723,380)
Operating profit		**6,061,382**	5,823,423
Finance costs — net		**(757,715)**	(933,202)
— Finance income	23	**126,268**	137,548
— Finance costs	23	**(883,983)**	(1,070,750)
Exchange loss on financing activities — net		**(149,279)**	(91,565)
Share of results of associates and a joint venture — net	10	**141,214**	59,269
Profit before income tax		**5,295,602**	4,857,925
Income tax expense	24	**(1,065,520)**	(956,811)
Profit for the year		**4,230,082**	3,901,114
Profit attributable to:			
— Equity holders of the Company		**4,168,455**	3,879,060
— Non-controlling interests		**61,627**	22,054
		4,230,082	3,901,114
Basic earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	25	**0.89**	0.83
Diluted earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	25	**0.89**	0.83

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000 (Restated, Note 2.1(c))
Profit for the year	**4,230,082**	3,901,114
Other comprehensive income		
(Items that may be reclassified subsequently to profit or loss)		
— currency translation differences	**39,956**	11,420
Total comprehensive income for the year	**4,270,038**	3,912,534
Total comprehensive income for the year attributable to:		
— Equity holders of the Company	**4,197,857**	3,888,415
— Non-controlling interests	**72,181**	24,119
	4,270,038	3,912,534

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital RMB'000 (Note 14)	Share premium RMB'000 (Note 14)	Other reserves RMB'000 (Note 15)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2018 (audited)	478,977	3,765,002	6,457,327	25,278,150	35,979,456	286,131	36,265,587
Merger accounting restatement (Note 2.1(c))	—	—	272,724	197,439	470,163	—	470,163
Balance at 1 July 2018 (restated)	478,977	3,765,002	6,730,051	25,475,589	36,449,619	286,131	36,735,750
Profit for the year	—	—	—	3,879,060	3,879,060	22,054	3,901,114
Other comprehensive income							
Currency translation differences	—	—	9,355	—	9,355	2,065	11,420
Total comprehensive income	—	—	9,355	3,879,060	3,888,415	24,119	3,912,534
Transactions with owners							
2018 final and 2019 interim dividends to equity holders of the Company	—	—	(1,869,688)	(467,422)	(2,337,110)	—	(2,337,110)
Exercise of share options	1,554	119,718	(41,367)	—	79,905	—	79,905
Total transactions with owners	1,554	119,718	(1,911,055)	(467,422)	(2,257,205)	—	(2,257,205)
Appropriation to statutory reserve and enterprise expansion fund	—	—	735,120	(735,120)	—	—	—
Balance at 30 June 2019 (restated)	480,531	3,884,720	5,563,471	28,152,107	38,080,829	310,250	38,391,079

	Attributable to equity holders of the Company						
	Share capital RMB'000 (Note 14)	Share premium RMB'000 (Note 14)	Other reserves RMB'000 (Note 15)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2019 (audited)	480,531	3,884,720	5,283,011	27,943,012	37,591,274	310,250	37,901,524
Merger accounting restatement (Note 2.1(c))	–	–	280,460	209,095	489,555	–	489,555
Balance at 1 July 2019 (restated)	480,531	3,884,720	5,563,471	28,152,107	38,080,829	310,250	38,391,079
Profit for the year	–	–	–	4,168,455	4,168,455	61,627	4,230,082
Other comprehensive income							
Currency translation differences	–	–	29,402	–	29,402	10,554	39,956
Total comprehensive income	–	–	29,402	4,168,455	4,197,857	72,181	4,270,038
Transactions with owners							
2019 final and 2020 interim dividends to equity holders of the Company	–	–	(844,600)	(469,222)	(1,313,822)	–	(1,313,822)
Non-controlling interests arising from acquisition of a subsidiary	–	–	–	–	–	53,570	53,570
Dividends to non-controlling interests	–	–	–	–	–	(10,227)	(10,227)
Acquisition of subsidiaries under common control	–	–	(594,243)	–	(594,243)	–	(594,243)
Total transactions with owners	–	–	(1,438,843)	(469,222)	(1,908,065)	43,343	(1,864,722)
Appropriation to statutory reserve and enterprise expansion fund	–	–	575,329	(575,329)	–	–	–
Balance at 30 June 2020	480,531	3,884,720	4,729,359	31,276,011	40,370,621	425,774	40,796,395

The above consolidated statement of changes of equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended 30 June 2020 RMB'000	2019 RMB'000 (Restated, Note 2.1(c))
Cash flows from operating activities			
Cash generated from operations	27(a)	**10,730,214**	11,076,085
Income tax paid		**(532,421)**	(793,321)
Interest paid		**(1,249,086)**	(1,339,495)
Net cash generated from operating activities		**8,948,707**	8,943,269
Cash flows from investing activities			
Payments for property, plant and equipment and right-of-use assets		**(4,794,090)**	(6,004,957)
Dividends received from an associate		**139,673**	145,338
Interest received		**126,268**	137,548
Proceeds from government grants for purchase of property, plant and equipment		**47,641**	46,299
Payments for business combination		**—**	(436,027)
Others — net		**(26,567)**	10,877
Net cash used in investing activities		**(4,507,075)**	(6,100,922)
Cash flows from financing activities			
Proceeds from borrowings		**23,932,406**	31,395,910
Repayments of borrowings		**(29,344,649)**	(33,124,296)
Dividends paid to equity holders of the Company		**(1,306,026)**	(1,869,619)
Changes in restricted cash		**107,514**	(214,115)
Payments for the acquisition of subsidiaries under common control		**(594,243)**	—
Others — net		**(17,908)**	79,905
Net cash used in financing activities		**(7,222,906)**	(3,732,215)
Net decrease in cash and cash equivalents		**(2,781,274)**	(889,868)
Cash and cash equivalents at beginning of the year		**8,339,494**	9,195,900
Exchange gains on cash and cash equivalents		**1,288**	33,462
Cash and cash equivalents at end of the year	13	**5,559,508**	8,339,494

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacture and sales of packaging paper, printing and writing paper, high value specialty paper products and pulp.

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

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

These consolidated financial statements are presented in Renminbi thousand, unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company ("BoD") on 22 September 2020.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with HKFRSs and HKCO

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

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss which are measured at fair value.

(c) Merger accounting restatement

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

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

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

The following tables show the impact of merger accounting restatement for each individual line item. Line items that were not materially affected by the restatement have not been disclosed separately.

The effects of the merger accounting restatement described above on the consolidated balance sheet as at 1 July 2018 is as follows:

	1 July 2018 RMB'000 (Originally stated and audited)	Merger accounting restatement RMB'000	1 July 2018 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	51,121,444	455,402	51,576,846
Land use rights	1,482,967	32,544	1,515,511
Other non-current assets	514,124	9,770	523,894
Total non-current assets	53,118,535	497,716	53,616,251
Current assets			
Inventories	6,691,091	194,780	6,885,871
Trade and bills receivables	5,998,275	—	5,998,275
Other receivables and prepayments	2,979,699	174,039	3,153,738
Cash and cash equivalents	9,044,707	151,193	9,195,900
Other current assets	9,950	47,608	57,558
Total current assets	24,723,722	567,620	25,291,342
Total assets	77,842,257	1,065,336	78,907,593

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

	1 July 2018 RMB'000 (Originally stated and audited)	Merger accounting restatement RMB'000	1 July 2018 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	478,977	—	478,977
Share premium	3,765,002	—	3,765,002
Other reserves	6,457,327	272,724	6,730,051
Retained earnings	25,278,150	197,439	25,475,589
	35,979,456	470,163	36,449,619
Non-controlling interests	286,131	—	286,131
Total equity	36,265,587	470,163	36,735,750
LIABILITIES			
Non-current liabilities			
Borrowings	14,571,089	110,483	14,681,572
Other payables	90,767	2,475	93,242
Deferred income tax liabilities	2,772,576	—	2,772,576
Total non-current liabilities	17,434,432	112,958	17,547,390
Current liabilities			
Borrowings	18,141,114	186,574	18,327,688
Trade and bills payables	3,172,672	146,861	3,319,533
Other current liabilities	2,828,452	148,780	2,977,232
Total current liabilities	24,142,238	482,215	24,624,453
Total liabilities	41,576,670	595,173	42,171,843
Total equity and liabilities	77,842,257	1,065,336	78,907,593

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

The effects of the merger accounting restatement described above on the consolidated balance sheet as at 30 June 2019 is as follows:

	30 June 2019 RMB'000 (Originally stated and audited)	**Merger accounting restatement** RMB'000	**30 June 2019** RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	55,318,009	627,281	55,945,290
Land use rights	1,578,985	31,391	1,610,376
Other non-current assets	471,377	11,153	482,530
Total non-current assets	57,368,371	669,825	58,038,196
Current assets			
Inventories	7,609,111	105,930	7,715,041
Trade and bills receivables	3,984,294	—	3,984,294
Other receivables and prepayments	3,348,794	21,777	3,370,571
Cash and cash equivalents	8,186,379	153,115	8,339,494
Other current assets	266,920	57,500	324,420
Total current assets	23,395,498	338,322	23,733,820
Total assets	80,763,869	1,008,147	81,772,016

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

	30 June 2019 RMB'000 (Originally stated and audited)	Merger accounting restatement RMB'000	30 June 2019 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	480,531	—	480,531
Share premium	3,884,720	—	3,884,720
Other reserves	5,283,011	280,460	5,563,471
Retained earnings	27,943,012	209,095	28,152,107
	37,591,274	489,555	38,080,829
Non-controlling interests	310,250	—	310,250
Total equity	37,901,524	489,555	38,391,079
LIABILITIES			
Non-current liabilities			
Borrowings	16,620,263	93,350	16,713,613
Other payables	106,521	174	106,695
Deferred income tax liabilities	3,187,971	1,504	3,189,475
Total non-current liabilities	19,914,755	95,028	20,009,783
Current liabilities			
Borrowings	14,381,962	213,031	14,594,993
Trade and bills payables	5,585,508	94,733	5,680,241
Other current liabilities	2,980,120	115,800	3,095,920
Total current liabilities	22,947,590	423,564	23,371,154
Total liabilities	42,862,345	518,592	43,380,937
Total equity and liabilities	80,763,869	1,008,147	81,772,016

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

The effects of the merger accounting restatement described above on the consolidated income statement for the year ended 30 June 2019 is as follows:

	For the year ended 30 June 2019 RMB'000 (Originally stated and audited)	Merger accounting restatement RMB'000	For the year ended 30 June 2019 RMB'000 (Restated)
Revenue	54,647,446	(38,201)	54,609,245
Cost of goods sold	(46,208,286)	114,135	(46,094,151)
Gross profit	8,439,160	75,934	8,515,094
Other income, other expense and other gains — net	702,923	16,932	719,855
Exchange loss on operating activities — net	(82,887)	7	(82,880)
Selling and marketing costs	(1,564,156)	(41,110)	(1,605,266)
Administrative expenses	(1,705,209)	(18,171)	(1,723,380)
Operating profit	5,789,831	33,592	5,823,423
Finance costs — net	(931,226)	(1,976)	(933,202)
— Finance income	135,373	2,175	137,548
— Finance costs	(1,066,599)	(4,151)	(1,070,750)
Exchange loss on financing activities — net	(91,605)	40	(91,565)
Share of results of associates and a joint venture — net	59,269	—	59,269
Profit before income tax	4,826,269	31,656	4,857,925
Income tax expense	(944,547)	(12,264)	(956,811)
Profit for the year	3,881,722	19,392	3,901,114
Profit attributable to:			
— Equity holders of the Company	3,859,668	19,392	3,879,060
— Non-controlling interests	22,054	—	22,054
	3,881,722	19,392	3,901,114
Basic earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*	0.82	0.01	0.83
Diluted earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*	0.82	0.01	0.83

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Merger accounting restatement *(continued)*

The effects of the merger accounting restatement described above on the consolidated statement of comprehensive income for the year ended 30 June 2019 is as follows:

	For the year ended 30 June 2019 RMB'000 (Originally stated and audited)	**Merger accounting restatement** RMB'000	**For the year ended 30 June 2019** RMB'000 (Restated)
Profit for the year	3,881,722	19,392	3,901,114
Other comprehensive income *(items that may be reclassified subsequently to profit or loss)*			
— currency translation differences	11,420	—	11,420
Total comprehensive income for the year	3,893,142	19,392	3,912,534
Total comprehensive income for the year attributable to:			
— Equity holders of the Company	3,869,023	19,392	3,888,415
— Non-controlling interests	24,119	—	24,119
	3,893,142	19,392	3,912,534

2.2 New standards, amendments and interpretations to standards

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

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

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

Save for the impact of the adoption of HKFRS 16 disclosed in Note 2.3 below, the adoption of other amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 New standards, amendments and interpretations to standards *(continued)*

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

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

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

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

2.3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.2(a) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 2.26.

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Changes in accounting policies *(continued)*

(a) Adjustments recognised in the balance sheet on 1 July 2019

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

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

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

(b) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 30 June 2019	23,102
Discounted using the lessee's incremental borrowing rate of the date of initial application	16,426
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	—
Lease liabilities recognised as at 1 July 2019	16,426
Of which are:	
Current lease liabilities	3,424
Non-current lease liabilities	13,002
	16,426

(c) Measurement of right-of-use assets

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Changes in accounting policies *(continued)*

(d) Practical expedients applied

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

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

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

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2.4 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.5).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Principles of consolidation and equity accounting *(continued)*

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacities as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(d) Separate financial statements of the Company

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Equity method

Under the equity method of accounting, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the result of the investee after the date of acquisition. The Group's investment in an associate or a joint venture includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate or a joint venture, any difference between the cost of the associate or joint venture and the Group's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in the associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Principles of consolidation and equity accounting *(continued)*

(e) Equity method *(continued)*

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in the associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to "share of results of associates and a joint venture — net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate or joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains and losses on dilution of equity interests in the associate or joint venture are recognised in the consolidated income statement.

(f) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

(g) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control and over which none of the participating parties has unilateral control. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture. Joint venture is accounted for using the equity method.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Business combinations

(a) Business combinations under common control

The consolidated financial statements incorporate the consolidated financial statements items of the entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement and the consolidated statement of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous year end date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Business combinations *(continued)*

(b) Business combinations not under common control

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings, restricted cash, short-term bank deposits and cash and cash equivalents are presented in the consolidated income statement within "finance costs — net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other income, other expense and other gains — net".

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20–35 years
Plant and machinery	12–35 years
Furniture, fixtures and equipment	5–12 years
Motor vehicles, transportation and logistics equipment	8–15 years

The assets' residual values mainly ranged from 3% to 5%. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income, other expenses and other gains — net" in the consolidated income statement.

2.9 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.10 Land use rights

Land use rights in the consolidated balance sheet represent up-front prepayment made for operating leases for land use rights paid to the counterparties. Land use rights are carried at cost and are charged to the consolidated income statement on a straight-line basis over the respective periods of the leases which range from 30 years to 99 years.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGU or groups of CGU that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets

(i) Trademark

Separately acquired trademark represents the using rights of "Xuesha" brand which delivers an earning stream and generates value for the Group. The trademark can be reregistered every 10 years at minimal cost. The directors of the Company are of the view that the Group has both the intention and ability to register the trademark continuously. As a result, the useful life of the trademark is considered by the management as indefinite because the trademark is expected to contribute to the Group's net cash inflows indefinitely. Trademark acquired in a business combination are recognised at fair value at the acquisition date. Trademark with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Impairment testing of intangible assets is described in Note 2.12.

(ii) Patent

The patent represents the using rights of odor treatment equipment which can solve the environment pollution problems caused by odor emission during the production process and other technical rights used during the production process. Patent acquired in a business combination are recognised at fair value at the acquisition date. The patent is carried at costs less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of patent over its estimated useful life of 8 years.

(iii) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date. The customer relationship has a finite useful life of 10 years and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Intangible assets *(continued)*

(c) Computer software

Computer software is shown at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Computer software has a definite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (10 years).

(d) Sea area use rights

Sea area use rights are stated at cost less accumulated amortisation and impairment. Cost represents consideration paid for the rights to use the sea area. Amortisation is calculated using the straight-line method over its estimated useful life of 50 years.

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill and trademark, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). Non-financial assets other than goodwill and trademark that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.13 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other receivables, the Group applies either 12-month or lifetime expected losses method to assess the expected credit losses depending on whether there has been a significant increase in credit risk since initial recognition.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operation capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Restricted cash, short-term bank deposits and cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank deposits which are restricted to use are included in "restricted cash". Restricted cash and short-term bank deposits are excluded from cash and cash equivalents in the consolidated statement of cash flows.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, bills and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associate and joint venture, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Generally the Group is unable to control the reversal of the temporary difference for the associate. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Employee benefits

(a) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Employee benefits *(continued)*

(c) Share-based compensation *(continued)*

When the options are exercised, the Company issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(d) Share-based compensation granted among group companies

The grant by the Company of options over its equity instruments to the employees of its subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the Company's balance sheet.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue and other income recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer. This may be at a single point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- when the Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Revenue and other income recognition *(continued)*

If none of the above conditions are met, the Group recognises revenue at a single point in time at which the performance obligation is satisfied for the sale of that good or service when control has been passed.

If control of the product or service transfers over time, revenue is recognised over the period of the contract by measuring the progress towards complete satisfaction of that performance obligation.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax ("VAT"), return, rebate and discount after eliminating sales within the group companies.

(a) Revenue from sales of goods

Revenue from sales of goods are recognised at the point in time when the control of the goods is transferred to the customer, which generally coincides with delivery and acceptance of the goods sold.

(b) Other income from sales of electricity

Other income from sales of electricity are recognised at the point in time when electricity is generated and transmitted to the power grids operated by the provincial electricity power company.

(c) Other income from rendering of transportation service

Other income from rendering of transportation service is recognised over the period when the services are provided.

2.25 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Leases

As explained in Note 2.3 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below.

The Group leases office buildings and land use rights on both short-term and long-term contracts.

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term or the operating period, whichever is shorter. It is consistent with that of the annual financial statements for the year ended 30 June 2019.

Rental contracts for office buildings and land use rights are typically made for fixed periods of 1 to 99 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2019 financial year, leases of office buildings and land use rights were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Leases *(continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plants and equipment are deducted from the cost of additions of the related assets and consequently are effectively recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related assets by way of reduced depreciation/amortisation charges.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where applicable.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in mainland China, Hong Kong, Macau and Socialist Republic of Vietnam ("Vietnam") and is exposed to foreign exchange risk arising from various currency exposures, primary with respect to the United States Dollars ("US$"), Euros ("EURO") and Hong Kong Dollars ("HK$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the Group's foreign exchange risks, foreign currency borrowings, currency structured instruments and other appropriate financial instruments may be used to hedge material exposure. At 30 June 2020, if RMB had weakened/strengthened by 5.0% against US$, EURO and HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2020 would have been RMB705,985,000 lower/higher (2019: RMB702,923,000) and other reserves would have been RMB177,024,000 lower/higher (2019: RMB79,820,000), respectively, mainly as a result of unrealised foreign exchange losses/gains on translation of foreign currency-denominated financial instruments (including cash and cash equivalents, short-term bank deposits, restricted cash, trade and other receivables, trade and other payables and borrowings) into the functional currency of the group entities and the translation of financial statements of the Group's foreign operations into the Group's presentation currency.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Interest rate risk

The Group's major interest-bearing assets are cash at banks. The maturity term of cash at banks is within 12 months so there would be no significant interest rate risk.

The Group's interest-rate risk mainly arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. To manage the Group's exposure to fluctuations in interest rates on specific transactions, the management will consider to use appropriate financial instruments to hedge material exposure if necessary.

As at 30 June 2020, if interest rates on borrowings had been 25 basis point higher/lower with all other variables held constant, post-tax profit for the year would have been RMB20,033,000 lower/higher (2019: RMB28,268,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

Credit risk arises from cash at banks, trade receivables, bills receivables and other receivables.

The Group has no significant concentration of credit risk. Management does not expect any losses from non-performance by the banks and financial institutions, as they are with good reputations.

Credit risk related to receivables (including trade receivables, bills receivables and other receivables) is the risk that the receivables cannot be collected on the due date. Management reviews its receivables for the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period by considering actual or expected significant changes in the operating results of the debtor, default or significant delay in payments and other available forward-looking information. Specifically for the Group's trade and bills receivables, the Group has policies in place to ensure that sales of goods are made to customers with a good credit history and the Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance. Other receivables is measured as either 12-month ECL or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. The Group established ECL model based on historical settlement records, past experience and available forward-looking information. The Group's bills receivables are issued by banks with good reputation. The Group's other receivables are deposits or receivables arose from normal operations, which based on management's assessment, the credit risk is not significant. Management does not expect any credit losses of the debtors as at 30 June 2020.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprises undrawn borrowing facilities (Note 16), cash and cash equivalents (Note 13) and short-term bank deposits on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments computed using contractual rates, or, if floating, based on current rates.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount liabilities RMB'000
At 30 June 2020						
Borrowings	**8,633,200**	**10,971,980**	**7,747,033**	**50,789**	**27,403,002**	**26,287,523**
Trade, bills and other payables	**7,142,308**	**3,187**	**1,836**	**14,629**	**7,161,960**	**7,180,471**
Financial guarantee contracts provided to a joint venture	**–**	**–**	**–**	**31,606**	**31,606**	**31,606**
At 30 June 2019 (restated)						
Borrowings	15,437,782	10,831,705	6,388,861	50,584	32,708,932	31,308,606
Trade, bills and other payables	7,654,640	–	–	–	7,654,640	7,654,640
Financial guarantee contracts provided to a joint venture	–	–	–	33,440	33,440	33,440

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is "Total equity" as shown in the consolidated balance sheet.

The gearing ratio is calculated as follows:

	30 June 2020 **RMB'000**	30 June 2019 RMB'000 (Restated)
Total borrowings (Note 16)	**26,287,523**	31,308,606
Less: cash and cash equivalents, restricted cash and short-term bank deposits	**(5,690,897)**	(8,579,686)
Net debt	**20,596,626**	22,728,920
Total equity	**40,796,395**	38,391,079
Gearing ratio	**50.5%**	59.2%

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

Financial instruments carried at fair value are categorised by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as price) or indirectly (that is, derived from prices) (level 2); and

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2020 on a recurring basis:

	30 June 2020 Level 1 RMB'000	30 June 2019 Level 1 RMB'000
Financial assets at fair value through profit or loss	**63,301**	60,565

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of plant and machinery

The Group's management determines the estimated useful lives and related depreciation expense for its plant and machinery for paper manufacturing. The estimate is based on the expected lifespan of the paper machines and expected wears and tears incurred during production. Wears and tears can be significantly different following renovations each time. It could also change significantly as a result of technical innovations in response to industry cycles. Management regularly reviews the estimated useful lives and related depreciation charge of the Group's property, plant and equipment. When the useful lives differ from the original estimated useful lives, management will adjust the estimated useful lives accordingly, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. It is possible that the estimates made based on existing experience are different to the actual outcomes within the next financial period and could cause a material adjustment to the depreciation and carrying amount of property, plant and equipment.

Should the actual useful lives of the paper manufacturing plant and machinery be 5% shorter/longer from management's estimate, the carrying amount of the plant and machinery as at 30 June 2020 would be RMB796,408,000 lower (30 June 2019: RMB708,083,000) or RMB720,559,000 higher (30 June 2019: RMB640,647,000).

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the amount of the provision for taxation and timing of payment of the related taxations. Judgement is also required in determining the tax rate that would be applicable when related temporary difference that gives rise to deferred income tax are recycled for those group entities currently entitling preferential tax rate. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors of the Company, which are used to allocate resources and assess performance.

The Group is principally engaged in the manufacture and sales of packaging paper, printing and writing paper, 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 breakdown of the major products of the total revenue is disclosed in Note 19.

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

As at 30 June 2020, other than deferred income tax assets, the total of non-current assets located in the PRC is RMB54,018,568,000 (30 June 2019: RMB54,282,291,000), and the total of these non-current assets located in other countries is RMB6,828,876,000 (30 June 2019: RMB3,661,653,000).

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation, and logistics equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 July 2018 (restated)						
Cost	9,339,246	49,625,068	1,159,477	736,503	6,855,889	67,716,183
Accumulated depreciation	(3,195,139)	(11,881,066)	(707,953)	(355,179)	—	(16,139,337)
Net book amount	6,144,107	37,744,002	451,524	381,324	6,855,889	51,576,846
Year ended 30 June 2019						
Opening net book amount as at 1 July 2018 (originally stated)	6,132,115	37,610,576	440,159	381,058	6,557,536	51,121,444
Merger accounting restatement	11,992	133,426	11,365	266	298,353	455,402
Opening net book amount as at 1 July 2018 (restated)	6,144,107	37,744,002	451,524	381,324	6,855,889	51,576,846
Business combination	128,253	254,161	2,853	—	—	385,267
Additions	4,981	190,983	37,300	42,440	5,970,961	6,246,665
Transfer	666,451	1,131,728	67,694	267	(1,866,140)	—
Disposals	(80,680)	(65,915)	(1,829)	(3,194)	—	(151,618)
Depreciation (Notes (b) and 21)	(403,998)	(1,582,258)	(103,005)	(71,294)	—	(2,160,555)
Exchange differences	10,946	30,837	166	30	6,706	48,685
Closing net book amount (restated)	6,470,060	37,703,538	454,703	349,573	10,967,416	55,945,290

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation, and logistics equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 30 June 2019 (restated)						
Cost	10,050,428	51,157,122	1,246,467	723,308	10,967,416	74,144,741
Accumulated depreciation	(3,580,368)	(13,453,584)	(791,764)	(373,735)	—	(18,199,451)
Net book amount	6,470,060	37,703,538	454,703	349,573	10,967,416	55,945,290
Year ended 30 June 2020						
Opening net book amount as at 1 July 2019 (originally stated)	6,459,050	37,210,264	425,628	348,889	10,874,178	55,318,009
Merger accounting restatement	11,010	493,274	29,075	684	93,238	627,281
Opening net book amount as at 1 July 2019 (restated)	6,470,060	37,703,538	454,703	349,573	10,967,416	55,945,290
Additions	123,641	348,392	20,028	20,023	4,310,244	4,822,328
Transfer	652,323	6,901,130	155,327	2,008	(7,710,788)	—
Disposals	(15,929)	(53,166)	(451)	(2,642)	—	(72,188)
Depreciation (Notes (b) and 21)	(420,318)	(1,711,803)	(106,753)	(70,369)	—	(2,309,243)
Exchange differences	29,396	82,275	5,953	356	28,463	146,443
Closing net book amount	6,839,173	43,270,366	528,807	298,949	7,595,335	58,532,630
At 30 June 2020						
Cost	10,843,171	58,402,111	1,404,306	733,105	7,595,335	78,978,028
Accumulated depreciation	(4,003,998)	(15,131,745)	(875,499)	(434,156)	—	(20,445,398)
Net book amount	6,839,173	43,270,366	528,807	298,949	7,595,335	58,532,630

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) None of the property, plant and equipment of the Group at 30 June 2020 (30 June 2019: RMB254,636,000) had been pledged for the borrowings of the Group (Note 16).

(b) Depreciation was expensed in the following category in the consolidated income statement:

	For the year ended 30 June 2020 RMB'000	2019 RMB'000 (Restated)
Cost of goods sold	**2,001,424**	1,853,582
Administrative expenses	**241,533**	235,280
Selling and marketing costs	**61,274**	67,618
Other expenses	**5,012**	4,075
	2,309,243	2,160,555

7. RIGHT-OF-USE ASSETS AND LAND USE RIGHTS

(a) Right-of-use assets

	Land use rights RMB'000	Office buildings RMB'000	Total RMB'000
Year ended 30 June 2020			
Opening net book amount as at 1 July 2019	—	—	—
Adjustment for change in accounting policy (Note 2.3)	1,610,376	16,426	1,626,802
Opening net book amount as at 1 July 2019	1,610,376	16,426	1,626,802
Additions	76,288	8,932	85,220
Amortisation (Notes (d) and 21)	(42,394)	(7,214)	(49,608)
Exchange differences	1,787	—	1,787
Closing net book amount as at 30 June 2020	1,646,057	18,144	1,664,201
At 30 June 2020			
Cost	**2,146,482**	**25,358**	**2,171,840**
Accumulated amortisation	**(500,425)**	**(7,214)**	**(507,639)**
Net book amount	**1,646,057**	**18,144**	**1,664,201**

7. RIGHT-OF-USE ASSETS AND LAND USE RIGHTS *(continued)*

(b) Land use rights

	Year ended 30 June 2019 RMB'000
Year ended 30 June 2019	
Opening net book amount as at 1 July 2018 (originally stated)	1,482,967
Merger accounting restatement	32,544
Opening net book amount as at 1 July 2018 (restated)	1,515,511
Additions	135,611
Amortisation (Notes (d) and 21)	(40,853)
Exchange differences	107
Closing net book amount as at 30 June 2019	1,610,376

(c) The land is outside Hong Kong and held on leases of between 30 years to 99 years.

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

8. INTANGIBLE ASSETS

	Goodwill RMB'000 (Note (b))	Others RMB'000 (Note (c))	Total RMB'000
At 1 July 2018 (restated)			
Cost	146,694	155,246	301,940
Accumulated amortisation	—	(69,381)	(69,381)
Net book amount	146,694	85,865	232,559
Year ended 30 June 2019			
Opening net book amount as at 1 July 2018 (originally stated)	146,694	84,688	231,382
Merger accounting restatement	—	1,177	1,177
Opening net book amount as at 1 July 2018 (restated)	146,694	85,865	232,559
Additions	—	60,966	60,966
Amortisation (Notes (a) and 21)	—	(15,796)	(15,796)
Exchange differences	—	(167)	(167)
Closing net book amount (restated)	146,694	130,868	277,562
At 30 June 2019 (restated)			
Cost	146,694	216,269	362,963
Accumulated amortisation	—	(85,401)	(85,401)
Net book amount	146,694	130,868	277,562
Year ended 30 June 2020			
Opening net book amount as at 1 July 2019 (originally stated)	**146,694**	**124,388**	**271,082**
Merger accounting restatement	**—**	**6,480**	**6,480**
Opening net book amount as at 1 July 2019 (restated)	**146,694**	**130,868**	**277,562**
Additions	**—**	**31,547**	**31,547**
Amortisation (Notes (a) and 21)	**—**	**(21,706)**	**(21,706)**
Exchange differences	**—**	**405**	**405**
Closing net book amount	**146,694**	**141,114**	**287,808**
At 30 June 2020			
Cost	**146,694**	**248,221**	**394,915**
Accumulated amortisation	**—**	**(107,107)**	**(107,107)**
Net book amount	**146,694**	**141,114**	**287,808**

8. INTANGIBLE ASSETS *(continued)*

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

(b) **Impairment test for goodwill**

Goodwill is allocated to the Group's CGU identified. The goodwill of the Group is related to acquisition of three production lines, which is considered as one CGU for impairment test purpose. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, which is based on management's past experience and its expectation for the market development and is consistent with their business plan. Based on the impairment test, management of the Group was of the view there was no impairment of goodwill as at 30 June 2020 (30 June 2019: nil).

(c) As at 30 June 2020, other intangible assets mainly represent patent, trademark, computer software and sea use right (30 June 2019: same).

9. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2020:

	Place of incorporation and kind of legal entity	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited	British Virgin Islands (the "BVI"), limited liability company	Investment holdings/BVI	US$10,000	100.00%
Indirectly held:				
Nine Dragons Worldwide Investment Limited	Hong Kong, limited liability company	Investment holdings/ Hong Kong	HK$1	100.00%
Nine Dragons Worldwide (China) Investment Group Co., Ltd.	PRC, limited liability company	Investment holdings/PRC	US$3,217,491,000	100.00%
Nine Dragons Paper Industries (Dongguan) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$863,181,000	100.00%
Nine Dragons Paper Industries (Taicang) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$540,720,000	100.00%

9. SUBSIDIARIES *(continued)*

	Place of incorporation and kind of legal entity	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Nine Dragons Paper Industries (Chongqing) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$667,893,000	100.00%
Nine Dragons Paper Industries (Tianjin) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$756,468,000	100.00%
Nine Dragons Paper Industries (Quanzhou) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$311,223,000	100.00%
Nine Dragons Paper Industries (Leshan) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	RMB462,210,000	100.00%
Nine Dragons Paper Industries (Shenyang) Co. Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$311,055,000	100.00%
Nine Dragons Paper Industries (Hebei) Co., Ltd.	PRC, limited liability company	Manufacture of paper/PRC	US$163,193,000	100.00%
Cheng Yang Paper Mill Co., Ltd. (Note (a))	Vietnam, limited liability company	Manufacture of paper/Vietnam	US$100,000,000	67.00%
ND Paper Inc.	The United States of America (the "USA"), limited liability company	Manufacture of paper/USA	US$330,289,000	100%

(a) The Group holds controlling interests in this subsidiary. In the opinion of the directors, the non-controlling interest is individually not material to the Group's consolidated financial statements. Therefore, no separate disclosure on this subsidiary is presented.

(b) The English names of those subsidiaries incorporated in the PRC represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

10. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

There was no associate nor joint venture of the Group as at 30 June 2020 which, in the opinion of the executive directors, are individually material to the Group. For those individually immaterial associates and joint venture that are accounted for using the equity method, amounts recognised in the consolidated balance sheet and the consolidated income statement are set out as below:

	Associates RMB'000 (Note (a))	Joint venture RMB'000 (Note (b))	Total RMB'000
At 1 July 2018	144,653	31,535	176,188
Share of results	59,966	(697)	59,269
Dividends declared	(145,338)	—	(145,338)
Exchange differences	—	(432)	(432)
At 30 June 2019	59,281	30,406	89,687
At 1 July 2019	**59,281**	**30,406**	**89,687**
Addition	**39,707**	**—**	**39,707**
Share of results	**142,638**	**(1,424)**	**141,214**
Dividends declared	**(139,673)**	**—**	**(139,673)**
Exchange differences	**—**	**(514)**	**(514)**
At 30 June 2020	**101,953**	**28,468**	**130,421**

(a) Particulars of the Group's major associates are set out below:

Name of entity	Place of incorporation	% of ownership interest	Principal activities
ACN (Tianjin) Resources Co., Ltd. ("ACN Tianjin")	PRC	30	Sales of recovered paper
Turbo Best Holdings Limited	Hong Kong	40	Investment holdings

(b) Particulars of the Group's joint venture are set out below:

Name of entity	Place of incorporation	% of ownership interest	Principal activities
Global Fame Developments Limited ("Global Fame")	BVI	50	Leasing

11. INVENTORIES

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

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB42,313,896,000 for the year ended 30 June 2020 (2019: RMB46,094,151,000).

12. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
Trade receivables (Note (b))		
— third parties	**3,196,199**	2,835,037
— related parties (Note 29(d))	**15,828**	11,099
	3,212,027	2,846,136
Bills receivables (Note (d))		
— third parties	**1,384,675**	1,131,708
— related parties (Note 29(d))	**—**	6,450
	1,384,675	1,138,158
Trade and bills receivables	**4,596,702**	3,984,294
VAT recoverable	**772,118**	1,480,525
Other receivables and deposits		
— third parties	**238,180**	298,129
— related parties (Note 29(d))	**72,220**	49,156
	310,400	347,285
Prepayments		
— third parties	**847,878**	586,015
— related parties (Note 29(d))	**1,111,811**	977,775
	1,959,689	1,563,790
Less: prepayments included in non-current assets	**(232,384)**	(21,029)
Other receivables and prepayments	**2,809,823**	3,370,571

12. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(a) As at 30 June 2020, the fair value of trade, bills and other receivables approximate their carrying amounts due to their short term maturities (30 June 2019: same).

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

As at 30 June 2020, the ageing analysis of trade receivables based on invoice date was as follows:

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

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

(c) Management reviews its trade receivables for the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period by considering actual or expected significant changes in the operating results of the debtor, default or significant delay in payments and other available forward-looking information. Management does not expect any credit losses of trade receivables as at 30 June 2020 (30 June 2019: same).

Trade receivables are analysed below:

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
Fully performing under credit term (Note (i))	**3,125,657**	2,753,303
Past due but not impaired (Note (ii))	**86,370**	92,833
Total trade receivables	**3,212,027**	2,846,136

(i) Trade receivables that are fully performing under credit term relate to customers who have long-term trading relationship or have good payment histories.

(ii) Trade receivables that are past due but not impaired relate to customers for whom there are no recent history of default.

12. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

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

(e) The carrying amounts of trade, bills and other receivables and deposits are denominated in the following currencies:

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
RMB	**4,152,125**	3,489,158
US$	**503,397**	508,524
HK$	**88,877**	84,570
Others	**162,703**	249,327
	4,907,102	4,331,579

(f) The maximum exposure to credit risk is the carrying amount of trade, bills and other receivables and deposits. The Group does not hold any collateral as security. No impairment provision was provided for the trade, bills and other receivables and deposits during the year ended 30 June 2020 (2019: same).

(g) Prepayments mainly represent advance to suppliers for purchase of raw materials and prepaid expenditures.

13. CASH AND CASH EQUIVALENTS

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
Cash and cash equivalents		
— Cash at banks (Note (c))	**5,558,000**	8,337,880
— Cash in hand	**1,508**	1,614
	5,559,508	8,339,494
Cash and cash equivalents denominated in:		
— RMB	**4,639,837**	6,786,451
— US$	**511,614**	885,540
— HK$	**278,848**	500,413
— Others	**129,209**	167,090
	5,559,508	8,339,494

(a) As at 30 June 2020, the maximum exposure to credit risk is the carrying amount of cash at banks of RMB5,558,000 (30 June 2019: RMB8,337,880,000).

(b) The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated cash and cash equivalents out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(c) Cash at banks earns interest at floating rates based on daily bank deposit rates. As at 30 June 2020, the weighted average effective interest rate of these deposits was 0.30% (30 June 2019: 0.29%).

14. SHARE CAPITAL AND SHARE PREMIUM

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

15. OTHER RESERVES

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000	Statutory reserve and enterprise expansion fund RMB'000 (Note (b))	Merger reserve RMB'000 (Note (c))	Currency translation reserve RMB'000	Total RMB'000
Year ended 30 June 2019							
Balance as at 1 July 2018 (originally stated)	3,978,404	251,406	41,367	2,233,193	–	(47,043)	6,457,327
Merger accounting restatement	–	–	–	13,664	259,060	–	272,724
Balance as at 1 July 2018 (restated)	3,978,404	251,406	41,367	2,246,857	259,060	(47,043)	6,730,051
Appropriation to statutory reserve and enterprise expansion fund	–	–	–	735,120	–	–	735,120
Dividends	(1,869,688)	–	–	–	–	–	(1,869,688)
Exercise of share options	–	–	(41,367)	–	–	–	(41,367)
Currency translation differences	–	–	–	–	–	9,355	9,355
Balance at 30 June 2019 (restated)	2,108,716	251,406	–	2,981,977	259,060	(37,688)	5,563,471

15. OTHER RESERVES *(continued)*

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000	Statutory reserve and enterprise expansion fund RMB'000 (Note (b))	Merger reserve RMB'000 (Note (c))	Currency translation reserve RMB'000	Total RMB'000
Year ended 30 June 2020							
Balance as at 1 July 2019 (originally stated)	2,108,716	251,406	–	2,960,577	–	(37,688)	5,283,011
Merger accounting restatement	–	–	–	21,400	259,060	–	280,460
Balance as at 1 July 2019 (restated)	2,108,716	251,406	–	2,981,977	259,060	(37,688)	5,563,471
Acquisition of subsidiaries under common control	–	–	–	–	(594,243)	–	(594,243)
Appropriation to statutory reserve and enterprise expansion fund	–	–	–	575,329	–	–	575,329
Dividends	(844,600)	–	–	–	–	–	(844,600)
Currency translation differences	–	–	–	–	–	29,402	29,402
Balance at 30 June 2020	1,264,116	251,406	–	3,557,306	(335,183)	(8,286)	4,729,359

(a) Contributed surplus of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

(b) **Statutory reserve and enterprise expansion fund**

In accordance with relevant rules and regulations in the PRC, except for Sino-foreign equity joint venture enterprises, all other PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capitals. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capitals of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capitals of respective companies or to expand their production operations upon approval by the relevant authority.

In accordance with relevant rules and regulations in the PRC applied on Sino-foreign equity joint venture enterprises, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by the board of directors of respective companies.

15. OTHER RESERVES *(continued)*

(c) Merger reserve

The merger reserve represents the aggregate nominal value of the share capital of the subsidiaries acquired by the Group from the controlling shareholders of the Company less considerations paid.

16. BORROWINGS

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

(a) As at 30 June 2020, none of the borrowings (30 June 2019: RMB50,313,000) are secured by certain property, plant and equipment (Note 6) of the Group; borrowings of RMB22,929,854,000 (30 June 2019: RMB26,780,744,000) are guaranteed by the Company.

(b) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity dates whichever is earlier is as follows:

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
6 months or less	14,143,523	19,931,860
6–12 months	6,549,503	4,899,454
1–5 years	5,544,942	6,429,170
Over 5 years	49,555	48,122
	26,287,523	31,308,606

16. BORROWINGS *(continued)*

(c) At 30 June, the Group's borrowings were repayable as follows:

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

(d) The effective interest rates of borrowings were mainly as follows:

	30 June 2020 RMB	30 June 2020 US$	30 June 2020 EURO
Long-term bank borrowings	**4.01%**	**3.03%**	**1.71%**
Short-term bank borrowings	**3.10%**	**1.77%**	**Not applicable**

	30 June 2019 (restated) RMB	30 June 2019 (restated) US$	30 June 2019 (restated) EURO
Long-term bank and other borrowings	4.29%	4.62%	1.04%
Short-term bank borrowings	3.91%	3.77%	0.66%

(e) The carrying amounts of current borrowings approximate their fair values due to their short-term maturities.

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date, which are categorised as level 2 fair value measurement. The carrying amounts of non-current borrowings approximate their fair values as at 30 June 2020 as the Group's non-current borrowings are mainly carried at floating rates (30 June 2019: same).

16. BORROWINGS *(continued)*

(f) The Group's borrowings were denominated:

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
RMB	**10,787,138**	16,417,875
US$	**4,688,913**	5,102,991
EURO	**4,871,303**	4,912,334
HK$	**5,940,169**	4,708,958
VND	**—**	166,448
	26,287,523	31,308,606

(g) The Group has the following undrawn borrowing facilities:

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
At floating rates:		
— expiring within one year	**32,436,934**	40,830,996
— expiring beyond one year	**7,067,689**	11,455,880
	39,504,623	52,286,876

17. DEFERRED INCOME TAX

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
Deferred income tax assets	**(51,774)**	(94,252)
Deferred income tax liabilities	**3,554,644**	3,189,475
Deferred income tax liabilities, net	**3,502,870**	3,095,223

17. DEFERRED INCOME TAX *(continued)*

(a) The net movement on the deferred income tax assets and liabilities is as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000 (Restated)
Beginning of the year	**3,095,223**	2,678,734
Charged to the consolidated income statement (Note 24)	**407,853**	416,221
Exchange differences	**(206)**	268
End of the year	**3,502,870**	3,095,223

(b) The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Deferred income tax assets RMB'000	**Deferred income tax liabilities** RMB'000
At 1 July 2018 (originally stated)	(175,371)	2,862,698
Merger accounting restatement	(8,593)	—
At 1 July 2018 (restated)	(183,964)	2,862,698
(Credited)/charged to the consolidated income statement	(165,831)	582,052
Exchange difference	(1,597)	1,865
At 30 June 2019 (restated)	(351,392)	3,446,615
At 1 July 2019 (restated)	**(351,392)**	**3,446,615**
Charged to the consolidated income statement	**16,240**	**391,613**
Exchange difference	**(552)**	**346**
At 30 June 2020	**(335,704)**	**3,838,574**

As at 30 June 2020, deferred income tax assets were mainly recognised in respect of temporary differences arising from tax losses and deferred income tax liabilities were mainly provided in respect of temporary differences arising from accelerated tax depreciation.

Pursuant to the relevant corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Group's certain subsidiaries. Deferred income tax liabilities of RMB1,303,590,000 (30 June 2019: approximately RMB1,167,731,000) have not been provided for in these consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Group's certain subsidiaries as the Group controls the dividend policy of these subsidiaries and it is probable that these temporary differences will not be reversed in the foreseeable future.

18. TRADE, BILLS AND OTHER PAYABLES

	30 June 2020 RMB'000	30 June 2019 RMB'000 (Restated)
Trade payables		
— third parties	1,640,941	1,612,300
— related parties (Note 29(d))	650,888	631,238
	2,291,829	2,243,538
Bills payables		
— third parties	3,180,854	3,436,703
	5,472,683	5,680,241
Other payables (Note (c))	1,812,139	2,017,908
Staff welfare benefits payable	410,693	474,603
Lease liabilities	18,511	—
	2,241,343	2,492,511
Less: non-current portion		
Staff welfare benefits payable	(105,592)	(106,695)
Lease liabilities	(12,743)	—
	(118,335)	(106,695)
Current portion	2,123,008	2,385,816

(a) Trade payables are settled in accordance with agreed terms with suppliers.

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

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

(b) Bills payables are mainly with maturity period of 90 to 180 days.

(c) Other payables mainly represent payables for acquisition of property, plant and equipment, payables for dividends and other operating expenses.

19. REVENUE

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

20. OTHER INCOME, OTHER EXPENSES AND OTHER GAINS — NET

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Other income		
— VAT refund (Note (a))	**344,578**	451,623
— subsidy income	**186,296**	181,372
— sales of electricity	**66,794**	74,269
— income from transportation services	**19,412**	22,803
Other expenses		
— cost of sales of electricity	**(52,549)**	(52,488)
— cost of transportation services	**(10,789)**	(15,289)
Other gains — net		
— losses on disposal of property, plant and equipment	**(32,164)**	(4,571)
— Others	**97,691**	62,136
	619,269	719,855

(a) Effective from 1 July 2015, pursuant to the preferential VAT policies collectively issued by the Ministry of Finance and the PRC State Administration of Taxation, the Group's VAT paid in relation to the production and sales of paper products using the recycle paper as raw materials was eligible for 50% of refund.

21. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Raw materials and consumables used	**35,781,987**	42,446,560
Changes in finished goods	**2,173,163**	(792,454)
Employee benefit expenses (Note 22)	**3,147,627**	2,947,370
Depreciation (Note 6)	**2,309,243**	2,160,555
Less: amounts charged to other expenses	**(5,012)**	(4,075)
	2,304,231	2,156,480
Repairs and maintenance expenses	**587,396**	970,332
Transportation expenses	**821,793**	727,872
Other taxes	**328,676**	365,329
Amortisation of right-of-use assets and land use rights (Note 7)	**49,608**	40,853
Less: amount capitalised in property, plant and equipment	**(2,685)**	(2,014)
	46,923	38,839
Amortisation of intangible assets (Note 8)	**21,706**	15,796
Less: amount capitalised in property, plant and equipment	**(721)**	(722)
	20,985	15,074
Auditor's remuneration	**8,570**	8,570
Others	**557,489**	538,825
	45,778,840	49,422,797

22. EMPLOYEE BENEFIT EXPENSES

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Wages and salaries	**2,887,308**	2,663,264
Allowances and benefits	**260,319**	284,106
	3,147,627	2,947,370

22. EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Pensions costs — defined contribution plans

The details of retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement are as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000 (Restated)
Gross scheme contributions	**78,599**	97,074

(b) Directors' and senior management's emoluments

The remuneration of each the director and chief executive officer of the Company for the year ended 30 June 2020 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan	7,728	–	–	2,258	–	–	9,986
Mr. Liu Ming Chung (i)	7,176	–	–	2,258	–	–	9,434
Mr. Zhang Cheng Fei (i)	6,900	–	–	1,129	–	–	8,029
Mr. Zhang Yuan Fu	905	–	5,313	–	–	16	6,234
Mr. Lau Chun Shun	3,600	–	–	1,129	–	16	4,745
Mr. Ken Liu	724	–	2,172	–	–	–	2,896
Mr. Zhang Lianpeng	1,200	–	–	1,129	–	–	2,329
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	478	–	–	91	–	–	569
Mr. Lam Yiu Kin	478	–	–	91	–	–	569
Mr. Ng Leung Sing	478	–	–	91	–	–	569
Mr. Chen Kefu	434	–	–	83	–	–	517
	30,101	–	7,485	8,259	–	32	45,877

22. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments *(continued)*

The remuneration of each of the director and chief executive officer of the Company for the year ended 30 June 2019 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan	7,728	–	–	2,500	–	–	10,228
Mr. Liu Ming Chung (i)	7,176	–	–	2,700	–	–	9,876
Mr. Zhang Cheng Fei (i)	6,900	–	–	2,100	–	–	9,000
Mr. Zhang Yuan Fu	878	–	5,157	–	–	16	6,051
Mr. Lau Chun Shun	3,600	–	–	600	–	16	4,216
Mr. Ken Liu	687	–	2,061	–	–	–	2,748
Mr. Zhang Lianpeng	1,160	–	–	500	–	–	1,660
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	464	–	–	130	–	–	594
Mr. Lam Yiu Kin	464	–	–	130	–	–	594
Mr. Ng Leung Sing	464	–	–	130	–	–	594
Mr. Chen Kefu	364	–	–	37	–	–	401
	29,885	–	7,218	8,827	–	32	45,962

(i) Mr. Liu Ming Chung and Mr. Zhang Cheng Fei are also the chief executive officer and deputy chief executive officer of the Group, respectively.

During the year ended 30 June 2020, no director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2019: same).

During the year ended 30 June 2020, no director waived or has agreed to waive any emoluments during the years presented (2019: same).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2020 include three (2019: five) directors whose emoluments are reflected in the analysis presented above.

23. FINANCE INCOME AND FINANCE COSTS

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

(a) The capitalisation interest rate is 3.80% for the year ended 30 June 2020 (2019: 3.88%).

24. INCOME TAX EXPENSE

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	**640,674**	523,310
— USA income tax (Note (c))	**—**	11,422
— Vietnam income tax (Note (d))	**16,993**	5,858
— Hong Kong profits tax (Note (e))	**—**	—
	657,667	540,590
Deferred income tax (Note 17)		
— PRC corporate income tax and withholding income tax	**439,643**	384,992
— USA income tax	**(39,241)**	24,058
— Vietnam income tax	**7,451**	7,171
	407,853	416,221
	1,065,520	956,811

24. INCOME TAX EXPENSE *(continued)*

(a) PRC corporate income tax

The Group's subsidiaries in the mainland China are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the Group's financial year ended 30 June 2020 as those subsidiaries fulfil the requirements of High and New Technology Enterprise ("HNTE") according to relevant rules and regulations (2019: 15%). The HNTE designation should be reassessed every three years according to relevant rules and regulations.

(b) PRC withholding income tax

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

(c) USA income tax

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

(d) Vietnam income tax

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

(e) Hong Kong profits tax

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

(f) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates of the group entities as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000 (Restated)
Profit before income tax	**5,295,602**	4,857,925
Less: share of results of associates and a joint venture	**(141,214)**	(59,269)
	5,154,388	4,798,656
Tax calculated at applicable tax rates of the group entities	**1,413,274**	1,258,015
Effect of preferential tax rates	**(373,042)**	(337,565)
Others	**25,288**	36,361
Income tax expense	**1,065,520**	956,811

25. EARNINGS PER SHARE

— Basic

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

— Diluted

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

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

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

26. DIVIDENDS

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

(a) An interim dividend for the six months ended 31 December 2019 of RMB10.0 cents per ordinary share, totaling approximately RMB469,222,000 (six months ended 31 December 2018: RMB467,422,000) has been approved in a meeting held by the BoD on 24 February 2020.

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

27. NOTES OF CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	For the year ended 30 June 2020 RMB'000	2019 RMB'000 (Restated)
Profit for the year	**4,230,082**	3,901,114
Adjustments for		
Income tax expense (Note 24)	**1,065,520**	956,811
Depreciation (Note 6)	**2,309,243**	2,160,555
Amortisation (Notes 7 and 8)	**67,908**	53,913
Share of profit of associates and a joint venture (Note 10)	**(141,214)**	(59,269)
Finance income (Note 23)	**(126,268)**	(137,548)
Finance costs (Note 23)	**883,983**	1,070,750
Exchange loss on financing activities — net	**149,279**	91,565
Exchange loss on operating activities — net	**120,237**	82,880
Others	**28,676**	(8,590)
	8,587,446	8,112,181
Changes in working capital		
Inventories	**2,469,317**	(774,130)
Trade, bills and other receivables, and prepayments	**(94,450)**	1,463,244
Trade, bills and other payables and contract liabilities	**(232,099)**	2,274,790
Cash generated from operations	**10,730,214**	11,076,085

27. NOTES OF CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Reconciliation of liabilities arising from financing activities

	1 July 2019 RMB'000 (Restated)	**Financing cash outflows — net** RMB'000	**Non-cash items** RMB'000	**30 June 2020** **RMB'000**
Borrowings	31,308,606	(5,412,243)	391,160	**26,287,523**

	1 July 2018 RMB'000 (Restated)	Financing cash inflows — net RMB'000	Non-cash items RMB'000	30 June 2019 RMB'000 (Restated)
Borrowings	33,009,260	(1,728,386)	27,732	31,308,606

28. CAPITAL COMMITMENTS

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

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

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Name and relationship with major related parties

Name	Relationship
America Chung Nam Inc. ("ACN Inc")	A company beneficially owned by Ms. Cheung Yan and Mr Liu Ming Chung, executive directors of the Company
ACN Tianjin	An associate of the Group
Global Fame	A joint venture of the Group
Come Sure Packing Products (Quanzhou) Co., Ltd. ("Come Sure Quanzhou")	A company owned by an associate of the Group

(b) Transactions with related parties

During the year ended 30 June 2020, the Group had the following significant transactions with related parties. These transactions are conducted in the normal course of the Group's business:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Sales of goods:		
— Come Sure Quanzhou	**116,393**	364,471
Purchase of recovered paper and pulp:		
— ACN Tianjin	**18,017,173**	15,238,746
— ACN Inc	**3,316,991**	7,625,931
	21,334,164	22,864,677

All the above transactions are entered into with the relevant related parties at mutually agreed terms.

29. SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

Compensation for key management including the compensation for directors as disclosed in Note 22 is as follows:

	For the year ended 30 June	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Salaries, allowance and benefits	**47,690**	35,181

(d) Balances with related parties

	30 June 2020	30 June 2019
	RMB'000	RMB'000
		(Restated)
Balances due from:		
— ACN Inc	**880,197**	861,440
— ACN Tianjin	**231,614**	117,284
— Global Fame	**46,357**	44,642
— Come Sure Quanzhou	**15,828**	17,856
— Other related parties	**25,863**	3,258
	1,199,859	1,044,480

	30 June 2020	30 June 2019
	RMB'000	RMB'000
		(Restated)
Balances due to:		
— ACN Inc	**352,912**	122,922
— ACN Tianjin	**297,976**	502,470
— Other related parties	**—**	5,846
	650,888	631,238

Balances with related parties as at 30 June 2020 were unsecured, interest free and repayable in accordance with agreed terms with related parties (30 June 2019: same).

(e) Provision of guarantee to the joint venture

As at 30 June 2020, the Group has provided guarantee of RMB31,606,000 to Global Fame related to its borrowings (30 June 2019: RMB33,440,000).

30. ULTIMATE HOLDING COMPANY

The directors of the Company regard Best Result Holdings Limited, a company incorporated in the BVI, to be the ultimate holding company of the Company.

31. BALANCE SHEET OF THE COMPANY STANDING ALONE

	Note	30 June 2020 RMB'000	30 June 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		137	154
Interests in subsidiaries		10,978,572	10,978,572
		10,978,709	10,978,726
Current assets			
Other receivables and prepayments		—	4,686
Amounts due from subsidiaries		2,006,756	2,506,384
Cash and cash equivalents		83,143	85,295
		2,089,899	2,596,365
Total assets		13,068,608	13,575,091
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		480,531	480,531
Share premium		3,884,720	3,884,720
Other reserves	(a)	2,678,274	3,522,874
Retained earnings	(b)	498,015	10,805
Total equity		7,541,540	7,898,930
LIABILITIES			
Non-current liabilities			
Borrowings		3,107,669	1,240,662
Current liabilities			
Amounts due to subsidiaries		1,689,741	1,012,021
Other payables		479,658	478,583
Borrowings		250,000	2,944,895
		2,419,399	4,435,499
Total liabilities		5,527,068	5,676,161
Total equity and liabilities		13,068,608	13,575,091

31. BALANCE SHEET OF THE COMPANY STANDING ALONE *(continued)*

(a) Movement of other reserves

	Contributed surplus RMB'000	Share option reserve RMB'000	Total RMB'000
At 1 July 2018	5,392,562	41,367	5,433,929
2018 final dividends	(1,869,688)	—	(1,869,688)
Exercise of share options	—	(41,367)	(41,367)
At 30 June 2019	3,522,874	—	3,522,874
At 1 July 2019	**3,522,874**	**—**	**3,522,874**
2019 final dividends	**(844,600)**	**—**	**(844,600)**
At 30 June 2020	**2,678,274**	**—**	**2,678,274**

(b) Movement of retained earnings

	RMB'000
At 1 July 2018	94,806
Profit of the year	383,421
2019 interim dividends	(467,422)
At 30 June 2019	10,805
At 1 July 2019	**10,805**
Profit of the year	**956,432**
2020 interim dividends	**(469,222)**
At 30 June 2020	**498,015**

OTHER INFORMATION

SHAREHOLDERS

As at 30 June 2020, the Group had over 2,900 non-institutional shareholders.

FINANCIAL CALENDAR

FY2020 interim results Announcement	published on 24 February 2020
FY2020 annual results Announcement	published on 22 September 2020
Closure of register of members for determining the entitlement of the attendance of the 2020 AGM	2 December 2020 to 7 December 2020 (both dates inclusive)
2020 AGM	7 December 2020
Ex-dividend date for final dividend	14 December 2020
Latest time to lodge transfer with the Share Registrar for entitlement of the final dividend	4:30 p.m. on 15 December 2020
Closure of register of members for determining the entitlement of the final dividend	16 December 2020 to 18 December 2020 (both dates inclusive)
Distribution of FY2020 final dividend#	on or about 15 January 2021

subject to Shareholders' approval of the final dividend at the 2020 AGM

ANNUAL GENERAL MEETING

The 2020 AGM will be held on Monday, 7 December 2020. The notice of the 2020 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The notice of 2020 AGM and the proxy form will also be available on the website of HKExnews at www.hkexnews.hk under Listing Company Information and the website of the Company at www.ndpaper.com.

SHARE INFORMATION

Share Information as at 30 June 2020

Market capitalization:	HK$32.8 billion
Number of issued shares:	4,692,220,811 Shares
Nominal Value:	HK$0.1 per Share
Board Lot:	1,000 Shares

Shares listing

The Shares of ND Paper have been listed on the Main Board of the Stock Exchange (Stock Code: 2689) since March 2006.

Dividend

Dividend per Share for the year ended 30 June 2020

— Interim Dividend:	RMB10 cents per Share
— Final Dividend:	RMB22 cents per Share

Share registrar and transfer office

Principal:

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda

Hong Kong branch:

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

Investor relations contact

Nine Dragons Paper (Holdings) Limited
Corporate Communications Department
Unit 1, 22/F., One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890
Email: info_hk@ndpaper.com

Stock Code

Stock Exchange:	2689
Reuters:	2689.HK
Bloomberg:	2689 HK

Website

www.ndpaper.com
www.irasia.com/listco/hk/ndpaper

DEFINITION

2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2016 Share Option Scheme	the share options scheme adopted by the Company on 11 December 2015
2020 AGM	Annual General Meeting to be held on 7 December 2020
ACN	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, is indirectly wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung
Associate(s)	has the meaning ascribed to it under the Listing Rules
Best Result	Best Result Holdings Limited, a company incorporated under the laws of BVI, is a substantial shareholder of the Company
Board	the board of directors of the Company
BVI	the British Virgin Islands
Bye-laws	the bye-laws of ND Holdings
CG Code	the code provisions of the corporate governance code as set out in Appendix 14 to the Listing Rules
Company or ND Holdings or ND Paper	Nine Dragons Paper (Holdings) Limited, a company which was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt Company with limited liability
Director(s)	the director(s) of the Company or any one of them
Dongguan Longteng	Dongguan Longteng Industrial Co., Ltd. (東莞市龍騰實業有限公司), a limited liability company established in the PRC in May 2003
FY	Financial year ended/ending 30 June
Group	the Company and its subsidiaries
HKD/HK$	Hong Kong dollars
Hong Kong or Hong Kong SAR or HKSAR	Hong Kong Special Administrative Region of the PRC
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers

NBHK	Northern bleached hardwood kraft pulp
NBSK	Northern bleached softwood kraft pulp
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
PRC	People's Republic of China
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share(s)	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
sq.ft	square feet
sq.m	square metre
Tianjin ACN	ACN (Tianjin) Resources Co., Ltd. (中南(天津)再生資源有限公司), a company established in the PRC
tpa	tonnes per annum
US$/USD	United States dollars
Year	the twelve months ended 30 June 2020
%	per cent

This 2019/20 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at www.ndpaper.com and on the website of HKExnews at www.hkexnews.hk.

Shareholders who have chosen to receive the Company's Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to the Annual Report posted on the Company's website will promptly upon request be sent by post the Annual Report in printed form free of charge.

Shareholders who have chosen to receive the Company's Corporate Communications in either English or Chinese version may request for the other language version of the Annual Report.

Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.

Shareholders may request for printed copy of the Annual Report or change of their choice of means of receipt and language of the Corporate Communications by sending reasonable notice in writing to the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an email to ndpaper-ecom@hk.tricorglobal.com.

玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED