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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

**UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021**

FINANCIAL HIGHLIGHTS

- Revenue increased by 11.6% to approximately RMB34,471.3 million.
- Gross profit decreased by 27.5% to approximately RMB4,680.6 million.
- Profit attributable to equity holders of the Company for the Period was approximately RMB2,774.7 million.
- If the exchange gains on operating and financing activities (net of tax) of approximately RMB214.4 million were excluded, the profit attributable to the equity holders of the Company decreased by approximately 34.6% to approximately RMB2,560.3 million which was mainly driven by decrease in gross profit margin.
- Basic earnings per share decreased by RMB0.26 or 30.6% to approximately RMB0.59.
- Interim dividend per share of RMB8.0 cents (equivalent to approximately HK9.8 cents).

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2021 (the “Period”), together with the comparative figures for the corresponding period of the last year.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Six months ended	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	34,471,332	30,886,630
Cost of goods sold		<u>(29,790,762)</u>	<u>(24,431,492)</u>
Gross profit		4,680,570	6,455,138
Other income, other expense and other gains — net		396,502	397,106
Exchange losses on operating activities — net		(39,047)	(17,571)
Selling and marketing costs		(947,340)	(920,957)
Administrative expenses		<u>(1,202,365)</u>	<u>(979,783)</u>
Operating profit		2,888,320	4,933,933
Finance costs — net		(334,394)	(276,984)
— Finance income	7	97,356	38,285
— Finance costs	7	(431,750)	(315,269)
Exchange gains on financing activities — net		256,704	122,666
Share of profit of associates and a joint venture — net		<u>64,465</u>	<u>98,218</u>
Profit before income tax		2,875,095	4,877,833
Income tax expense	8	<u>(80,015)</u>	<u>(870,112)</u>
Profit for the Period		<u>2,795,080</u>	<u>4,007,721</u>
Profit attributable to:			
— Equity holders of the Company		2,774,725	4,001,987
— Non-controlling interests		<u>20,355</u>	<u>5,734</u>
		<u>2,795,080</u>	<u>4,007,721</u>

		Six months ended	
		31 December	
	<i>Note</i>	2021	2020
		(Unaudited)	(Unaudited)
Basic earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	<u>0.59</u>	<u>0.85</u>
Diluted earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	<u>0.59</u>	<u>0.85</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the Period	2,795,080	4,007,721
Other comprehensive income: <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(4,869)</u>	<u>(55,151)</u>
Total comprehensive income for the Period	<u>2,790,211</u>	<u>3,952,570</u>
Total comprehensive income for the period attributable to:		
— Equity holders of the Company	2,776,054	3,971,514
— Non-controlling interests	<u>14,157</u>	<u>(18,944)</u>
	<u>2,790,211</u>	<u>3,952,570</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2021 <i>RMB'000</i> (Unaudited)	30 June 2021 <i>RMB'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	64,642,356	60,198,470
Right-of-use assets	<i>11</i>	2,106,629	1,650,534
Intangible assets		315,758	313,137
Investment in associates and a joint venture		218,191	199,086
Prepayments	<i>13</i>	667,431	1,012,244
Deferred income tax assets		100,715	80,454
		<u>68,051,080</u>	<u>63,453,925</u>
Current assets			
Inventories	<i>12</i>	10,439,588	8,214,492
Trade and bills receivables	<i>13</i>	4,971,593	6,365,530
Other receivables and prepayments	<i>13</i>	4,476,632	3,889,194
Financial assets at fair value through profit or loss		76,773	77,633
Tax recoverable		148,483	26,404
Restricted cash		60,304	76,427
Short-term bank deposits		31,855	37,785
Cash and cash equivalents		8,134,773	10,031,059
		<u>28,340,001</u>	<u>28,718,524</u>
Total assets		<u><u>96,391,081</u></u>	<u><u>92,172,449</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	<i>14</i>	480,531	480,531
Share premium	<i>14</i>	1,084,720	3,884,720
Other reserves		6,041,558	4,593,424
Retained earnings		39,549,304	36,969,817
		<u>47,156,113</u>	45,928,492
Non-controlling interests		<u>481,342</u>	<u>467,185</u>
Total equity		<u><u>47,637,455</u></u>	<u><u>46,395,677</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December 2021 <i>RMB'000</i> (Unaudited)	30 June 2021 <i>RMB'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	<i>15</i>	17,012,166	17,523,289
Other payables		109,983	122,303
Deferred income tax liabilities		<u>4,256,209</u>	<u>4,199,472</u>
		<u>21,378,358</u>	<u>21,845,064</u>
Current liabilities			
Borrowings	<i>15</i>	17,726,704	16,587,595
Trade and bills payables	<i>16</i>	5,246,476	4,349,598
Contract liabilities		431,917	361,072
Other payables		3,680,842	2,253,014
Current income tax liabilities		<u>289,329</u>	<u>380,429</u>
		<u>27,375,268</u>	<u>23,931,708</u>
Total liabilities		<u>48,753,626</u>	<u>45,776,772</u>
Total equity and liabilities		<u>96,391,081</u>	<u>92,172,449</u>

CASH FLOWS INFORMATION

	Six months ended	
	31 December	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the Period	2,795,080	4,007,721
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects/changes in working capital	1,186,693	(155,470)
Cash generated from operations	3,981,773	3,852,251
Income tax paid	(267,618)	(316,364)
Interest paid	(525,942)	(401,153)
Net cash generated from operating activities	3,188,213	3,134,734
Net cash used in investing activities	(5,682,609)	(2,092,622)
Net cash generated from financing activities	602,860	23,826
Net (decrease)/increase in cash and cash equivalents	(1,891,536)	1,065,938
Cash and cash equivalents at beginning of the Period	10,031,059	5,559,508
Exchange losses on cash and cash equivalents	(4,750)	(30,432)
Cash and cash equivalents at end of the Period	<u>8,134,773</u>	<u>6,595,014</u>

1. GENERAL INFORMATION

The Group is 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 (the "Stock Exchange").

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company ("BoD") on 22 February 2022.

The condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2021 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2021.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2021, as described in those annual financial statements, except for the adoption of amendments to standards effective for the financial year beginning on 1 July 2021.

(a) Amendments to standards adopted by the Group

The following amendments to standards are relevant and mandatory for the Group's financial year beginning on 1 July 2021:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2
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The adoption of the amendments to standards does not have any significant impact to the results and financial position of the Group.

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

The following amendments to standards relevant to the Group have been issued but are not effective for the financial year beginning on 1 July 2021 and have not been early adopted by the Group:

Accounting Guideline 5 (Revised) Annual Improvements	Revised Accounting Guideline 5 Merger ¹ Annual Improvements to HKFRS Standards 2018–2020 Cycle ¹
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments ¹
HKAS 37 (Amendments) HKFRS 3 (Amendments) HKFRS 17 (Amendments) HKFRS 17	Onerous Contracts — Cost of Fulfilling a Contract ¹ Reference to the Conceptual Framework ¹ Amendments to HKFRS 17 ² Insurance Contract ²
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ³
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for the group for annual periods beginning on or after 1 July 2022

² Effective for the group for annual periods beginning on or after 1 July 2023

³ Effective date to be determined

The impact of amendments to standards that issued but not effective is still under assessment by the Group.

4. SEGMENT INFORMATION

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.

5. REVENUE

Revenue recognised during the Period are as follows:

	Six months ended 31 December	
	2021	2020
	RMB'000	RMB'000
Sales of packaging paper	32,178,350	27,902,533
Sales of printing and writing paper	1,815,224	2,530,169
Sales of high value specialty paper products	328,377	348,396
Sales of pulp	149,381	105,532
	<u>34,471,332</u>	<u>30,886,630</u>

6. OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 31 December	
	2021	2020
	RMB'000	RMB'000
Raw materials and consumables used	28,924,859	22,080,769
Changes in finished goods	(1,722,409)	3,094
Employee benefit expenses	1,803,611	1,589,665
Depreciation (Note 11)	1,437,070	1,272,430
Less: amount charged to other expenses	(3,153)	(3,012)
	1,433,917	1,269,418
Amortisation of right-of-use assets (Note 11)	28,995	25,336
Less: amount capitalised in property, plant and equipment	—	(894)
	<u>28,995</u>	<u>24,442</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>97,356</u>	<u>38,285</u>
Finance costs:		
Interest on borrowings	(438,693)	(327,792)
Other incidental borrowing costs	(33,471)	(35,024)
Less: amounts capitalised on property, plant and equipment (Note (a))	<u>76,354</u>	<u>67,893</u>
	(395,810)	(294,923)
Other finance costs	<u>(35,940)</u>	<u>(20,346)</u>
	<u>(431,750)</u>	<u>(315,269)</u>

(a) The capitalisation interest rate is approximately 2.8% for the six months ended 31 December 2021 (six months ended 31 December 2020: 2.7%).

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	44,463	556,716
— Vietnam income tax (Note (c))	<u>9,800</u>	<u>1,544</u>
	<u>54,263</u>	<u>558,260</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	22,295	372,396
— Vietnam income tax	3,457	3,774
— USA income tax	<u>—</u>	<u>(64,318)</u>
	<u>25,752</u>	<u>311,852</u>
	<u>80,015</u>	<u>870,112</u>

(a) PRC corporate income tax

The Group's subsidiaries in the mainland China are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the six months ended 31 December 2021 as those subsidiaries fulfil the requirements of High and New Technology Enterprise ("HNTE") according to relevant rules and regulations (six months ended 31 December 2020: same). The HNTE designation should be reassessed every three years according to relevant rules and regulations.

In accordance with the Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Implementing the Enterprise Income Tax Incentive Catalogue for Comprehensive Utilization of Resources Cai Shui [2008] No. 47 (《財政部、國家稅務總局關於執行資源綜合利用企業所得稅優惠目錄有關問題的通知》財稅[2008] 47號), and the Enterprise Income Tax Incentive Catalogue for Comprehensive Utilization of Resources (2021) (《資源綜合利用企業所得稅優惠目錄 (2021年版)》) issued by the Circular of the Ministry of Finance, the State Administration of Taxation, National Development and Reform Commission and Ministry of Ecology and Environment on 16 December 2021, an enterprise, which uses the raw materials under the catalogue to produce recycled resource products under the catalogue and the products meet the national or industrial standards, is entitled to incentive tax arrangement such that only 90% of the sales revenue of the products is subject to the calculation of the taxable income. The Group's sales of recycled products qualify for the incentive tax arrangement and therefore 10% of the Group's revenue from sales of recycled products was deducted from the taxable income of the Group in the calculation of CIT from 1 January 2021 onwards. The estimated benefit from this tax incentive amounting to RMB395 million was included in the determination of the current income tax charge for the six months ended 31 December 2021 (six months ended 31 December 2020: Nil).

(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 six months ended 31 December 2021 was 5% (six months ended 31 December 2020: 5%).

(c) Vietnam income tax

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit during the six months ended 31 December 2021 in respect of operations in Vietnam (six months ended 31 December 2020: same).

(d) USA income tax

USA income tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2021 (six months ended 31 December 2020: same).

(e) **Hong Kong profits tax**

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2021 (six months ended 31 December 2020: same).

9. EARNINGS PER SHARE

— **Basic**

	Six months ended 31 December	
	2021	2020
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>2,774,725</u>	<u>4,001,987</u>
Weighted average number of ordinary shares in issue (<i>shares in thousands</i>)	<u>4,692,221</u>	<u>4,692,221</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.59</u>	<u>0.85</u>

— **Diluted**

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 31 December 2021 (six months ended 31 December 2020: same).

10. DIVIDENDS

	Six months ended 31 December	
	2021	2020
	RMB'000	RMB'000
Interim dividend (<i>Note (b)</i>)	<u>375,378</u>	<u>469,222</u>

(a) 2021 final dividend of RMB33.0 cents per ordinary share, totaling approximately RMB1,548,433,000 has been approved in the Company's Annual General Meeting on 6 December 2021 out of other reserves of the Company and paid on 21 January 2022.

(b) The directors recommend the payment of an interim dividend of RMB8.0 cents (six months ended 31 December 2020: RMB10.0 cents) per ordinary share, totalling approximately RMB375,378,000 for the six months ended 31 December 2021 (six months ended 31 December 2020: RMB469,222,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 22 February 2022. This condensed consolidated interim financial information does not reflect this interim dividend payable.

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

	Property, plant and equipment <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>
Six months ended 31 December 2021		
Opening net book amount as at 1 July 2021	60,198,470	1,650,534
Additions	5,963,572	457,979
Acquisition of subsidiaries	80,082	30,177
Disposals	(73,576)	—
Depreciation/amortisation (<i>Note 6</i>)	(1,437,070)	(28,995)
Exchange differences	(89,122)	(3,066)
	<u>64,642,356</u>	<u>2,106,629</u>
Six months ended 31 December 2020		
Opening net book amount as at 1 July 2020	58,532,630	1,664,201
Additions	2,430,259	12,268
Disposals	(91,876)	—
Depreciation/amortisation (<i>Note 6</i>)	(1,272,430)	(25,336)
Exchange differences	(495,295)	(5,531)
	<u>59,103,288</u>	<u>1,645,602</u>

12. INVENTORIES

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
At cost:		
Raw materials	5,234,020	4,731,333
Finished goods	5,205,568	3,483,159
	<u>10,439,588</u>	<u>8,214,492</u>

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2021 RMB'000	30 June 2021 RMB'000
Trade receivables (<i>Notes (b)</i>)	3,602,341	3,872,915
Bills receivable (<i>Note (c)</i>)	1,369,252	2,492,615
	<u>4,971,593</u>	<u>6,365,530</u>
Value-added tax recoverable	1,122,884	762,773
Other receivables and deposits	513,273	487,950
Prepayments	3,507,906	3,650,715
Less: prepayments included in non-current assets	<u>(667,431)</u>	<u>(1,012,244)</u>
	<u>4,476,632</u>	<u>3,889,194</u>

- (a) As at 31 December 2021, the fair value of trade, bills and other receivables approximate their carrying amounts due to their short term maturities.
- (b) The Group's credit sales to customers are mainly entered into on credit terms of not more than 60 days.

As at 31 December 2021, the ageing analysis of trade receivables based on invoice date was as follows:

	31 December 2021 RMB'000	30 June 2021 RMB'000
0-60 days	3,560,579	3,804,793
Over 60 days	41,762	68,122
	<u>3,602,341</u>	<u>3,872,915</u>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are widely dispersed. Management does not expect any credit losses of the customers as at 31 December 2021.

- (c) Bills receivable are mainly with maturity period of 90 to 180 days (30 June 2021: 90 to 180 days). Bills receivable as at 31 December 2021 mainly represents bank acceptance notes (30 June 2021: same).

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares in thousands	Nominal value of ordinary shares <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Issued and fully paid:					
Six months ended					
31 December 2021					
Balance as at 1 July 2021	4,692,221	469,222	480,531	3,884,720	4,365,251
Reduction of share premium and transfer to contribution surplus (<i>Note (a)</i>)	—	—	—	(2,800,000)	(2,800,000)
Balance as at 31 December 2021	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>1,084,720</u>	<u>1,565,251</u>
Six months ended					
31 December 2020					
Balance as at 1 July 2020 and 31 December 2020	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>3,884,720</u>	<u>4,365,251</u>

(a) A reduction of RMB2,800,000,000 standing to the credit of the share premium account of the Company and the transfer of such amount to the contributed surplus account was approved by the shareholders at the Annual General Meeting on 6 December 2021.

15. BORROWINGS

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Non-current		
— Long-term bank borrowings	<u>17,012,166</u>	<u>17,523,289</u>
Current		
— Short-term bank borrowings	<u>7,976,140</u>	<u>11,398,244</u>
— Current portion of long-term bank borrowings	<u>9,750,564</u>	<u>5,189,351</u>
	<u>17,726,704</u>	<u>16,587,595</u>
	<u>34,738,870</u>	<u>34,110,884</u>

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

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Within 1 year	17,726,704	16,587,595
Between 1 and 2 years	8,451,063	8,590,195
Between 2 and 5 years	8,516,474	8,887,875
Over 5 years	<u>44,629</u>	<u>45,219</u>
	<u><u>34,738,870</u></u>	<u><u>34,110,884</u></u>

16. TRADE AND BILLS PAYABLES

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Trade payables (<i>Note (a)</i>)	1,918,161	2,276,316
Bills payable	<u>3,328,315</u>	<u>2,073,282</u>
	<u><u>5,246,476</u></u>	<u><u>4,349,598</u></u>

(a) As at 31 December 2021, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
0–90 days	1,689,135	2,081,521
Over 90 days	<u>229,026</u>	<u>194,795</u>
	<u><u>1,918,161</u></u>	<u><u>2,276,316</u></u>

17. CAPITAL COMMITMENTS

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

	31 December 2021 <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Property, plant and equipment	<u><u>11,061,504</u></u>	<u><u>9,791,124</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

During the Period under review, the global economic order remained threatened by the new COVID-19 variants, which led to a significant economic slowdown in China and affected the demand for packaging paper to a considerable extent. As for the operating costs, due to the soaring prices of coal, chemicals and recovered paper as well as the surging shipping costs, coupled with the launch of green policies in respect of “coal-to-gas” transition and dual control of energy consumption, the manufacturing sector and the packaging paper industry in China were confronted with huge pressure in general.

Amidst the pandemic, it is the priority of the Group to carry out both precise and day-to-day pandemic prevention so as to safeguard the health of employees and ensure a smooth production and operation. Challenged by the economic downturn and various short-term uncertainties, the Group remained committed to the principle of sustainable development in making the general business plan, which is to establish a fully-integrated production chain of pulp and paper packaging, and to provide quality products and services consistently to gain customers’ long-term support. As we had swiftly adjusted our product portfolio and sales strategies in response to the market condition, the sales volume remained stable, notwithstanding the daunting challenges during the Period. Cash flow, financial risk and exchange risk have also seen positive results under effective management. However, as the cost of energy and raw materials for paper production hiked significantly during the Period, the overall profitability was under notable pressure despite our rigorous cost control measures.

During the Period, the Group’s new production capacity for downstream packaging paperboard in Chongqing and Chengdu of 530 million sq.m. in aggregate commenced production. We also secured production capacity of 96 million sq.m. for packaging paperboard in Quanzhou through acquisition. As of 31 December 2021, the Group’s total design production capacity for pulp (recycled pulp and wood pulp) and paper amounted to 0.85 million tpa and 17.57 million tpa, respectively, while the total annual design production capacity for downstream packaging plants amounted to approximately 2,000 million sq.m.

Capacity Expansion Plan

Given the prohibition on recovered paper imports in China since 2021, recovered paper was in tight supply during the Period. In order to ensure the stable long-term supply of quality raw materials in the future as well as the control on production quality and cost effectiveness, the Group has started to implement a number of fully-integrated pulp and paper mill projects in China, which would lead to the addition of 3.12 million tpa, 0.60

million tpa, 1.10 million tpa, 6.25 million tpa and 880 million sq.m. of production capacity for wood pulp, recycled pulp, wood fibre, paper and downstream packaging plants respectively.

The details of the latest capacity expansion plan are as follow:

Capacity expansion project — wood pulp and recycled pulp	New annual production capacity (million tpa)	Expected completion time
China		
Hubei	(Chemical pulp) 0.60	Q3 of 2022
Shenyang	(Chemical pulp) 0.62	Q4 of 2022
Beihai	(Unbleached pulp) 0.50	Q3 of 2023
	(Chemi-mechanical pulp) 1.40	Q4 of 2023
Malaysia	(Recycled pulp) 0.60	Q2 of 2023
Total	3.72	
Capacity expansion project — wood fibre		
Capacity expansion project — wood fibre	New annual production capacity (million tpa)	Expected completion time
China		
Dongguan	0.60	Q2 of 2022
Chongqing	0.50	Q3 of 2022
Total	1.10	
Capacity expansion project — paper production		
Capacity expansion project — paper production	New annual production capacity (million tpa)	Expected completion time
China		
Hubei	(Virgin kraftliner) 0.60	Q2 of 2022
	(Testliner) 0.60	Q3 of 2022
Beihai	(Virgin kraftliner) 0.80	Q3 of 2023
	(Bleached folding boxboard) 1.20	Q4 of 2023
	(Printing & writing paper) 0.55	Q4 of 2023
	(White top linerboard) 0.45	Q2 of 2024
	(Virgin kraftliner) 0.30	Q2 of 2024
	(Sack kraft paper, bag paper) 0.20	Q2 of 2024
Shenyang	(Virgin kraftliner) 0.65	Q1 of 2023
Malaysia	(Kraftliner) 0.60	Q4 of 2022
	(Corrugating medium) 0.30	Q1 of 2023
Total	6.25	

<i>Capacity expansion project — downstream packaging plants</i>	<i>New annual production capacity</i>	<i>Expected completion time</i>
	<i>(million sq.m.)</i>	
China		
Dongguan (phase II)	220	Q1 of 2022
Tianjin (phase II)	220	Q1 of 2022
Zhenjiang	220	Q4 of 2022
Quanzhou (phase II)	220	Q2 of 2023
Total	880	

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB34,471.3 million for the Period, representing an increase of approximately 11.6% as compared with the corresponding period last year. The major contributor of the Group's revenue was still its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 93.3% of the revenue, with the remaining revenue of approximately 6.7% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's annual design production capacity in packaging paperboard, printing and writing paper, high value specialty paper and pulp products as at 31 December 2021 was approximately 18.4 million tpa in aggregation, comprising approximately 10.2 million tpa of linerboard, approximately 3.4 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper, approximately 1.1 million tpa of high value specialty paper and pulp products. The four US mills capacity of approximately 1.3 million tpa, including of approximately 0.9 million tpa coated one-side, coated freesheet and coated groundwood grade for printing and writing paper and specialty paper products, and of approximately 0.4 million tpa recycled pulp and wood pulp products.

The Group sales volume remained relatively stable and reached approximately 8.4 million tonnes, decreased by approximately 1.6% as compared with 8.6 million tonnes in the corresponding period last year. The slight decrease in sales volume was driven by approximately 0.2 million tonnes decrease in the China business.

The sales volume of linerboard and coated duplex board for the period decreased by 3.5% and 4.4% respectively while high performance corrugating medium for the period increased by approximately 13.6% as compared with those in the corresponding period last year.

The majority of the Group's revenue continued to be realised from the China market, in particular from the linerboard and high performance corrugating medium sectors. For the Period, revenue related to China consumption represented 91.3% of the Group's total revenue, while the remaining revenue of 8.7% represented sales recorded in other countries.

During the Period, revenue from the Group's top five customers in aggregate accounted for approximately 7.2% (six months ended 31 December 2020: 7.4%) of the total revenue, with that to the single largest customer accounted for approximately 3.2% (six months ended 31 December 2020: 3.1%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB4,680.6 million, a decrease of approximately RMB1,774.5 million or 27.5% as compared with RMB6,455.1 million in the corresponding period last year. The gross profit margin decreased from 20.9% in the corresponding period last year to approximately 13.6% for the Period mainly due to the increase in the selling price of the products was much slower than the increase in the cost of raw materials for the Period.

Selling and marketing costs

Selling and marketing costs increased by approximately 2.9% from RMB921.0 million in the corresponding period last year to approximately RMB947.3 million for the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue decrease from 3.0% in the corresponding period last year to approximately 2.7% in the Period.

Administrative expenses

Administrative expenses increased by approximately 22.7% from RMB979.8 million in the corresponding period last year to approximately RMB1,202.4 million in the Period which was mainly contributed by additional management and administrative costs incurred to support the capacity expansion projects, mainly new bases to be constructed including Hubei, Guangxi and Malaysia Selangor bases which will commence production in the coming two years. As a percentage of Group's revenue, the administrative expenses increased from 3.2% in the corresponding period last year to 3.5% in the Period.

Operating profit

The operating profit for the Period was approximately RMB2,888.3 million, representing a decrease of approximately RMB2,045.6 million or 41.5% compared with corresponding period last year. The operating profit margin decreased from 16.0% in the corresponding period last year to approximately 8.4% in the Period mainly due to the decrease in gross profit margin of the Group.

Finance costs — net

The net finance costs for the Period increased by approximately RMB57.4 million, or increased by 20.7% from RMB277.0 million in the corresponding period last year to approximately RMB334.4 million in the Period. The increase in finance cost was mainly contributed by the increase in total borrowing from RMB25,944.6 million as at 31 December 2020 to RMB34,738.9 million for the period.

Exchange gains/losses on financing and operating activities — net

The exchange gains on operating and financing activities before tax for the Period in aggregation amounted to approximately RMB217.7 million (represented by exchange losses on operating activities before tax of approximately RMB39.0 million and exchange gains on financing activities before tax of approximately RMB256.7 million).

In the corresponding period last year, the exchange gains on operating and financing activities before tax in aggregation amounted to approximately RMB105.1 million (represented by exchange losses on operating activities before tax of approximately RMB17.6 million and exchange gains on financing activities before tax of approximately RMB122.7 million).

The aggregated exchange gains on operating and financing activities net of tax amounted to approximately RMB214.4 million for the Period as compared to the aggregated exchange gains RMB89.4 million in the corresponding period last year.

Income tax expense

Income tax charged for the Period amounted to approximately RMB80.0 million and decreased by RMB790.1 million or 90.8% as compared with the corresponding period last year.

In accordance with the Enterprise Income Tax Incentive Circular which issued by the Ministry of Finance, the State Administration of Taxation, National Development and Reform Commission and Ministry of Ecology and Environment on 16 December 2021, an enterprise, which uses the raw materials under the catalogue to produce recycled resource products under the catalogue and the products meet the national or industrial standards, is entitled to incentive tax arrangement such that only 90% of the sales revenue of the products is subject to the calculation of the taxable income. The Group's certain sales of recycled products qualify for the incentive tax arrangement and therefore 10% of such Group's revenue from sales of recycled products was deducted from the taxable income of the Group in the calculation of CIT from 1 January 2021 onwards.

The estimated benefit from this tax incentive amounting to RMB395.3 million was included in the determination of the current income tax charge for the six months ended 31 December 2021 (Corresponding period last year: Nil).

If the tax incentive were excluded, the Group's effective tax rate (income tax expense divided by profit before income tax for the Period) was approximately 16.5% in the Period as compared to 17.8% in the corresponding period last year.

Net profit

The profit attributable to the equity holders of the Company decreased from RMB4,002.0 million in corresponding period last year to approximately RMB2,774.7 million in the Period. If the exchange gains on operating and financing activities (net of tax) of approximately RMB214.4 million were excluded, the profit attributable to equity holders of the Company for the Period decreased by approximately 34.6%, to approximately RMB2,560.3 million.

In the corresponding period last year, the profit attributable to equity holders of the Company was RMB3,912.6 million if the exchange gains on operating and financing activities (net of tax) amounted to RMB89.4 million were excluded.

Working capital

The level of inventory as at 31 December 2021 increased by approximately 27.1% to approximately RMB10,439.6 million from RMB8,214.5 million as at 30 June 2021. Inventories mainly comprise of raw materials (mainly recovered paper, coal and spare parts) of approximately RMB5,234.0 million and finished goods of approximately RMB5,205.6 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 24 days and 32 days respectively during the Period, compared with 27 days and 13 days in the same period last year.

The trade and bills receivables as at 31 December 2021 were approximately RMB4,971.6 million, decreased by approximately 21.9% from RMB6,365.5 million as at 30 June 2021. The turnover days of trade receivables were approximately 19 days, compared with 23 days in the same period last year.

The trade and bills payables were approximately RMB5,246.5 million as at 31 December 2021, increased by approximately 20.6% from RMB4,349.6 million as at 30 June 2021. The turnover days of trade and bills payable were approximately 32 days, compared with 41 days in the same period last year.

Liquidity and financial resources

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

In terms of the Group's available financial resources as at 31 December 2021, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB8,226.9 million and total undrawn bank facilities of approximately RMB66,610.5 million.

As at 31 December 2021, the shareholders' funds were approximately RMB47,637.5 million, an increase of approximately RMB1,241.8 million or approximately 2.7% from that as at 30 June 2021.

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 31 December 2021, total foreign currency borrowings amounted to the equivalent of approximately RMB17,956.1 million and loans denominated in RMB amounted to approximately RMB16,782.8 million, representing approximately 51.7% and 48.3% of the Group's borrowings respectively.

FUTURE OUTLOOK

Looking ahead in 2022, the global pandemic, multilateral trade relations, interest rate hike, energy and environmental protection will be crucial to the economy and the development of the manufacturing industry. Driven by various uncertainties, the Group will closely monitor the market development and make every effort to maximize its capacity utilization. In addition to various measures for reducing costs and increasing revenue, flexible procurement policy will be adopted for raw materials with stringent control over product quality. Meanwhile, we will comprehensively establish our fully-

integrated production chain layout to get well-positioned for the upgrade and transformation of both raw material mix and product portfolio in the future. Facing the economic measures implemented by the government for boosting industrial development, e-commerce development and the “plastic ban”, we will take a proactive approach to seize the arising opportunities rather than being passive, in order to further increase our market share. Giving full play to the economies of scale as the leading enterprise, we will maintain proper management of liabilities and working capital while strengthening digitalization, innovation and environmental protection management, which would ultimately enhance the overall profitability.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB8.0 cents (equivalent to approximately HK9.8 cents) per share for the Period, which is expected to be paid to the shareholders by post on or about Friday, 8 July 2022. The dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 22 June 2022. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.81372 as at 22 February 2022 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders’ entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 20 June 2022 to Wednesday, 22 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 17 June 2022.

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

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

AUDIT COMMITTEE REVIEW

The audit committee of the Company, which comprises three independent non-executive directors, has reviewed with Company’s management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group for the Period.

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

CORPORATE GOVERNANCE PRACTICES

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during the Period, they were in compliance with provisions of the Model Code.

APPRECIATION

In addition to my gratitude to our management and staff, I would like to express my sincere appreciation to governments of various levels for providing a business-friendly environment that has allowed us to prosper and positively influence the lives of our employees while contributing to the success of our industry. I would also like to thank our shareholders, bankers and business partners for their support and look forward to sharing our continued success.

By Order of the Board
Nine Dragons Paper (Holdings) Limited
Cheung Yan
Chairlady

Hong Kong, 22 February 2022

As at the date of this announcement, the Board of the Company comprises seven Executive Directors, being Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun, Mr. Zhang Lianpeng and Mr. Zhang Yuanfu; and four Independent Non-Executive Directors, being Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu.

* *For identification purposes only*