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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 2020**

FINANCIAL HIGHLIGHTS

- Revenue increased by 7.1% to approximately RMB30,886.6 million.
- Gross profit increased by 31.3% to approximately RMB6,455.1 million.
- Gross margin increased from 17.1% to approximately 20.9%.
- Profit attributable to equity holders of the Company for the Period was approximately RMB4,002.0 million.
- The net borrowings to total equity ratio decreased to approximately 44.1%.
- Basic earnings per share increased by RMB0.36 or 73.5% to approximately RMB0.85.
- Interim dividend per share of RMB10.0 cents (equivalent to approximately HK12.0 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 2020 (the “Period”), together with the comparative figures for the corresponding period of the last year.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 December	
	<i>Note</i>	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Revenue	5	30,886,630	28,835,748
Cost of goods sold		<u>(24,431,492)</u>	<u>(23,917,941)</u>
Gross profit		6,455,138	4,917,807
Other income, other expense and other losses — net		397,106	326,800
Exchange losses on operating activities — net		(17,571)	(77,945)
Selling and marketing costs		(920,957)	(902,831)
Administrative expenses		<u>(979,783)</u>	<u>(925,366)</u>
Operating profit		4,933,933	3,338,465
Finance costs — net		(276,984)	(409,350)
— Finance income	7	38,285	65,904
— Finance costs	7	<u>(315,269)</u>	<u>(475,254)</u>
Exchange gains/(losses) on financing activities — net		122,666	(55,020)
Share of profit of associates and a joint venture — net		<u>98,218</u>	<u>28,358</u>
Profit before income tax		4,877,833	2,902,453
Income tax expense	8	<u>(870,112)</u>	<u>(609,238)</u>
Profit for the Period		<u>4,007,721</u>	<u>2,293,215</u>
Profit attributable to:			
— Equity holders of the Company		4,001,987	2,278,682
— Non-controlling interests		<u>5,734</u>	<u>14,533</u>
		<u>4,007,721</u>	<u>2,293,215</u>

		Six months ended	
		31 December	
	<i>Note</i>	2020	2019
		(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>0.85</u>	<u>0.49</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>0.85</u>	<u>0.49</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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the Period	4,007,721	2,293,215
Other comprehensive income: <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(55,151)</u>	<u>22,622</u>
Total comprehensive income for the Period	<u>3,952,570</u>	<u>2,315,837</u>
Total comprehensive income for the period attributable to:		
— Equity holders of the Company	<u>3,971,514</u>	<u>2,294,473</u>
— Non-controlling interests	<u>(18,944)</u>	<u>21,364</u>
	<u>3,952,570</u>	<u>2,315,837</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2020 <i>RMB'000</i> (Unaudited)	30 June 2020 <i>RMB'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	59,103,288	58,532,630
Right-of-use assets	<i>11</i>	1,645,602	1,664,201
Intangible assets		316,479	287,808
Investment in associates and a joint venture		231,926	130,421
Prepayments	<i>13</i>	227,352	232,384
Deferred income tax assets		84,376	51,774
		<u>61,609,023</u>	<u>60,899,218</u>
Current assets			
Inventories	<i>12</i>	6,272,847	5,245,724
Trade and bills receivables	<i>13</i>	5,630,389	4,596,702
Other receivables and prepayments	<i>13</i>	3,217,140	2,809,823
Financial assets at fair value through profit or loss		69,057	63,301
Tax recoverable		13,441	13,957
Restricted cash		67,835	95,601
Short-term bank deposits		5,640	35,788
Cash and cash equivalents		6,595,014	5,559,508
		<u>21,871,363</u>	<u>18,420,404</u>
Total assets		<u>83,480,386</u>	<u>79,319,622</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>	3,884,720	3,884,720
Other reserves		3,889,801	4,729,359
Retained earnings		35,054,794	31,276,011
		<u>43,309,846</u>	<u>40,370,621</u>
Non-controlling interests		<u>406,830</u>	<u>425,774</u>
Total equity		<u>43,716,676</u>	<u>40,796,395</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December 2020 <i>RMB'000</i> (Unaudited)	30 June 2020 <i>RMB'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	<i>15</i>	14,844,112	18,361,282
Other payables		114,835	118,335
Deferred income tax liabilities		3,901,463	3,554,644
		<u>18,860,410</u>	<u>22,034,261</u>
Current liabilities			
Borrowings	<i>15</i>	11,100,462	7,926,241
Trade and bills payables	<i>16</i>	5,531,597	5,472,683
Contract liabilities		499,389	380,307
Other payables		2,940,114	2,123,008
Current income tax liabilities		831,738	586,727
		<u>20,903,300</u>	<u>16,488,966</u>
Total liabilities		<u>39,763,710</u>	<u>38,523,227</u>
Total equity and liabilities		<u>83,480,386</u>	<u>79,319,622</u>

CASH FLOWS INFORMATION

	Six months ended	
	31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the Period	4,007,721	2,293,215
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects/changes in working capital	<u>(155,470)</u>	<u>5,705,710</u>
Cash generated from operations	3,852,251	7,998,925
Income tax paid	(316,364)	(197,011)
Interest paid	<u>(401,153)</u>	<u>(625,001)</u>
Net cash generated from operating activities	3,134,734	7,176,913
Net cash used in investing activities	(2,092,622)	(3,148,071)
Net cash generated from/(used in) financing activities	<u>23,826</u>	<u>(5,611,865)</u>
Net increase/(decrease) in cash and cash equivalents	1,065,938	(1,583,023)
Cash and cash equivalents at beginning of the Period	5,559,508	8,339,494
Exchange losses on cash and cash equivalents	<u>(30,432)</u>	<u>(1,604)</u>
Cash and cash equivalents at end of the Period	<u><u>6,595,014</u></u>	<u><u>6,754,867</u></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 2021.

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 2020 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 2020, 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 2020.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2020, as described in those annual financial statements, except for the adoption of amendments to standards effective for the financial year beginning on 1 July 2020.

(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 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
Conceptual Framework (Revised)	Revised Conceptual Framework for Financial Reporting
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform

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 2020 and have not been early adopted by the Group:

HKAS 1 (Amendments)	Classification of Liabilities as Current and Non-current ¹
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ¹
HKAS 16 (Amendments)	Property, Plant and Equipment Proceeds Before Intended Use ¹
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract ¹
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020 Cycle ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ²

¹ Effective for annual periods beginning on or after 1 July 2022.

² 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 and high value specialty paper products. 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	
	2020	2019
	RMB'000	RMB'000
Sales of packaging paper	27,902,533	24,891,358
Sales of printing and writing paper	2,530,169	3,387,919
Sales of high value specialty paper products	348,396	459,538
Sales of pulp	105,532	96,933
	<u>30,886,630</u>	<u>28,835,748</u>

6. OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials and consumables used	22,080,769	18,801,073
Changes in finished goods	3,094	2,984,023
Employee benefit expenses	1,589,665	1,606,384
Depreciation (<i>Note 11</i>)	1,272,430	1,141,408
Less: amount charged to other expenses	(3,012)	(2,002)
	1,269,418	1,139,406
Amortisation of right-of-use assets (<i>Note 11</i>)	25,336	32,155
Less: amount capitalised in property, plant and equipment	(894)	(1,342)
	<u>24,442</u>	<u>30,813</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>38,285</u>	<u>65,904</u>
Finance costs:		
Interest on borrowings	(327,792)	(498,662)
Other incidental borrowing costs	(35,024)	(46,520)
Less: amounts capitalised on property, plant and equipment (Note (a))	<u>67,893</u>	<u>129,113</u>
	(294,923)	(416,069)
Other finance costs	<u>(20,346)</u>	<u>(59,185)</u>
	<u>(315,269)</u>	<u>(475,254)</u>

(a) The capitalisation interest rate is approximately 2.7% for the six months ended 31 December 2020 (six months ended 31 December 2019: 3.5%).

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	556,716	367,085
— Vietnam income tax (Note (c))	1,544	2,916
— USA income tax (Note (d))	—	—
— Hong Kong profits tax (Note (e))	—	—
	<u>558,260</u>	<u>370,001</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	372,396	250,711
— Vietnam income tax	3,774	3,723
— USA income tax	(64,318)	(15,197)
	<u>311,852</u>	<u>239,237</u>
	<u>870,112</u>	<u>609,238</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 2020 as those subsidiaries fulfil the requirements of High and New Technology Enterprise ("HNTE") according to relevant rules and regulations (six months ended 31 December 2019: same). 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 six months ended 31 December 2020 was 5% (six months ended 31 December 2019: 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 2020 in respect of operations in Vietnam (six months ended 31 December 2019: 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 2020 (six months ended 31 December 2019: 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 2020 (six months ended 31 December 2019: same).

9. EARNINGS PER SHARE

— Basic

	Six months ended 31 December	
	2020	2019
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>4,001,987</u>	<u>2,278,682</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>0.85</u>	<u>0.49</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 2020 (six months ended 31 December 2019: same).

10. DIVIDENDS

	Six months ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend (<i>Note (b)</i>)	<u>469,222</u>	<u>469,222</u>

- (a) 2020 final dividend of RMB22.0 cents per ordinary share, totaling approximately RMB1,032,289,000 has been approved in the Company's Annual General Meeting on 7 December 2020 out of other reserves of the Company and paid on 15 January 2021.
- (b) The directors recommend the payment of an interim dividend of RMB10.0 cents (six months ended 31 December 2019: RMB10.0 cents) per ordinary share, totalling approximately RMB469,222,000 for the six months ended 31 December 2020 (six months ended 31 December 2019: RMB469,222,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 22 February 2021. 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 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>
Six months ended 31 December 2019		
Opening net book amount as at 1 July 2019	55,945,290	1,626,802
Additions	2,877,031	102,848
Disposals	(128,988)	(1,975)
Depreciation/amortisation (<i>Note 6</i>)	(1,141,408)	(32,155)
Exchange differences	69,461	640
	<u>57,621,386</u>	<u>1,696,160</u>

12. INVENTORIES

	31 December 2020 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
At cost:		
Raw materials	4,466,871	3,436,654
Finished goods	1,805,976	1,809,070
	<u>6,272,847</u>	<u>5,245,724</u>

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2020 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Trade receivables (<i>Notes (b)</i>)	3,882,388	3,212,027
Bills receivable (<i>Note (c)</i>)	<u>1,748,001</u>	<u>1,384,675</u>
	<u>5,630,389</u>	<u>4,596,702</u>
Value-added tax recoverable	847,548	772,118
Other receivables and deposits	255,776	310,400
Prepayments	<u>2,341,168</u>	<u>1,959,689</u>
	3,444,492	3,042,207
Less: prepayments included in non-current assets	<u>(227,352)</u>	<u>(232,384)</u>
	<u>3,217,140</u>	<u>2,809,823</u>

- (a) As at 31 December 2020, 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 2020, the ageing analysis of trade receivables based on invoice date was as follows:

	31 December 2020 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
0–60 days	3,848,451	3,129,279
Over 60 days	<u>33,937</u>	<u>82,748</u>
	<u>3,882,388</u>	<u>3,212,027</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 2020.

- (c) Bills receivable are mainly with maturity period of 90 to 180 days (30 June 2020: 90 to 180 days). Bills receivable as at 31 December 2020 mainly represents the bank acceptance notes (30 June 2020: 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 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>
Six months ended 31 December 2019					
Balance as at 1 July 2019 and 31 December 2019	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>3,884,720</u>	<u>4,365,251</u>

15. BORROWINGS

	31 December 2020 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Non-current		
— Long-term bank borrowings	<u>14,844,112</u>	<u>18,361,282</u>
Current		
— Short-term bank borrowings	7,248,355	7,261,823
— Current portion of long-term bank borrowings	<u>3,852,107</u>	<u>664,418</u>
	<u>11,100,462</u>	<u>7,926,241</u>
	<u>25,944,574</u>	<u>26,287,523</u>

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

	31 December 2020 RMB'000	30 June 2020 RMB'000
Within 1 year	11,100,462	7,926,241
Between 1 and 2 years	11,207,174	10,606,088
Between 2 and 5 years	3,591,265	7,705,639
Over 5 years	45,673	49,555
	<u>25,944,574</u>	<u>26,287,523</u>

16. TRADE AND BILLS PAYABLES

	31 December 2020 RMB'000	30 June 2020 RMB'000
Trade payables (Note (a))	2,234,040	2,291,829
Bills payable	3,297,557	3,180,854
	<u>5,531,597</u>	<u>5,472,683</u>

(a) As at 31 December 2020, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2020 RMB'000	30 June 2020 RMB'000
0-90 days	2,052,678	2,123,924
Over 90 days	181,362	167,905
	<u>2,234,040</u>	<u>2,291,829</u>

17. CAPITAL COMMITMENTS

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

	31 December 2020 RMB'000	30 June 2020 RMB'000
Not later than one year	3,464,294	1,352,792
Later than one year and not later than five years	536,027	320,735
	<u>4,000,321</u>	<u>1,673,527</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

2020 was a very exceptional year. During the Period, the Group continued to deal with the complicated and erratic business environment — despite the Chinese economy has substantially stabilized with COVID-19 well contained, the global economy was yet to recover as the pandemic continued to ravage in a number of countries; coupled with factors such as the soon to be launched ‘zero import quota on recovered paper’ policy and the volatile Renminbi exchange rate, the packaging paper industry in China has seen huge challenges.

Nevertheless, the Group has continued to enjoy its competitive edge as the leading enterprise in terms of production scale and raw material procurement, while providing quality products and services to customers consistently. Moreover, under the successful price hikes and efficient cost control measures, we obtained remarkable results with record high sales and sales volume as well as substantial growth of overall profitability for the Period, with significant profit growth for our high-end products in particular. In addition, we managed the inventory level and financial risks effectively. Net gearing ratio has declined to the lowest point since listing and cash flow was maintained at a healthy level.

During the Period, the Group made a breakthrough in the vertical integration of its production chain. For upstream resources, we have started a number of fully-integrated pulp and paper mill projects in China, which is highly conducive to the long-term stable supply of quality raw materials as well as the control on production quality and cost effectiveness in the future. A total of our new paper production capacity of 2.05 million tpa has officially commenced production in Quanzhou, Shenyang, Dongguan and Hebei respectively during the Period, further enhancing the economies of scale and supporting the growth of market demand.

As of 31 December 2020, the Group’s total annual 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 1.0 billion sq.m.

Capacity Expansion Plan

Our comprehensive capacity expansion plan for the vertical integration of production chain has been in place. In the coming years, we plan to increase 3.72 million tpa, 1.10 million tpa and 6.25 million tpa of production capacity for pulp (wood pulp and recycled pulp), wood fibre and paper respectively. The details are as follow:

<i>Capacity expansion project — wood pulp and recycled pulp</i>	<i>New production capacity (million tpa)</i>	<i>Expected completion time</i>
China		
Hubei	0.60 (Chemical pulp)	Q3 of 2022
Shenyang	0.62 (Chemical pulp)	Q3 of 2022
Beihai	0.50 (Chemical pulp)	Q4 of 2022
	1.40 (Chemi-mechanical pulp)	Q4 of 2023
Malaysia	0.60 (Recycled pulp)	Q2 of 2023
Sub-total	3.72	
<i>Capacity expansion project — wood fibre</i>	<i>New production capacity (million tpa)</i>	<i>Expected completion time</i>
China		
Dongguan	0.60	Q2 of 2022
Chongqing	0.50	Q4 of 2022
Sub-total	1.10	
<i>Capacity expansion project — paper</i>	<i>New production capacity (million tpa)</i>	<i>Expected completion time</i>
China		
Hubei	0.60 (Virgin kraftliner)	Q3 of 2022
	0.60 (Testliner)	Q3 of 2022
Beihai	1.10 (Virgin kraftliner)	Q4 of 2022
	0.45 (White top linerboard)	Q4 of 2022
	1.20 (Bleached folding boxboard)	Q4 of 2023
	0.55 (Printing & writing paper)	Q4 of 2023
	0.20 (Sack kraft paper, bag paper)	Q4 of 2023
Shenyang	0.65 (Virgin kraftliner)	Q2 of 2023
Malaysia	0.60 (Kraftliner)	Q2 of 2023
	0.30 (Corrugating medium)	Q2 of 2023
Sub-total	6.25	
Total	<u>11.07</u>	

Upon completion of these capacity expansion projects, the Group's total annual design capacity for pulp (wood pulp and recycled pulp), wood fibre and paper is expected to reach 29.49 million tpa.

In addition, we will increase the production capacity for our downstream packaging plants by a total of 1.21 billion sq.m. by the end of 2021.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB30,886.6 million for the Period, representing an increase of approximately 7.1% 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 90.3% of the revenue, with the remaining revenue of approximately 9.7% 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 2020 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 reached approximately 8.6 million tonnes, increase by approximately 0.5% as compared with 8.5 million tonnes in the corresponding period last year. The increase in sales volume was driven by approximately 0.1 million tonnes increase in China business.

The sales volume of linerboard and coated duplex board for the Period increased by approximately 5.9% and 6.1% respectively while high performance corrugating medium and the printing and writing paper for the Period decreased by approximately 9.3% and 13.9% respectively 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 92.1% of the Group's total revenue, while the remaining revenue of 7.9% represented sales to customers in other countries.

During the Period, revenue from the Group's top five customers in aggregate accounted for approximately 7.4% (six months ended 31 December 2019: 6.2%) of the total revenue, with that to the single largest customer accounted for approximately 3.1% (six months ended 31 December 2019: 1.9%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB6,455.1 million, an increase of approximately RMB1,537.3 million or 31.3% as compared with RMB4,917.8 million in the corresponding period last year. The gross profit margin increased from 17.1% in the corresponding period last year to approximately 20.9% for the Period mainly due to the increase in the selling price of the products was much faster than the increase in the cost of raw materials for the Period.

Selling and marketing costs

Selling and marketing costs increased by approximately 2.0% from RMB902.8 million in the corresponding period last year to approximately RMB921.0 million for the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue slightly decrease from 3.1% in the corresponding period last year to approximately 3.0% in the Period.

Administrative expenses

Administrative expenses increased by approximately 5.9% from RMB925.4 million in the corresponding period last year to approximately RMB979.8 million in the Period which was mainly contributed by additional management and administrative costs incurred to support the launch of new machines including Dongguan, Quanzhou, Shenyang and Hebei bases which commenced production in the Period. As a percentage of Group's revenue, the administrative expenses remain stable at 3.2% in the Period and corresponding period last year.

Operating profit

The operating profit for the Period was approximately RMB4,933.9 million, representing an increase of approximately RMB1,595.5 million or 47.8% compared with corresponding period last year. The operating profit margin increased from 11.6% in the corresponding period last year to approximately 16.0% in the Period mainly due to the increase in gross profit margin of the Group.

Finance costs — net

The finance costs for the Period decreased by approximately RMB132.4 million, or decreased by 32.3% from RMB409.4 million in the corresponding period last year to approximately RMB277.0 million in the Period. The decrease in finance cost was mainly contributed by the decrease of average interest rate from 3.7% in corresponding period last year to approximately 2.6% in the Period.

Exchange gains/losses on operating and financing activities — net

The exchange gains on operating and financing activities before tax for the Period 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).

In the corresponding period last year, the exchange losses on operating and financing activities before tax in aggregation amounted to approximately RMB132.9 million (represented by exchange losses on operating activities before tax of approximately RMB77.9 million and exchange losses on financing activities before tax of approximately RMB55.0 million).

The aggregated exchange gains on operating and financing activities net of tax amounted to approximately RMB89.4 million for the Period as compared to the aggregated exchange losses RMB127.6 million in the corresponding period last year.

Income tax expense

Income tax charged for the Period amounted to approximately RMB870.1 million and increased by 42.8% or RMB260.9 million as compared with the corresponding period last year 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 Period) was approximately 17.8% in the Period as compared to 21.0% in the corresponding period last year.

Net profit

The profit attributable to the equity holders of the Company increased from RMB2,278.7 million in corresponding period last year to approximately RMB4,002.0 million in the Period. If the exchange gains on operating and financing activities (net of tax) of approximately RMB89.4 million were excluded, the profit attributable to equity holders of the Company for the Period increased by approximately 62.6%, to approximately RMB3,912.6 million.

In the corresponding period last year, the profit attributable to equity holders of the Company was RMB2,406.3 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB127.6 million were excluded.

Working capital

The level of inventory as at 31 December 2020 increased by approximately 19.6% to approximately RMB6,272.8 million from RMB5,245.7 million as at 30 June 2020. Inventories mainly comprise of raw materials (mainly recovered paper, coal and spare parts) of approximately RMB4,466.9 million and finished goods of approximately RMB1,805.9 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 27 days and 13 days respectively during the Period, compared with 22 days and 8 days in the same period last year.

The trade and bills receivables as at 31 December 2020 were approximately RMB5,630.4 million, increased by approximately 22.5% from RMB4,596.7 million as at 30 June 2020. The turnover days of trade receivables remained stable at approximately 23 days for the Period which was within the credit terms granted by the Group to its customers.

The trade and bills payables were approximately RMB5,531.6 million as at 31 December 2020, increased by approximately 1.1% from RMB5,472.7 million as at 30 June 2020. The turnover days of trade and bills payable were approximately 41 days, compared with 46 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 2020, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB6,668.5 million and total undrawn bank facilities of approximately RMB52,664.2 million.

As at 31 December 2020, the shareholders' funds were approximately RMB43,716.7 million, an increase of approximately RMB2,920.3 million or approximately 7.2% from that as at 30 June 2020.

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 2020, total foreign currency borrowings amounted to the equivalent of approximately RMB14,633.3 million and loans denominated in RMB amounted to approximately RMB11,311.3 million, representing approximately 56.4% and 43.6% of the Group's borrowings respectively.

FUTURE OUTLOOK

Looking ahead in 2021, the global development of the pandemic and trade relations will be crucial to the economy. Subject to the general availability of related vaccines, we expect global economic recovery with a further boost on domestic consumption and export. Benefited by the launch of the 'zero import quota on recovered paper' and 'plastic ban' policies, the entire paper manufacturing industry will embrace new business opportunities arising therefrom, fostering more significant advantages for major paper manufacturers.

The Group is well poised to leverage its competitive edges as a leading enterprise in the industry to integrate the domestic and foreign raw materials and markets, ensure a stable raw material supply and product quality, cultivate different market segments, optimize the product mix and maintain a healthy gearing ratio and cash flow management with the aim of enhancing the market share and overall profitability.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB10.0 cents (equivalent to approximately HK12.0 cents) per share for the Period, which is expected to be paid to the shareholders by post on or about Friday, 9 July 2021. 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, 23 June 2021. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.83272 as at 22 February 2021 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, 21 June 2021 to Wednesday, 23 June 2021, 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, 18 June 2021.

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 2021

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

* *For identification purposes only*