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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

- Revenue increased by 19.9% to approximately RMB61,574.1 million.
- Gross profit margin increased by approximately 1.4% from 17.6% to 19.0%.
- **Profit attributable to equity holders of the Company was approximately RMB7,101.1 million increased by 70.4%.**
- **If the exchange gains/(losses) on operating and financing activities (net of tax) of approximately RMB347.7 million were excluded, the profit attributable to equity holders of the Company increased by approximately 52.4%, to approximately RMB6,753.4 million which was mainly driven by increase in sales revenue and increase in gross profit margin.**
- The net debt to total equity ratio was approximately 51.7%.
- Basic earnings per share increased by RMB0.62 to approximately RMB1.51, increased by 69.7%.
- **Proposed final dividend of RMB33.0 cents per share (equivalent to approximately HK39.7 cents).**
- **Dividend payout ratio was approximately 28.4% in FY2021 (FY2020: 36.0%).**

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the year ended 30 June 2021 (“FY2021” or the “Year”), together with the comparative figures for the last financial year (“FY2020”) as follows.

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	4	61,574,060	51,341,190
Cost of goods sold		<u>(49,883,117)</u>	<u>(42,313,896)</u>
Gross profit		11,690,943	9,027,294
Other income, other expenses and other gains — net		755,191	619,269
Exchange losses on operating activities — net		(27,266)	(120,237)
Selling and marketing costs		(1,811,618)	(1,584,493)
Administrative expenses		(2,065,516)	(1,880,451)
Operating profit		8,541,734	6,061,382
Finance costs — net		(635,999)	(757,715)
— Finance income	6	123,535	126,268
— Finance costs	6	(759,534)	(883,983)
Exchange gains/(losses) on financing activities — net		383,711	(149,279)
Share of results of associates and a joint venture — net		186,103	141,214
Profit before income tax		8,475,549	5,295,602
Income tax expense	7	(1,307,531)	(1,065,520)
Profit for the year		<u>7,168,018</u>	<u>4,230,082</u>
Profit attributable to:			
— Equity holders of the Company		7,101,141	4,168,455
— Non-controlling interests		66,877	61,627
		<u>7,168,018</u>	<u>4,230,082</u>
Basic earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	8	<u>1.51</u>	<u>0.89</u>
Diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	8	<u>1.51</u>	<u>0.89</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the year	7,168,018	4,230,082
Other comprehensive income <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(67,225)</u>	<u>39,956</u>
Total comprehensive income for the year	<u>7,100,793</u>	<u>4,270,038</u>
Attributable to:		
— Equity holders of the Company	7,059,382	4,197,857
— Non-controlling interests	<u>41,411</u>	<u>72,181</u>
	<u>7,100,793</u>	<u>4,270,038</u>

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	60,198,470	58,532,630
Right-of-use assets	<i>10</i>	1,650,534	1,664,201
Intangible assets	<i>11</i>	313,137	287,808
Investments in associates and a joint venture		199,086	130,421
Prepayments		1,012,244	232,384
Deferred income tax assets		80,454	51,774
		<u>63,453,925</u>	<u>60,899,218</u>
Current assets			
Inventories	<i>12</i>	8,214,492	5,245,724
Trade and bills receivables	<i>13</i>	6,365,530	4,596,702
Other receivables and prepayments		3,889,194	2,809,823
Financial assets at fair value through profit or loss		77,633	63,301
Tax recoverable		26,404	13,957
Restricted cash		76,427	95,601
Short-term bank deposits		37,785	35,788
Cash and cash equivalents		10,031,059	5,559,508
		<u>28,718,524</u>	<u>18,420,404</u>
Total assets		<u>92,172,449</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		4,593,424	4,729,359
Retained earnings		36,969,817	31,276,011
		<u>45,928,492</u>	<u>40,370,621</u>
Non-controlling interests		<u>467,185</u>	<u>425,774</u>
Total equity		<u>46,395,677</u>	<u>40,796,395</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	30 June 2021	30 June 2020
		<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>15</i>	17,523,289	18,361,282
Other payables		122,303	118,335
Deferred income tax liabilities		4,199,472	3,554,644
		<u>21,845,064</u>	<u>22,034,261</u>
Current liabilities			
Borrowings	<i>15</i>	16,587,595	7,926,241
Trade and bills payables	<i>16</i>	4,349,598	5,472,683
Contract liabilities		361,072	380,307
Other payables		2,253,014	2,123,008
Current income tax liabilities		380,429	586,727
		<u>23,931,708</u>	<u>16,488,966</u>
Total liabilities		<u>45,776,772</u>	<u>38,523,227</u>
Total equity and liabilities		<u><u>92,172,449</u></u>	<u><u>79,319,622</u></u>

CASH FLOWS INFORMATION

	For the year ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	7,168,018	4,230,082
Adjustments for non-cash items/income tax expense/other items with investing or financing cash flows effects/changes in working capital	<u>(2,884,372)</u>	<u>6,500,132</u>
Cash generated from operations	4,283,646	10,730,214
Income tax paid	(912,856)	(532,421)
Interest paid	<u>(854,023)</u>	<u>(1,249,086)</u>
Net cash generated from operating activities	2,516,767	8,948,707
Net cash used in investing activities	(5,635,613)	(4,507,075)
Net cash generated from/(used in) financing activities	<u>7,629,513</u>	<u>(7,222,906)</u>
Net increase/(decrease) in cash and cash equivalents	4,510,667	(2,781,274)
Cash and cash equivalents at beginning of the year	5,559,508	8,339,494
Exchange (losses)/gains on cash and cash equivalents	<u>(39,116)</u>	<u>1,288</u>
Cash and cash equivalents at end of the year	<u><u>10,031,059</u></u>	<u><u>5,559,508</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.

These consolidated financial statements are presented in Renminbi thousand, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 27 September 2021.

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 Cap. 622.

The outbreak of the 2019 Novel Coronavirus ("COVID-19") had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the packaging paperboard industry including production and raw material supply, demand for packaging paper, etc. Since the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date that the consolidated financial statements are authorised for issue, COVID-19 does not have any material adverse impact on the financial position and operating result of the Group.

2. ACCOUNTING POLICIES

(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 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 7, HKFRS 9 and HKAS 39 (Amendments)	Interest Rate Benchmark Reform
Conceptual Framework (Revised)	Revised Conceptual Framework for Financial Reporting
HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions

The adoption of amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

(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 mandatory for annual periods beginning after 1 July 2020 and have not been early adopted:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2 ¹
Accounting Guideline 5 (Revised) Annual Improvements	Revised Accounting Guideline 5 Merger ² Annual Improvements to HKFRS Standards 2018–2020 Cycle ²
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope amendments ²
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract ²
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ²
HKFRS 17 (Amendments)	Amendments to HKFRS 17 ³
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ³
HKFRS 17	Insurance contract ³
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the borrower of a Term Loan that Contains a Repayment on Demand Clause 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 the Group for annual periods beginning on or after 1 July 2021.

² Effective for the Group for annual periods beginning on or after 1 July 2022.

³ Effective for the Group for annual periods beginning on or after 1 July 2023.

⁴ Effective date to be determined.

The Group will apply the above new standards and amendments to standards when they become effective.

The Group anticipate that the application of the above new standards and amendments to standards have no material impact on the results and financial positions of the Group.

3. 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.

The Group is domiciled in the People's Republic of China (the "PRC"). The revenue from external customers attributable to the PRC for the year ended 30 June 2021 is RMB56,647,302,000 (2020: RMB45,870,672,000), and the total of its revenue from external customers from other countries is RMB4,926,758,000 (2020: RMB5,470,518,000).

4. REVENUE

Revenue recognised during the Year are as follows:

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Sales of packaging paper	56,328,190	44,519,172
Sales of printing and writing paper	4,334,853	5,780,483
Sales of high value specialty paper products	664,779	866,527
Sales of pulp	246,238	175,008
	<u>61,574,060</u>	<u>51,341,190</u>

5. OPERATING PROFIT

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

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation (Note 10)	2,675,219	2,309,243
Less: amounts charged to other expenses	(6,166)	(5,012)
	2,669,053	2,304,231
Amortisation of intangible assets (Note 11)	24,595	21,706
Less: amount capitalised in property, plant and equipment	(241)	(721)
	24,354	20,985
Employee benefit expenses	3,348,144	3,147,627
Changes in finished goods	(1,674,089)	2,173,163
Raw materials and consumables used	46,626,684	35,781,987
Amortisation of right-of-use assets (Note 10)	51,736	49,608
Less: amount capitalised in property, plant and equipment	(1,355)	(2,685)
	<u>50,381</u>	<u>46,923</u>

6. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	<u>123,535</u>	<u>126,268</u>
Finance costs:		
Interest on borrowings	(714,915)	(1,022,558)
Other incidental borrowing costs	(86,415)	(86,163)
Less: amounts capitalised on property, plant and equipment	<u>97,033</u>	<u>326,825</u>
	(704,297)	(781,896)
Other finance costs	<u>(55,237)</u>	<u>(102,087)</u>
	<u>(759,534)</u>	<u>(883,983)</u>

7. INCOME TAX EXPENSE

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	669,003	640,674
— United States of America (“USA”) income tax (Note (c))	—	—
— Socialist Republic of Vietnam (“Vietnam”) income tax (Note (d))	25,276	16,993
— Hong Kong profits tax (Note (e))	—	—
	<u>694,279</u>	<u>657,667</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	669,778	439,643
— USA income tax	(63,748)	(39,241)
— Vietnam income tax	<u>7,222</u>	<u>7,451</u>
	<u>613,252</u>	<u>407,853</u>
	<u>1,307,531</u>	<u>1,065,520</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 Group's financial year ended 30 June 2021 (2020: 15%).

(b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the mainland China to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding income tax rate of the intermediate holding company of the Company's mainland China subsidiaries for the year ended 30 June 2021 was 5% (2020: 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 2021 in respect of operations in USA (2020: 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 2021 in respect of operations in Vietnam (2020: 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 2021 (2020: nil).

8. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2021	2020
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>7,101,141</u>	<u>4,168,455</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>1.51</u>	<u>0.89</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 year ended 30 June 2021 (year ended 30 June 2020: same).

9. DIVIDENDS

	For the year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interim dividend, paid, of RMB10.0 cents (2020: RMB10.0 cents) per ordinary share	469,222	469,222
Final dividend, proposed, of RMB33.0 cents (2020: RMB22.0 cents) per ordinary share	<u>1,548,433</u>	<u>1,032,289</u>
	<u>2,017,655</u>	<u>1,501,511</u>

At a meeting held on 27 September 2021, the Board proposed a final dividend of RMB33.0 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 2022.

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

	Property, plant and equipment	Right-of-use assets
	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 30 June 2021		
Opening net book amount	58,532,630	1,664,201
Additions	5,001,785	47,308
Disposals	(108,037)	—
Depreciation/amortisation (<i>Note 5</i>)	(2,675,219)	(51,736)
Exchange differences	<u>(552,689)</u>	<u>(9,239)</u>
Closing net book amount	<u>60,198,470</u>	<u>1,650,534</u>
Year ended 30 June 2020		
Opening net book amount	55,945,290	1,626,802
Additions	4,822,328	85,220
Disposals	(72,188)	—
Depreciation/amortisation (<i>Note 5</i>)	(2,309,243)	(49,608)
Exchange differences	<u>146,443</u>	<u>1,787</u>
Closing net book amount	<u>58,532,630</u>	<u>1,664,201</u>

11. INTANGIBLE ASSETS

	Year ended 30 June 2021 <i>RMB'000</i>
Year ended 30 June 2021	
Opening net book amount	287,808
Additions	55,279
Amortisation (<i>Note 5</i>)	(24,595)
Exchange differences	(5,355)
	<hr/>
Closing net book amount	313,137
	<hr/> <hr/>
	Year ended 30 June 2020 <i>RMB'000</i>
Year ended 30 June 2020	
Opening net book amount	277,562
Additions	31,547
Amortisation (<i>Note 5</i>)	(21,706)
Exchange differences	405
	<hr/>
Closing net book amount	287,808
	<hr/> <hr/>

12. INVENTORIES

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
At cost:		
Raw materials	4,731,333	3,436,654
Finished goods	3,483,159	1,809,070
	<hr/>	<hr/>
	8,214,492	5,245,724
	<hr/> <hr/>	<hr/> <hr/>

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB49,883,117,000 for the Year (2020: RMB42,313,896,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Trade receivables (<i>Note (a)</i>)	3,872,915	3,212,027
Bills receivables (<i>Note (b)</i>)	<u>2,492,615</u>	<u>1,384,675</u>
	<u><u>6,365,530</u></u>	<u><u>4,596,702</u></u>

(a) As at 30 June 2021, the ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
0-30 days	3,276,699	2,678,816
31-60 days	528,094	450,463
Over 60 days	<u>68,122</u>	<u>82,748</u>
	<u><u>3,872,915</u></u>	<u><u>3,212,027</u></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.

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

(b) Bills receivables are mainly with maturity period of 90 to 180 days (30 June 2020: 90 to 180 days). Bills receivables as at 30 June 2021 mainly represents the bank acceptance notes (30 June 2020: same).

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	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					
Balance as at 1 July 2019, 30 June 2020 and 30 June 2021	<u>4,692,220,811</u>	<u>469,222</u>	<u>480,531</u>	<u>3,884,720</u>	<u><u>4,365,251</u></u>

15. BORROWINGS

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	<u>17,523,289</u>	<u>18,361,282</u>
Current		
— Short-term bank borrowings	<u>11,398,244</u>	7,261,823
— Current portion of long-term bank borrowings	<u>5,189,351</u>	<u>664,418</u>
	<u>16,587,595</u>	<u>7,926,241</u>
Total borrowings	<u><u>34,110,884</u></u>	<u><u>26,287,523</u></u>

The maturity of the borrowings is as follows:

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Within 1 year	16,587,595	7,926,241
Between 1 and 2 years	8,590,195	10,606,088
Between 2 and 5 years	8,887,875	7,705,639
Over 5 years	<u>45,219</u>	<u>49,555</u>
	<u><u>34,110,884</u></u>	<u><u>26,287,523</u></u>

16. TRADE AND BILLS PAYABLES

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Trade payables (<i>Note (a)</i>)	2,276,316	2,291,829
Bills payables	<u>2,073,282</u>	<u>3,180,854</u>
	<u>4,349,598</u>	<u>5,472,683</u>

(a) The ageing analysis of trade payables based on invoice date as at 30 June 2021 is as follows:

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
0-90 days	2,081,521	2,123,924
Over 90 days	<u>194,795</u>	<u>167,905</u>
	<u>2,276,316</u>	<u>2,291,829</u>

Trade payables are settled in accordance with agreed terms with suppliers.

17. CAPITAL COMMITMENTS

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

	30 June 2021 <i>RMB'000</i>	30 June 2020 <i>RMB'000</i>
Property, plant and equipment	<u>9,791,124</u>	<u>1,673,527</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

Soaring growth in annual profit with sales volume hitting a new high

During the Year under review, with the stringent pandemic control and the widespread mass vaccination in China, the Chinese economy has noticeably restored stability. However, given the volatile pandemic situation in various countries around the world, disrupted international shipping, increase in cost of energy and commodities, and the official launch of the “zero import quota on recovered paper” policy, the operation of the packaging paper industry in China continued to be under unabated pressure.

Amidst uncertainties, the Group enhanced its pandemic prevention measures, gave full play to its advantages in economies of scale and procurement of raw materials, adhered to quality products and services, actively explored quality customer base and exercised effective cost control. As such, the sales and sales volume hit a new high during the Year with a remarkable profit growth. Besides, the net gearing ratio and cash flow remained at a healthy level despite the increase in capital expenditure, thanks to our effective management of working capital and financial risks.

During the Year, the Group’s new paper production capacity in Quanzhou, Shenyang, Dongguan and Hebei started commercial production in July, July, September and December 2020 respectively, adding a total of 2.05 million tpa. A total production capacity of 420 million sq.m. for downstream packaging in Taicang and the United States have also officially commenced production. As of 30 June 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 exceeded 1,400 million sq.m.

Capacity expansion plan in support of product portfolio optimization strategy

With the full implementation of the “zero import quota on recovered paper” policy, securing source of raw material supply remained our primary concern in regard to our production capacity expansion plan. In respect of preparation of quality raw materials, we have planned ahead and implemented the fully-integrated pulp and paper projects in Jingzhou, Hubei, Shenyang, Liaoning and Beihai, Guangxi, which are expected to provide the Group with wood pulp production capacity of more than 3 million tonnes for its own use by year end of 2023. By that time, we will be able to exercise better control over product quality and production costs. During the up cycle of wood pulp prices in the international market, the advantages of our vertical integration of the production chain will prevail in particular. Combined with the 0.6 million tonnes of recycled pulp resources to be added in Malaysia, the Group’s total design production capacity for pulp (wood pulp and recycled pulp) will reach 4.57 million tpa by year end of 2023. Furthermore, we are in the process of adding production capacity of wood fibre as an alternative raw material, the production capacity of which will reach 1.10 million tonnes by year end of 2022.

In respect of paper production capacity expansion, our strategy is to optimize our product portfolio to give full play to our competitive edge in raw materials, in addition to increasing our structural profitability by seizing the opportunities arising from the Plastic Ban Order. As such, expanding the production capacity for white top linerboard, virgin kraftliner and bleached folding boxboard is of utmost importance. Currently, a number of our domestic and overseas paper manufacturing projects are underway, which are expected to add new production capacity of 6.25 million tonnes to the Group upon completion, bringing the total design production capacity for paper manufacturing to 23.82 million tpa by the end of June 2024.

Meanwhile, we are in the process of expanding the downstream packaging capacity by introducing the most advanced cardboard and carton box production lines, processing equipment and logistic systems in a bid to effectively enhance our sales of containerboard products, increase our market share and realize the integration of paper and packaging products manufacturing in our operation. Upon completion of the above projects, it is estimated that the Group's total annual design production capacity for downstream packaging plants will exceed 2,400 million sq.m.

Due to the pandemic, we need to adjust the progress of our capacity expansion projects from time to time. The updated plan is as follows:

Capacity expansion project — wood pulp and recycled pulp	New annual production capacity (million tpa)	Expected completion time
China		
Hubei	0.60 (Chemical pulp)	Q3 of 2022
Shenyang	0.62 (Chemical pulp)	Q1 of 2023
Beihai	0.50 (Unbleached pulp)	Q2 of 2023
	1.40 (Chemi-mechanical pulp)	Q4 of 2023
Malaysia	0.60 (Recycled pulp)	Q2 of 2023
Total	3.72	

Capacity expansion project — wood fibre	New annual production capacity (million tpa)	Expected completion time
China		
Dongguan	0.60	Q2 of 2022
Chongqing	0.50	Q4 of 2022
Total	1.10	

Capacity expansion project — paper production	New annual production capacity (million tpa)	Expected completion time
China		
Hubei	0.60 (Virgin kraftliner)	Q3 of 2022
	0.60 (Testliner)	Q3 of 2022
Beihai	0.80 (Virgin kraftliner)	Q4 of 2023
	1.20 (Bleached folding boxboard)	Q4 of 2023
	0.55 (Printing & writing paper)	Q4 of 2023
	0.45 (White top linerboard)	Q2 of 2024
	0.30 (Virgin kraftliner)	Q2 of 2024
	0.20 (Sack kraft paper, bag paper)	Q2 of 2024
Shenyang	0.65 (Virgin kraftliner)	Q2 of 2023
Malaysia	0.60 (Kraftliner)	Q2 of 2023
	0.30 (Corrugating medium)	Q2 of 2023
Total	6.25	

Capacity expansion project — downstream packaging plants	New annual production capacity (million sq.m.)	Expected completion time
China		
Chongqing	240	Q3 of 2021
Chengdu	290	Q3 of 2021
Dongguan (phase II)	220	Q1 of 2022
Tianjin (phase II)	220	Q1 of 2022
Total	970	

During the Year, the Group continued to promote innovation, research and development as well as training in order to strengthen its capability in aspects of technology, product, environmental protection, safety and human resources management. As of 30 June 2021, the Group employed a total of 19,576 full-time staff and has obtained 779 patents, while 170 other patent applications or approvals are being processed.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB61,574.1 million for FY2021, representing an increase of approximately 19.9% as compared with FY2020. 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 91.5% of the revenue, with the remaining revenue of approximately 8.5% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's revenue for FY2021 increased by approximately 19.9% as compared with FY2020, resulting from the combined effect of the increase in sales volume of approximately 7.8% and the increase in selling price of approximately 11.4%. Revenue of linerboard, high performance corrugating medium, coated duplex board and printing and writing paper for FY2021 accounted for approximately 49.9%, 21.6%, 20.0% and 7.0% respectively of the total revenue, compared to 46.4%, 21.7%, 18.6% and 11.3% respectively in FY2020.

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 2021 was approximately 18.4 million tpa, 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 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 16.5 million tonnes, increased by 7.8% as compared with 15.3 million tonnes in FY2020. 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 FY2021 increased by approximately 15%, 3% and 5% respectively, while printing and writing paper for FY2021 decreased by approximately 18% as compared with those in FY2020.

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 FY2021, revenue related to China consumption represented 92.0% of the Group's total revenue, while the remaining revenue of 8.0% represented overseas sales to customers in other countries.

For FY2021, revenue from the Group's top five customers in aggregate accounted for approximately 7.0% (FY2020: 6.7%) of the Group's total revenue, with that to the single largest customer accounted for approximately 3.3% (FY2020: 2.1%).

Gross profit and Gross profit margin

The gross profit for FY2021 was approximately RMB11,690.9 million, an increase of approximately RMB2,663.6 million or 29.5% as compared with RMB9,027.3 million in FY2020. The gross profit margin increased from 17.6% in FY2020 to approximately 19.0% in FY2021, mainly due to the increase in the selling price of the products for the year was much faster than the increase in the cost of raw materials.

Selling and marketing costs

Selling and marketing costs increased by approximately 14.3% from RMB1,584.5 million in FY2020 to approximately RMB1,811.6 million in FY2021. The total amount of selling and distribution costs as a percentage of the Group's revenue slightly decreased from 3.1% in FY2020 to approximately 2.9% in FY2021 due to economy scale.

Administrative expenses

Administrative expenses increased by approximately 9.8% from RMB1,880.5 million in FY2020 to approximately RMB2,065.5 million in FY2021 which was mainly contributed by additional management and administrative costs incurred to support the launch of 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 commenced production in December 2020. As a percentage of Group's revenue, the administrative expenses decreased from 3.7% in FY2020 to approximately 3.4% in FY2021.

Operating profit

The operating profit for FY2021 was approximately RMB8,541.7 million, representing an increase of approximately RMB2,480.4 million or 40.9% over FY2020. The operating profit margin increased from 11.8% in FY2020 to approximately 13.9% in FY2021 mainly due to the increase in gross profit margin of the Group.

Finance costs — net

The net finance costs decreased by approximately RMB121.7 million, or decreased by 16.1% from RMB757.7 million in FY2020 to approximately RMB636.0 million in FY2021. The decrease in finance cost was mainly contributed by the decrease of average interest rate from 3.3% in FY2020 to approximately 2.8% in FY2021.

Exchange gains on operating and financing activities — net

The exchange gains on operating and financing activities before tax for FY2021 in aggregation amounted to approximately RMB356.4 million (represented by exchange losses on operating activities before tax of approximately RMB27.3 million and exchange gains on financing activities before tax of approximately RMB383.7 million).

The aggregated exchange gains on operating and financing activities net of tax amounted to approximately RMB347.7 million in FY2021 as compared to the aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB261.6 million in FY2020.

Income tax expense

Income tax charged for the FY2021 amounted to approximately RMB1,307.5 million and increased by approximately 22.7% or RMB242.0 million as compared with FY2020 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 15.4% in FY2021 as compared to 20.1% in FY2020, the decrease was mainly contributed by (i) the Group's subsidiaries in the mainland China entitled to preferential tax rates of which generated more profits in FY2021; and (ii) majority of exchange gains on financing activities incurred outside mainland China were exempted from income tax.

Net profit

The profit attributable to equity holders of the Company increased from RMB4,168.5 million in FY2020 to approximately RMB7,101.1 million in FY2021. If the exchange gains on operating and financing activities (net of tax) of approximately RMB347.7 million were excluded, the profit attributable to equity holders of the Company for FY2021 increased by approximately 52.4%, to approximately RMB6,753.4 million mainly due to increase in revenue and increase in gross profit margin.

In FY2020, the profit attributable to equity holders of the Company was RMB4,430.1 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB261.6 million were excluded.

Dividend

In FY2021, 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 RMB33.0 cents per share, which will aggregate to approximately RMB1,548.4 million. The total dividend for the FY2021 amounted to RMB43.0 cents per share (RMB32.0 cents per share in FY2020). The dividend pay out ratio was approximately 28.4% in FY2021 (36.0% in FY2020).

Working capital

The level of inventory as at 30 June 2021 increased by approximately 56.6% to approximately RMB8,214.5 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 RMB4,731.3 million and finished goods of approximately RMB3,483.2 million.

In FY2021, raw material (excluding spare parts) turnover days increased to approximately 28 days as compared to 24 days for FY2020 while the finished goods turnover days increased to approximately 25 days as compared to 16 days for FY2020.

Trade and bills receivables as at 30 June 2021 were approximately RMB6,365.5 million, increased by approximately 38.5% from RMB4,596.7 million as at 30 June 2020. During FY2021, the turnover days of trade receivables were approximately 23 days which was the same as compared for FY2020 and within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB4,349.6 million as at 30 June 2021, decreased by approximately 20.5% from RMB5,472.7 million in FY2020. The turnover days of trade and bills payable were approximately 32 days for FY2021 as compared with 47 days for FY2020.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2021 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 2021, the Group had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB10,145.3 million and total undrawn bank facilities of approximately RMB52,445.4 million.

As at 30 June 2021, the shareholders' funds were approximately RMB46,395.7 million, an increase of approximately RMB5,599.3 million from that as at 30 June 2020.

Debts Management

The Group's outstanding borrowings increased by approximately RMB7,823.4 million from RMB26,287.5 million as at 30 June 2020 to approximately RMB34,110.9 million as at 30 June 2021. The short-term and long-term borrowings amounted to approximately RMB16,587.6 million and RMB17,523.3 million respectively, accounting for 48.6% and 51.4% of the total borrowings respectively. As at 30 June 2021, none of the Group's debts were on secured basis.

The net debt to total equity ratio of the Group increased from 50.5% as at 30 June 2020 to approximately 51.7% as at 30 June 2021. The Board will closely monitor the Group's net debt to total equity ratio.

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 2021, total foreign currency borrowings amounted to the equivalent of approximately RMB16,841.4 million and loans denominated in RMB amounted to approximately RMB17,269.5 million, representing approximately 49.4% and 50.6% 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 2.3% and 2.6% per annum as at 30 June 2021 and approximately 3.0% and 3.0% per annum as at 30 June 2020. The gross interest and finance charges (including interest capitalised but before interest income and exchange gains or losses on financing activities) decreased to approximately RMB856.6 million in FY2021 from RMB1,210.8 million in FY2020.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments during FY2021 were approximately RMB6,060.2 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 the fully-integrated pulp and paper mill projects in China (Hubei, Beihai and Shenyang) of approximately RMB9,791.1 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the expansion of the Group's production capacity for pulp (wood pulp and recycled pulp) and paper and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

Contingencies

As at FY2021, the Group had no material contingent liabilities.

Future Outlook

As the global pandemic continues to evolve, the external environment will be increasingly complex and challenging. Looking forward, with further penetration of mass vaccination, the global pandemic scenario is expected to be more stabilized, which would allow the global economy to get back on track. Under the national “dual circulation” new development pattern, China’s domestic demand and export industry will be boosted. In the mid-to-long term, the trend of replacing plastic with paper in packaging and consumption upgrade will drive the demand of high-end packaging paper such as white top linerboard and virgin kraftliner, while the tightened raw material supply and environmental policies will drive consolidation in our industry.

Giving full play to the economies of scale as a leading enterprise in the industry, the Group has created the most favorable conditions for future development by exploiting the domestic and foreign raw materials and markets, and thus ensuring a stable raw material supply and product quality. The Group will cultivate different market segments, optimize the product mix and control costs, gearing ratio and cash flow effectively with the aim of enhancing the market share and overall profitability.

DIVIDEND

An interim dividend of RMB10.0 cents (equivalent to approximately HK12.0 cents) per share for the six months ended 31 December 2020 (six months ended 31 December 2019: RMB10.0 cents) was paid to shareholders on 9 July 2021.

The Board has resolved to recommend the payment of a final dividend of RMB33.0 cents (equivalent to approximately HK39.7 cents) per share for FY2021, which are expected to be paid on or about Friday, 21 January 2022 subject to the approval of the forthcoming annual general meeting (“2021 AGM”). The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 = RMB0.83104 as at 27 September 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2021 AGM will be held on or before 31 December 2021. A notice convening the 2021 AGM and the book closure of register of members, for the purpose of ascertaining shareholders’ entitlement to attend the 2021 AGM and the proposed final dividend, will be published and despatched in the manner as required by the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2021.

AUDIT COMMITTEE REVIEW

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

The consolidated financial statements of the Group for FY2021 have been reviewed by the audit committee, with the directors and the Company's auditor, PricewaterhouseCoopers.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices are fundamental to safeguarding interests of shareholders and other stakeholders and enhancing shareholder value.

During FY2021, the Group has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during FY2021, they were in compliance with provisions of the Model Code.

APPRECIATION

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

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

Hong Kong, 27 September 2021

As at the date of this announcement, the executive directors 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*