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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 2022**

**FINANCIAL HIGHLIGHTS**

- Revenue increased by approximately 4.8% to RMB64,538.1 million.
- Gross profit decreased by approximately 40.2% to RMB6,991.9 million.
- Profit attributable to equity holders of the Company for the year was approximately RMB3,275.4 million, decreased by 53.9%.
- If the exchange gains on operating and financing activities (net of tax) of approximately RMB283.0 million were excluded, the profit attributable to the equity holders of the Company decreased by approximately 55.7% to RMB2,992.4 million which was mainly driven by decrease in gross profit margin.
- Basic earnings per share decreased by approximately RMB0.81 or 53.6% to RMB0.70.
- Final dividend per share of RMB2.0 cents (equivalent to approximately HK2.2 cents).

## 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 2022 (“FY2022” or the “Year”), together with the comparative figures for the last financial year (“FY2021”) as follows.

### CONSOLIDATED INCOME STATEMENT

		<b>For the year ended 30 June</b>	
	<i>Note</i>	<b>2022 RMB'000</b>	<b>2021 RMB'000</b>
<b>Revenue</b>	4	<b>64,538,102</b>	61,574,060
Cost of goods sold		<u>(57,546,222)</u>	<u>(49,883,117)</u>
<b>Gross profit</b>		<b>6,991,880</b>	11,690,943
Other income, other expenses and other gains — net		<b>968,095</b>	755,191
Exchange losses on operating activities — net		<b>(94,929)</b>	(27,266)
Selling and marketing costs		<b>(1,955,444)</b>	(1,811,618)
Administrative expenses		<u>(2,322,490)</u>	<u>(2,065,516)</u>
<b>Operating profit</b>		<b>3,587,112</b>	8,541,734
Finance costs — net		<b>(711,296)</b>	(635,999)
— Finance income	6	<b>187,617</b>	123,535
— Finance costs	6	<b>(898,913)</b>	(759,534)
Exchange gains on financing activities — net		<b>380,692</b>	383,711
Share of results of associates and a joint venture — net		<u>116,514</u>	<u>186,103</u>
<b>Profit before income tax</b>		<b>3,373,022</b>	8,475,549
Income tax expense	7	<u>(62,521)</u>	<u>(1,307,531)</u>
<b>Profit for the year</b>		<u><b>3,310,501</b></u>	<u>7,168,018</u>
<b>Profit attributable to:</b>			
— Equity holders of the Company		<b>3,275,360</b>	7,101,141
— Non-controlling interests		<u>35,141</u>	<u>66,877</u>
		<u><b>3,310,501</b></u>	<u>7,168,018</u>
<b>Basic earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)</b>	8	<u><b>0.70</b></u>	<u>1.51</u>
<b>Diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)</b>	8	<u><b>0.70</b></u>	<u>1.51</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>3,310,501</b>	<b>7,168,018</b>
<b>Other comprehensive income</b> <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(205,277)</u>	<u>(67,225)</u>
<b>Total comprehensive income for the year</b>	<b><u>3,105,224</u></b>	<b><u>7,100,793</u></b>
<b>Attributable to:</b>		
— Equity holders of the Company	<b>3,055,257</b>	<b>7,059,382</b>
— Non-controlling interests	<b><u>49,967</u></b>	<b><u>41,411</u></b>
	<b><u>3,105,224</u></b>	<b><u>7,100,793</u></b>

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>70,669,667</b>	60,198,470
Right-of-use assets	<i>10</i>	<b>2,155,567</b>	1,650,534
Intangible assets	<i>11</i>	<b>312,318</b>	313,137
Investments in associates and a joint venture		<b>270,832</b>	199,086
Prepayments		<b>896,824</b>	1,012,244
Deferred income tax assets		<b>154,146</b>	80,454
		<b>74,459,354</b>	63,453,925
<b>Current assets</b>			
Inventories	<i>12</i>	<b>12,170,100</b>	8,214,492
Trade and bills receivables	<i>13</i>	<b>4,951,111</b>	6,365,530
Other receivables and prepayments		<b>5,418,883</b>	3,889,194
Financial assets at fair value through profit or loss		<b>79,533</b>	77,633
Tax recoverable		<b>237,240</b>	26,404
Restricted cash		<b>67,774</b>	76,427
Short-term bank deposits		<b>42,485</b>	37,785
Cash and cash equivalents		<b>9,654,344</b>	10,031,059
		<b>32,621,470</b>	28,718,524
<b>Total assets</b>		<b>107,080,824</b>	92,172,449
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	<i>14</i>	<b>480,531</b>	480,531
Share premium	<i>14</i>	<b>1,084,720</b>	3,884,720
Other reserves		<b>6,403,756</b>	4,593,424
Retained earnings		<b>39,085,792</b>	36,969,817
		<b>47,054,799</b>	45,928,492
<b>Non-controlling interests</b>		<b>450,527</b>	467,185
<b>Total equity</b>		<b>47,505,326</b>	46,395,677

## CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	<b>30 June 2022</b>	30 June 2021
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>15</i>	<b>36,861,721</b>	17,523,289
Other payables		<b>107,468</b>	122,303
Deferred income tax liabilities		<b>4,414,832</b>	4,199,472
		<u><b>41,384,021</b></u>	<u>21,845,064</u>
<b>Current liabilities</b>			
Borrowings	<i>15</i>	<b>7,379,280</b>	16,587,595
Trade and bills payables	<i>16</i>	<b>6,667,945</b>	4,349,598
Contract liabilities		<b>374,065</b>	361,072
Other payables		<b>3,516,906</b>	2,253,014
Current income tax liabilities		<b>253,281</b>	380,429
		<u><b>18,191,477</b></u>	<u>23,931,708</u>
<b>Total liabilities</b>		<u><b>59,575,498</b></u>	<u>45,776,772</u>
<b>Total equity and liabilities</b>		<u><b>107,080,824</b></u>	<u>92,172,449</u>

## CASH FLOWS INFORMATION

	For the year ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	3,310,501	7,168,018
Adjustments for non-cash items/income tax expense/other items with investing or financing cash flows effects/changes in working capital	<u>1,083,670</u>	<u>(2,884,372)</u>
Cash generated from operations	4,394,171	4,283,646
Income tax paid	(263,979)	(912,856)
Interest paid	<u>(1,099,696)</u>	<u>(854,023)</u>
Net cash generated from operating activities	3,030,496	2,516,767
Net cash used in investing activities	(12,321,554)	(5,635,613)
Net cash generated from financing activities	<u>8,920,623</u>	<u>7,629,513</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(370,435)</b>	<b>4,510,667</b>
Cash and cash equivalents at beginning of the year	10,031,059	5,559,508
Exchange losses on cash and cash equivalents	<u>(6,280)</u>	<u>(39,116)</u>
<b>Cash and cash equivalents at end of the year</b>	<b><u>9,654,344</u></b>	<b><u>10,031,059</u></b>

## 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 2022.

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 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 above 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 period beginning after 1 July 2021 and have not been early adopted:

Accounting Guideline 5 (Revised) Annual Improvements	Revised Accounting Guideline 5 Merger <sup>1</sup> Annual Improvements to HKFRS Standards 2018–2020 Cycle <sup>1</sup>
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use <sup>1</sup>
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract <sup>1</sup>
HKFRS 3 (Amendments)	Reference to the Conceptual Framework <sup>1</sup>
HKFRS 17	Insurance Contract <sup>2</sup>
HKAS 8 (Amendments)	Definition of Accounting Estimates <sup>2</sup>
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>2</sup>
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9 <sup>2</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>2</sup>
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current <sup>2</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for the Group for annual periods beginning on or after 1 July 2022

<sup>2</sup> Effective for the Group for annual periods beginning on or after 1 July 2023

<sup>3</sup> 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.

#### 4. REVENUE

Revenue recognised during the Year are as follows:

	For the year ended 30 June	
	2022	2021
	RMB'000	RMB'000
Sales of packaging paper	59,922,416	56,328,190
Sales of printing and writing paper	3,655,895	4,334,853
Sales of high value specialty paper products	662,116	664,779
Sales of pulp	297,675	246,238
	<u>64,538,102</u>	<u>61,574,060</u>

#### 5. OPERATING PROFIT

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

	For the year ended 30 June	
	2022	2021
	RMB'000	RMB'000
Depreciation (Note 10)	2,937,717	2,675,219
Less: amounts charged to other expenses	—	(6,166)
	2,937,717	2,669,053
Amortisation of intangible assets (Note 11)	22,673	24,595
Less: amount capitalised in property, plant and equipment	—	(241)
	22,673	24,354
Employee benefit expenses	3,652,758	3,348,144
Changes in finished goods	(3,135,242)	(1,674,089)
Raw materials and consumables used	55,290,217	46,626,684
Amortisation of right-of-use assets (Note 10)	60,221	51,736
Less: amount capitalised in property, plant and equipment	(6,626)	(1,355)
	<u>53,595</u>	<u>50,381</u>

## 6. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	<u>187,617</u>	<u>123,535</u>
Finance costs:		
Interest on borrowings	(985,467)	(714,915)
Other incidental borrowing costs	(72,155)	(86,415)
Less: amounts capitalised on property, plant and equipment	<u>217,262</u>	<u>97,033</u>
	(840,360)	(704,297)
Other finance costs	<u>(58,553)</u>	<u>(55,237)</u>
	<u>(898,913)</u>	<u>(759,534)</u>

## 7. INCOME TAX EXPENSE

	For the year ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	(93,196)	669,003
— United States of America (“USA”) income tax (Note (c))	—	—
— Socialist Republic of Vietnam (“Vietnam”) income tax (Note (d))	19,843	25,276
— Hong Kong profits tax (Note (e))	—	—
	<u>(73,353)</u>	<u>694,279</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	129,194	669,778
— USA income tax	—	(63,748)
— Vietnam income tax	<u>6,680</u>	<u>7,222</u>
	<u>135,874</u>	<u>613,252</u>
	<u>62,521</u>	<u>1,307,531</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 2022 (2021: 15%).

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 RMB550,209,000 (including the tax incentive amounting to RMB209,832,000 related to the period from January 2021 to 30 June 2021) was included in the determination of the current income tax charge for the year ended 30 June 2022 (year ended 30 June 2021: 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 the year ended 30 June 2022 was 5% (2021: 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 2022 in respect of operations in USA (2021: 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 2022 in respect of operations in Vietnam (2021: 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 2022 (2021: nil).

## 8. EARNINGS PER SHARE

### — Basic

	For the year ended 30 June	
	2022	2021
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>3,275,360</u>	<u>7,101,141</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>0.70</u>	<u>1.51</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 2022 (year ended 30 June 2021: same).

## 9. DIVIDENDS

	For the year ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend, paid, of RMB8.0 cents (2021: RMB10.0 cents) per ordinary share	375,378	469,222
Final dividend, proposed, of RMB2.0 cents (2021: RMB33.0 cents) per ordinary share	<u>93,844</u>	<u>1,548,433</u>
	<u>469,222</u>	<u>2,017,655</u>

At a meeting held on 27 September 2022, the Board proposed a final dividend of RMB2.0 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 2023.

## 10. 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>
<b>Year ended 30 June 2022</b>		
Opening net book amount	60,198,470	1,650,534
Additions	13,192,219	530,273
Acquisition of a subsidiary	80,082	30,177
Disposals	(108,319)	—
Depreciation/amortisation ( <i>Note 5</i> )	(2,937,717)	(60,221)
Exchange differences	244,932	4,804
	<u>70,669,667</u>	<u>2,155,567</u>
Closing net book amount	<u>70,669,667</u>	<u>2,155,567</u>
<b>Year ended 30 June 2021</b>		
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	(552,689)	(9,239)
	<u>60,198,470</u>	<u>1,650,534</u>
Closing net book amount	<u>60,198,470</u>	<u>1,650,534</u>

## 11. INTANGIBLE ASSETS

	Year ended 30 June 2022 <i>RMB'000</i>
<b>Year ended 30 June 2022</b>	
Opening net book amount	313,137
Additions	11,196
Acquisition of a subsidiary	8,412
Amortisation ( <i>Note 5</i> )	(22,673)
Exchange differences	2,246
	<u>312,318</u>
Closing net book amount	<u>312,318</u>
<b>Year ended 30 June 2021</b>	
Opening net book amount	287,808
Additions	55,279
Amortisation ( <i>Note 5</i> )	(24,595)
Exchange differences	(5,355)
	<u>313,137</u>
Closing net book amount	<u>313,137</u>

## 12. INVENTORIES

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
At cost:		
Raw materials	<b>5,551,699</b>	4,731,333
Finished goods	<b>6,618,401</b>	3,483,159
	<u><b>12,170,100</b></u>	<u>8,214,492</u>

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB57,546,222,000 for the Year (2021: RMB49,883,117,000).

## 13. TRADE AND BILLS RECEIVABLES

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Trade receivables ( <i>Note (a)</i> )	<b>3,682,958</b>	3,872,915
Bills receivables ( <i>Note (b)</i> )	<b>1,268,153</b>	2,492,615
	<u><b>4,951,111</b></u>	<u>6,365,530</u>

(a) As at 30 June 2022, the ageing analysis of trade receivables based on invoice date is as follows:

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
0-30 days	<b>3,113,623</b>	3,276,699
31-60 days	<b>527,862</b>	528,094
Over 60 days	<b>41,473</b>	68,122
	<u><b>3,682,958</b></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.

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 2021: same). Bills receivables as at 30 June 2022 mainly represents the bank acceptance notes (30 June 2021: 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>
<b>Issued and fully paid</b>					
Balance as at 1 July 2021	4,692,220,811	469,222	480,531	3,884,720	4,365,251
Reduction of share premium and transfer to contributed surplus	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,800,000)</u>	<u>(2,800,000)</u>
Balance as at 30 June 2022	<u>4,692,220,811</u>	<u>469,222</u>	<u>480,531</u>	<u>1,084,720</u>	<u>1,565,251</u>
Balance as at 1 July 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>4,365,251</u>

#### 15. BORROWINGS

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	<u>36,861,721</u>	<u>17,523,289</u>
Current		
— Short-term bank borrowings	4,492,142	11,398,244
— Current portion of long-term bank borrowings	<u>2,887,138</u>	<u>5,189,351</u>
	<u>7,379,280</u>	<u>16,587,595</u>
Total borrowings	<u>44,241,001</u>	<u>34,110,884</u>

The maturity of the borrowings is as follows:

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Within 1 year	7,379,280	16,587,595
Between 1 and 2 years	20,528,865	8,590,195
Between 2 and 5 years	15,280,836	8,887,875
Over 5 years	<u>1,052,020</u>	<u>45,219</u>
	<u>44,241,001</u>	<u>34,110,884</u>

## 16. TRADE AND BILLS PAYABLES

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Trade payables ( <i>Note (a)</i> )	<b>2,650,968</b>	2,276,316
Bills payables	<b>4,016,977</b>	2,073,282
	<b><u>6,667,945</u></b>	<b><u>4,349,598</u></b>

(a) The ageing analysis of trade payables based on invoice date as at 30 June 2022 is as follows:

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
0-90 days	<b>2,484,165</b>	2,081,521
Over 90 days	<b>166,803</b>	194,795
	<b><u>2,650,968</u></b>	<b><u>2,276,316</u></b>

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:

	<b>30 June 2022</b> <i>RMB'000</i>	30 June 2021 <i>RMB'000</i>
Property, plant and equipment	<b><u>8,316,524</u></b>	<b><u>9,791,124</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS ANALYSIS

#### Review of Operations

##### *Maintaining stability amid adversity*

There has been a complicated and challenging environment in mainland China and abroad during the Year under review, the second half of the Year in particular. The pandemic containment measures in mainland China has resulted in shrinking consumption and disruptions to logistics and transportation. The demand for packaging paper remained sluggish. Coupled with the adverse impact of factors such as the surging costs of raw materials, energy and chemicals for paper production, as well as interest rate hikes, profits of the Group were under severe pressure.

In the face of various headwinds, we closely monitored the market development. While actively visiting our customers, we also adjusted our raw material and product mix to cater to the market. As sustaining a healthy level of working capital and cash flow was crucial amid adversity, we have executed “cost reduction and efficiency enhancement” measures and strengthened financial risk management during the Year, which achieved satisfactory outcome. Thanks to our team’s concerted efforts, the sales volume for the Year remained relatively stable while the average price of products increased slightly as compared with that of the previous year. The cost increase of recovered paper, wood pulp and coal, however, was more substantial, and it could hardly be passed on because of the unfavorable market conditions, hence resulting in lower profits year-on-year.

The Group’s new base in Jingzhou, Hubei Province commenced operation in June 2022 with a production capacity of 0.60 million tpa for testliner being put into trial production, which provided stronger support for business coverage in the central China region. In addition, a total production capacity of 440 million sq.m. for downstream packaging in Dongguan (Phase II) and Tianjin (Phase II) have also commenced production. As of 30 June 2022, the Group’s total design production capacity for fibre raw materials amounted to 0.85 million tpa (recycled pulp of 0.70 million tonnes and wood pulp of 0.15 million tonnes), and the total design production capacity for paper amounted to 18.17 million tpa, while the total annual design production capacity for downstream packaging plants exceeded 2.40 billion sq.m.

##### *Expanding production capacity to leverage our competitive edges for long-term development*

With the full implementation of the “zero import quota on recovered paper” policy in mainland China, the market supply of quality raw materials has been tightening. In order to ensure the quality of our raw materials, give full play to the advantages of our vertical integration of the production chain and support the stable development of the Group in the long run, we are now expanding a total production capacity of 3.12

million tonnes for wood pulp in Jingzhou, Hubei Province, Shenyang, Liaoning Province and Beihai, Guangxi Zhuang Autonomous Region for our own use. An additional production capacity of 0.60 million tonnes for recycled pulp will be added in Malaysia. Furthermore, we have added production capacity of 1.10 million tonnes for wood fibre in mainland China as an alternative raw material to reduce our production costs. Upon completion of the above projects, the Group's total design production capacity for fibre raw materials will reach 5.67 million tpa (wood pulp of 3.27 million tonnes, recycled pulp of 1.3 million tonnes and wood fibre of 1.10 million tonnes).

The orderly expansion of paper production capacity will enable the Group to play to its advantages in economies of scale and procurement of raw materials, and seize the opportunities arising from the "Plastic Ban Order", which will be favourable for the Group to enhance its market share, optimize its product mix and thus increase its structural profitability in the long term. Currently, a number of our domestic and overseas projects, including the production capacity expansion projects for white top linerboard, virgin kraftliner and bleached folding boxboard, are underway. These projects are expected to add new production capacity of 6.85 million tonnes to the Group upon completion, bringing the total design production capacity for paper manufacturing to over 25.00 million tpa by that time.

In respect of the downstream packaging capacity, we are equipped with the most advanced cardboard and carton box production lines, processing equipment and logistic systems in a bid to effectively help the Group to enhance its sales of containerboard products and realize the integration of paper and packaging products manufacturing in its 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 2.80 billion sq.m.

The details of our latest plan for capacity expansion projects are as follow:

Capacity expansion project — wood pulp and recycled pulp	New annual production capacity (million tpa)	Expected completion time
<b>China</b>		
Jingzhou, Hubei Province	(Chemical pulp) 0.60	Q4 of 2022
Shenyang, Liaoning Province	(Chemical pulp) 0.62	Q4 of 2022
Beihai, Guangxi Zhuang Autonomous Region	(Unbleached pulp) 0.50	Q4 of 2023
	(Bleached chemi-thermo mechanical pulp) 1.40	Q4 of 2023
<b>Malaysia</b>	(Recycled pulp) 0.60	Q4 of 2022
<b>Total</b>	<b>3.72</b>	

Capacity expansion project — wood fibre	New annual production capacity (million tpa)	Expected completion time
<b>China</b>		
Dongguan, Guangdong Province	0.60	Q3 of 2022
Chongqing Municipality	0.50	Q3 of 2022
<b>Total</b>	<b>1.10</b>	
<b>Capacity expansion project — paper production</b>		
<b>China</b>		
Jingzhou, Hubei Province (Phase I)	(Virgin kraftliner) 0.60	Q4 of 2022
Jingzhou, Hubei Province (Phase II)	(Virgin kraftliner) 0.60	Q4 of 2024
	(Corrugating medium) 0.60	Q4 of 2024
Beihai, Guangxi Zhuang Autonomous Region	(Virgin kraftliner) 0.80	Q4 of 2023
	(Bleached folding boxboard) 1.20	Q4 of 2023
	(Printing & writing paper) 0.55	Q4 of 2023
	(White top linerboard) 0.45	Q4 of 2024
	(Virgin kraftliner) 0.30	Q4 of 2024
	(Sack kraft paper, bag paper) 0.20	Q2 of 2024
Shenyang, Liaoning Province	(Virgin kraftliner) 0.65	Q4 of 2022
<b>Malaysia</b>	(Kraftliner) 0.60	Q4 of 2022
	(Corrugating medium) 0.30	Q1 of 2023
<b>Total</b>	<b>6.85</b>	
<b>Capacity expansion project — downstream packaging plants</b>		
<b>China</b>		
Zhenjiang, Jiangsu Province	220	Q4 of 2022
Quanzhou, Fujian Province (Phase II)	220	Q2 of 2023
<b>Total</b>	<b>440</b>	

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 2022, the Group employed a total of 20,098 full-time staff and has obtained 908 patents, while 178 other patent applications or approvals are being processed.

## **FINANCIAL REVIEW**

### **Revenue**

The Group achieved a revenue of approximately RMB64,538.1 million for FY2022, representing an increase of approximately 4.8% as compared with FY2021. 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 92.8% of the revenue, with the remaining revenue of approximately 7.2% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's revenue for FY2022 increased by approximately 4.8% as compared with FY2021, resulting from the net effect of the increase in average selling price of approximately 8.0% and the decrease in sales volume of approximately 3.0%. Revenue of linerboard, high performance corrugating medium, coated duplex board and printing and writing paper for FY2022 accounted for approximately 49.3%, 25.3%, 18.2% and 5.7% respectively of the total revenue, compared to 49.9%, 21.6%, 20.0% and 7.0% respectively in FY2021.

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 2022 was approximately 19.0 million tpa in aggregation, comprising approximately 10.8 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 wood pulp products.

The Group's sales volume reached approximately 16.0 million tonnes, decreased by approximately 3.0% as compared with 16.5 million tonnes in FY2021. The decrease in sales volume was driven by approximately 0.6 million tonnes decrease in China business.

The sales volume of linerboard and coated duplex board for FY2022 decreased by approximately 7.2% and 3.7% respectively, while high performance corrugating medium for FY2022 increased by 12.1% as compared with those in FY2021.

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 FY2022, revenue related to China consumption represented 90.1% of the Group's total revenue, while the remaining revenue of 9.9% represented overseas sales to customers in other countries.

For FY2022, revenue from the Group's top five customers in aggregate accounted for approximately 7.1% (FY2021: 7.0%) of the Group's total revenue, with that to the single largest customer accounted for approximately 3.5% (FY2021: 3.3%).

### **Gross profit and Gross profit margin**

The gross profit for FY2022 was approximately RMB6,991.9 million, an decrease of approximately RMB4,699.0 million or 40.2% as compared with RMB11,690.9 million in FY2021. The gross profit margin decreased from 19.0% in FY2021 to 10.8% in FY2022 mainly due to the increase in the selling price of the products was much slower than the increase in the cost of goods sold.

### **Selling and marketing costs**

Selling and marketing costs increased by approximately 7.9% from RMB1,811.6 million in FY2021 to approximately RMB1,955.4 million in FY2022. The total amount of selling and distribution costs as a percentage of the Group's revenue slightly increased from 2.9% in FY2021 to approximately 3.0% in FY2022.

### **Administrative expenses**

Administrative expenses increased by approximately 12.4% from RMB2,065.5 million in FY2021 to approximately RMB2,322.5 million in FY2022 which was mainly contributed by additional management and administrative costs incurred to support the capacity expansion projects, mainly new bases constructed including Jingzhou of Hubei Province, Beihai of Guangxi Zhuang Autonomous Region and Selangor of Malaysia which have new production capacity for wood pulp and paper products commence production in the coming one to two years. As a percentage of Group's revenue, the administrative expenses increased from 3.4% in FY2021 to approximately 3.6% in FY2022.

### **Operating profit**

The operating profit for FY2022 was approximately RMB3,587.1 million, representing an decrease of approximately RMB4,954.6 million or 58.0% compared with FY2021. The operating profit margin decreased from 13.9% in FY2021 to approximately 5.6% in FY2022 mainly due to the decrease in gross profit margin of the Group.

## **Finance costs — net**

The net finance costs increased by approximately RMB75.3 million, or 11.8% from RMB636.0 million in FY2021 to approximately RMB711.3 million in FY2022. The increase in finance cost was mainly contributed by the increase in total borrowing from RMB34,110.9 million as at 30 June 2021 to RMB44,241.0 million as at 30 June 2022.

## **Exchange gains on operating and financing activities — net**

The exchange gains on operating and financing activities before tax for FY2022 in aggregation amounted to approximately RMB285.8 million (represented by exchange losses on operating activities before tax of approximately RMB94.9 million and exchange gains on financing activities before tax of approximately RMB380.7 million).

In FY2021, the exchange gains on operating and financing activities before tax 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 RMB283.0 million in FY2022 as compared to the aggregated exchange gains on operating and financing activities net of tax amounted to approximately RMB347.7 million in FY2021.

## **Income tax expense**

Income tax charged for the FY2022 amounted to approximately RMB62.5 million and decreased by approximately 95.2% or RMB1,245.0 million as compared with FY2021.

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 gain from this tax incentive amounting to RMB550,209,000 (including the tax incentive amounting to

RMB209,832,000 related to the period from 1 January 2021 to 30 June 2021) was included in the determination of the current income tax charge for the year ended 30 June 2022 (year ended 30 June 2021: Nil).

If the tax incentive were excluded, the income tax expense for the FY2022 amounted to approximately RMB612.7 million and the Group's effective tax rate (income tax expense divided by profit before income tax for the Year) was approximately 18.2% in the Year as compared to 15.4% in FY2021.

### **Net profit**

The profit attributable to equity holders of the Company decreased from RMB7,101.1 million in FY2021 to approximately RMB3,275.4 million in FY2022. If the exchange gains on operating and financing activities (net of tax) of approximately RMB283.0 million were excluded, the profit attributable to equity holders of the Company for FY2022 decreased by approximately 55.7%, to approximately RMB2,992.4 million.

In FY2021, the profit attributable to equity holders of the Company was RMB6,753.4 million if the exchange gains on operating and financing activities (net of tax) amounted to RMB347.7 million were excluded.

### **Dividend**

In FY2022, the Group paid an interim dividend of RMB8.0 cents per share, which amounted to RMB375.4 million. The directors have proposed a final dividend of RMB2.0 cents per share, which will aggregate to approximately RMB93.8 million. The total dividend for the FY2022 amounted to RMB10.0 cents per share (RMB43.0 cents per share in FY2021). The dividend pay out ratio was approximately 14.3% in FY2022 (28.4% in FY2021).

### **Working capital**

The level of inventory as at 30 June 2022 increased by approximately 48.2% to approximately RMB12,170.1 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 RMB5,551.7 million and finished goods of approximately RMB6,618.4 million.

In FY2022, raw material (excluding spare parts) turnover days remained approximately 28 days which was the same compared to FY2021 while the finished goods turnover days increased to approximately 42 days as compared to 25 days for FY2021 mainly due to weakening consumption brought by the pandemic containment measures in mainland China.

Trade and bills receivables as at 30 June 2022 were approximately RMB4,951.1 million, decreased by approximately 22.2% from RMB6,365.5 million as at 30 June 2021. During FY2022, the turnover days of trade receivables were approximately 21 days, compared with 23 days in FY2021.

Trade and bills payables were approximately RMB6,667.9 million as at 30 June 2022, increased by approximately 53.3% from RMB4,349.6 million in FY2021. The turnover days of trade and bills payable were approximately 42 days for FY2022 as compared with 32 days for FY2021.

### **Liquidity and financial resources**

The working capital and long-term funding required by the Group in FY2022 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 2022, the Group had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB9,764.6 million and total undrawn bank facilities of approximately RMB67,327.8 million.

As at 30 June 2022, the shareholders' funds were approximately RMB47,505.3 million, an increase of approximately RMB1,109.6 million or approximately 2.4% from that as at 30 June 2021.

### **Debts Management**

The Group's outstanding borrowings increased by approximately RMB10,130.1 million from RMB34,110.9 million as at 30 June 2021 to approximately RMB44,241.0 million as at 30 June 2022. The short-term and long-term borrowings amounted to approximately RMB7,379.3 million and RMB36,861.7 million respectively, accounting for 16.7% and 83.3% of the total borrowings respectively. The cash to short term debt ratio was approximately 1.3.

### **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 2022, total foreign currency borrowings amounted to the equivalent of approximately RMB19,902.7 million and loans denominated in RMB amounted to approximately RMB24,338.3 million, representing approximately 45.0% and 55.0% of the Group's borrowings respectively.

**Cost of borrowing**

The effective interest rates of long-term borrowings and short-term borrowings both were stable at approximately 2.9% and 2.2% per annum as at 30 June 2022 and approximately 2.3% and 2.6% per annum as at 30 June 2021. The gross interest and finance charges (including interest capitalised but before interest income and exchange gains or losses on financing activities) increased to approximately RMB1,116.2 million in FY2022 from RMB856.6 million in FY2021.

**Future Outlook**

In view of the current ever-changing pandemic situation and geopolitical risks, coupled with other factors such as the exchange rate volatility, interest rate hike and high inflation rate, uncertainties still cloud the global economic outlook in the near future. However, with the gradual recovery of the industry chain in mainland China and a series of stimulus policy being put in place by the government to stabilize the economy, domestic demand, consumption and the export business will be boosted, which would enable the economy to get back on track. In the mid-to-long term, the trend of replacing plastic with paper in packaging and consumption upgrade will fuel the demand of high-end packaging paper, while the tightened raw material supply and environmental policies will drive consolidation in our industry.

As a leading enterprise, we will weigh the benefits and drawbacks comprehensively in the coming year. Adhering to the goal of seeking progress while maintaining stability, we will adopt an active approach to strike a balance between production and sales, and continue to exploit domestic and foreign raw materials and markets, thus ensuring stable product quality. While striving to develop new products to cater to market needs as well as working aggressively on cost reduction and efficiency enhancement, we will spare no effort in pursuing safe and green production, so as to create the most favorable conditions for sustainable development in the future.

## **DIVIDEND**

An interim dividend of RMB8.0 cents (equivalent to approximately HK9.8 cents) per share for the six months ended 31 December 2021 (six months ended 31 December 2020: RMB10.0 cents) was paid to shareholders on 8 July 2022.

The Board has resolved to recommend the payment of a final dividend of RMB2.0 cents (equivalent to approximately HK2.2 cents) per share for FY2022, which are expected to be paid on or about Friday, 20 January 2023 subject to the approval of the forthcoming annual general meeting (“2022 AGM”). The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 = RMB0.90093 as at 27 September 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.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The 2022 AGM will be held on or before 31 December 2022. A notice convening the 2022 AGM and the book closure of register of members, for the purpose of ascertaining shareholders’ entitlement to attend the 2022 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 FY2022.

## **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 FY2022 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 FY2022, 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 FY2022, 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 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*