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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

**UNAUDITED INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2023**

FINANCIAL HIGHLIGHTS

- The Group's sales volume increased by 16.3% to approximately 10.0 million tonnes.
- Revenue decreased by 1.9% to approximately RMB30,611.2 million.
- Gross profit increased by 294.4% to approximately RMB2,705.6 million.
- Profit attributable to equity holders of the Company for the Period was approximately RMB292.4 million.
- Basic earnings per share increased to approximately RMB0.06.

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2023 (the “Period”), together with the comparative figures for the corresponding period of the last year.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		31 December	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	30,611,229	31,198,020
Cost of goods sold		<u>(27,905,603)</u>	<u>(30,511,935)</u>
Gross profit		2,705,626	686,085
Other income, other expense and other gains — net		741,522	815,070
Exchange losses on operating activities — net		(12,834)	(12,029)
Selling and marketing costs		(1,111,548)	(1,125,200)
Administrative expenses		<u>(1,079,288)</u>	<u>(1,225,541)</u>
Operating profit/(loss)		1,243,478	(861,615)
Finance costs — net		(603,722)	(560,189)
— Finance income	7	83,379	81,130
— Finance costs	7	(687,101)	(641,319)
Exchange losses on financing activities — net		(45,551)	(39,397)
Share of profit of associates and a joint venture — net		<u>3,758</u>	<u>19,286</u>
Profit/(loss) before income tax		597,963	(1,441,915)
Income tax (expense)/credit	8	<u>(295,418)</u>	<u>43,005</u>
Profit/(loss) for the Period		<u>302,545</u>	<u>(1,398,910)</u>
Profit/(loss) attributable to:			
— Equity holders of the Company		292,436	(1,388,795)
— Non-controlling interests		<u>10,109</u>	<u>(10,115)</u>
		<u>302,545</u>	<u>(1,398,910)</u>

		Six months ended	
		31 December	
	<i>Note</i>	2023	2022
		(Unaudited)	(Unaudited)
Basic earnings/(losses) per share for profit/(loss) attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	<u>0.06</u>	<u>(0.30)</u>
Diluted earnings/(losses) per share for profit/(loss) attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	<i>9</i>	<u>0.06</u>	<u>(0.30)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the Period	302,545	(1,398,910)
Other comprehensive loss: <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(229,468)</u>	<u>(220,122)</u>
Total comprehensive income/(loss) for the Period	<u>73,077</u>	<u>(1,619,032)</u>
Total comprehensive income/(loss) for the period attributable to:		
— Equity holders of the Company	87,752	(1,608,765)
— Non-controlling interests	<u>(14,675)</u>	<u>(10,267)</u>
	<u>73,077</u>	<u>(1,619,032)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2023	30 June 2023
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	91,601,729	86,557,207
Right-of-use assets	<i>11</i>	4,562,304	3,019,260
Intangible assets		291,679	300,248
Investment in associates and a joint venture		188,010	175,400
Prepayments	<i>13</i>	502,025	1,013,424
Deferred income tax assets		143,649	130,969
		<u>97,287,396</u>	<u>91,196,508</u>
Current assets			
Inventories	<i>12</i>	9,410,876	8,855,674
Trade receivables	<i>13</i>	3,360,052	3,086,387
Bills receivables	<i>13</i>	5,248,195	1,373,742
Other receivables and prepayments	<i>13</i>	6,069,846	5,556,064
Financial assets at fair value through profit or loss		85,774	87,404
Tax recoverable		12,692	32,330
Restricted cash		104,965	113,319
Short-term bank deposits		45,186	32,088
Cash and cash equivalents		7,285,320	10,317,488
		<u>31,622,906</u>	<u>29,454,496</u>
Total assets		<u>128,912,302</u>	<u>120,651,004</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	<i>14</i>	480,531	480,531
Share premium	<i>14</i>	1,084,720	1,084,720
Other reserves		6,632,763	6,812,482
Retained earnings		36,541,624	36,274,153
		<u>44,739,638</u>	<u>44,651,886</u>
Non-controlling interests		<u>469,861</u>	<u>484,536</u>
Total equity		<u>45,209,499</u>	<u>45,136,422</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December	30 June
		2023	2023
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	<i>15</i>	47,750,687	43,180,730
Lease liabilities		1,108,274	21,203
Other payables		37,851	84,093
Deferred income tax liabilities		4,358,254	4,157,579
		<u>53,255,066</u>	<u>47,443,605</u>
Current liabilities			
Borrowings	<i>15</i>	13,275,753	13,592,522
Trade payables	<i>16</i>	3,691,320	3,277,468
Bills payables	<i>16</i>	8,529,944	6,370,854
Contract liabilities		448,422	454,378
Lease liabilities		67,410	30,812
Other payables		4,383,457	4,322,791
Current income tax liabilities		51,431	22,152
		<u>30,447,737</u>	<u>28,070,977</u>
Total liabilities		<u>83,702,803</u>	<u>75,514,582</u>
Total equity and liabilities		<u>128,912,302</u>	<u>120,651,004</u>

1. GENERAL INFORMATION

The Group is principally engaged in the manufacture and sales of packaging paper, printing and writing paper, high value specialty paper products and pulp.

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

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

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 27 February 2024.

The condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2023 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2023.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2023, as described in those annual financial statements, except for the adoption of amendments to standards effective for the financial year beginning on 1 July 2023.

(a) Amendments to standards adopted by the Group

The following amendments to standards are relevant and mandatory for the Group's financial year beginning on 1 July 2023:

HKFRS 17	Insurance Contract
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
HKAS 8 (Amendments)	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

The adoption of above new standards or amendments to standards that are effective for the first time for this reporting period does not have any significant impact to the results and financial position of the Group.

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

The following amendments to standards relevant to the Group have been issued but are not effective for the financial year beginning on 1 July 2023 and have not been early adopted by the Group:

HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ¹
HKAS 1 (Amendments)	Non-current Liabilities with Covenants ¹
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKFRS 21	Lack of Exchangeability ²
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for the Group for annual periods beginning on or after 1 July 2024

² Effective for the Group for annual periods beginning on or after 1 July 2025

³ Effective date to be determined

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

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of packaging paper, printing and writing paper, high value specialty paper products and pulp. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions.

5. REVENUE

Revenue recognised during the Period are as follows:

	Six months ended 31 December	
	2023	2022
	RMB'000	RMB'000
Sales of packaging paper	28,146,246	27,756,328
Sales of printing and writing paper	2,119,937	2,808,705
Sales of high value specialty paper products	321,402	339,888
Sales of pulp	23,644	293,099
	<u>30,611,229</u>	<u>31,198,020</u>

6. EXPENSE BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials and consumables used	24,903,111	25,512,684
Changes in finished goods	179,217	2,428,966
Employee benefit expenses	2,021,605	1,946,290
Depreciation (<i>Note 11</i>)	1,602,242	1,574,678
Reversal of allowance for inventory impairment	(210,124)	—
Amortisation of right-of-use assets (<i>Note 11</i>)	64,619	37,062
Less: amount capitalised in property, plant and equipment	(15,430)	(9,053)
	<u>49,189</u>	<u>28,009</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>83,379</u>	<u>81,130</u>
Finance costs:		
Interest on borrowings	(1,056,644)	(876,965)
Other incidental borrowing costs	(17,231)	(40,117)
Less: amounts capitalised on property, plant and equipment (Note (a))	<u>410,966</u>	<u>308,125</u>
	(662,909)	(608,957)
Other finance costs	<u>(24,192)</u>	<u>(32,362)</u>
	<u>(687,101)</u>	<u>(641,319)</u>

(a) The capitalisation interest rate is approximately 3.7% for the six months ended 31 December 2023 (six months ended 31 December 2022: 3.9%).

8. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax (Notes (a) and (b))	100,188	(4,208)
— Malaysia income tax (Note (c))	6,260	—
— Vietnam income tax (Note (d))	<u>235</u>	<u>—</u>
	<u>106,683</u>	<u>(4,208)</u>
Deferred income tax		
— PRC corporate income tax and withholding income tax	165,188	(109,727)
— Malaysia income tax	14,692	—
— Vietnam income tax	8,855	(4,370)
— USA income tax	<u>—</u>	<u>75,300</u>
	<u>188,735</u>	<u>(38,797)</u>
	<u>295,418</u>	<u>(43,005)</u>

(a) PRC corporate income tax

The Group's subsidiaries in the mainland China are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the six months ended 31 December 2023 as those subsidiaries fulfil the requirements of High and New Technology Enterprise ("HNTE") according to relevant rules and regulations (six months ended 31 December 2022: same). The HNTE designation should be reassessed every three years according to relevant rules and regulations.

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

(b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the mainland China to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding income tax rate of the intermediate holding company of the Company's mainland China subsidiaries for six months ended 31 December 2023 was 5% (six months ended 31 December 2022: 5%).

(c) Malaysia income tax

Malaysia income tax has been provided at the income tax rate on the estimated assessable profit during the six months ended 31 December 2023 in respect of operation in Malaysia (six months ended 31 December 2022: same).

(d) Vietnam income tax

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit during the six months ended 31 December 2023 in respect of operations in Vietnam (six months ended 31 December 2022: same).

(e) USA income tax

USA income tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2023 (six months ended 31 December 2022: same).

(f) **Hong Kong profits tax**

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2023 (six months ended 31 December 2022: same).

9. EARNINGS/(LOSSES) PER SHARE

— **Basic**

	Six months ended 31 December	
	2023	2022
Profit/(loss) attributable to equity holders of the Company (<i>RMB'000</i>)	<u>292,436</u>	<u>(1,388,795)</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/(losses) per share (<i>RMB per share</i>)	<u>0.06</u>	<u>(0.30)</u>

— **Diluted**

Diluted earnings/(losses) per share is the same as basic earnings/(losses) per share as there were no potential diluted ordinary shares outstanding during the six months ended 31 December 2023 (six months ended 31 December 2022: same).

10. DIVIDENDS

	Six months ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend	<u>—</u>	<u>—</u>

The Board has resolved not to declare an interim dividend for the six month ended 31 December 2023 (six months ended 31 December 2022: nil).

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

	Property, plant and equipment <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>
Six months ended 31 December 2023		
Opening net book amount as at 1 July 2023	86,557,207	3,019,260
Additions	6,938,562	1,619,470
Disposals	(36,827)	—
Depreciation/amortisation (<i>Note 6</i>)	(1,602,242)	(64,619)
Exchange differences	(254,971)	(11,807)
	<u>91,601,729</u>	<u>4,562,304</u>
Six months ended 31 December 2022		
Opening net book amount as at 1 July 2022	70,669,667	2,155,567
Additions	10,824,169	815,924
Disposals	(42,919)	(11,280)
Depreciation/amortisation (<i>Note 6</i>)	(1,574,678)	(37,062)
Exchange differences	255,342	5,978
	<u>80,131,581</u>	<u>2,929,127</u>

12. INVENTORIES

	31 December 2023 <i>RMB'000</i>	30 June 2023 <i>RMB'000</i>
Raw materials	5,985,069	5,385,760
Finished goods	3,425,807	3,469,914
	<u>9,410,876</u>	<u>8,855,674</u>

Write-downs of inventories to net realisable value amounted to RMB58,653,000 for the period ended 31 December 2023 (30 June 2023: RMB268,777,000). These were recognised as an expense during the six months ended 31 December 2023 and included in cost of goods sold.

The Group reversed RMB268,777,000 of a previous inventory write-down during the six months ended 31 December 2023, as the Group sold the relevant goods that had been written down at original cost. The amount reversed has been included in 'cost of sales' in the statement of profit or loss.

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2023 RMB'000	30 June 2023 RMB'000
Trade receivables (<i>Notes (b)</i>)	3,360,052	3,086,387
Bills receivables (<i>Note (c)</i>)	<u>5,248,195</u>	<u>1,373,742</u>
	<u>8,608,247</u>	<u>4,460,129</u>
Value-added tax recoverable	3,067,975	2,769,364
Other receivables and deposits	582,900	546,882
Prepayments	<u>2,920,996</u>	<u>3,253,242</u>
Less: prepayments included in non-current assets	<u>(502,025)</u>	<u>(1,013,424)</u>
	<u>6,069,846</u>	<u>5,556,064</u>

- (a) As at 31 December 2023, the fair value of trade, bills and other receivables approximate their carrying amounts due to their short term maturities.
- (b) The Group's sales to customers are mainly entered into on credit terms of not more than 60 days.

As at 31 December 2023, the ageing analysis of trade receivables based on invoice date was as follows:

	31 December 2023 RMB'000	30 June 2023 RMB'000
0–60 days	3,354,309	3,008,596
Over 60 days	<u>5,743</u>	<u>77,791</u>
	<u>3,360,052</u>	<u>3,086,387</u>

- (c) The Group applies the HKFRS 9 simplified approach to measure expected credit losses which use a lifetime expected loss allowance for all trade receivables and bills receivables. This resulted in a loss of RMB19,111,000 (six months end 31 December 2022: nil) for the impairment of its trade receivables and RMB18,775,000 (six months end 31 December 2022: nil) of its bills receivables during the six months ended 31 December 2023. For other receivables from third parties and related parties, the Group has assessed that the expected credit losses for these receivables under the 12 months expected losses method which resulted in a loss of RMB10,148,000 for the impairment of its other receivables during the six months ended 31 December 2023 (six months end 31 December 2022: nil).
- (d) Bills receivables as at 31 December 2023 mainly represent bank acceptance notes (30 June 2023: same). The Group holds bank acceptance notes for collection of contractual cash flows and for selling. Therefore, these acceptance bills receivables are measured at fair value through other comprehensive income. Bills receivables are mainly with maturity period of 90 to 180 days (30 June 2023: 180 to 360 days).

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares in thousands	Nominal value of ordinary shares <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Issued and fully paid:					
Six months ended 31 December 2023					
Balance as at 1 July 2023 and 31 December 2023	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>1,084,720</u>	<u>1,565,251</u>
Six months ended 31 December 2022					
Balance as at 1 July 2022 and 31 December 2022	<u>4,692,221</u>	<u>469,222</u>	<u>480,531</u>	<u>1,084,720</u>	<u>1,565,251</u>

15. BORROWINGS

	31 December 2023 <i>RMB'000</i>	30 June 2023 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	<u>47,750,687</u>	<u>43,180,730</u>
Current		
— Short-term bank borrowings	4,294,042	5,889,013
— Current portion of long-term bank borrowings	<u>8,981,711</u>	<u>7,703,509</u>
	<u>13,275,753</u>	<u>13,592,522</u>
	<u>61,026,440</u>	<u>56,773,252</u>

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

	31 December 2023 RMB'000	30 June 2023 RMB'000
Within 1 year	13,275,753	13,592,522
Between 1 and 2 years	27,018,021	23,510,231
Between 2 and 5 years	15,961,547	15,426,361
Over 5 years	<u>4,771,119</u>	<u>4,244,138</u>
	<u>61,026,440</u>	<u>56,773,252</u>

16. TRADE AND BILLS PAYABLES

	31 December 2023 RMB'000	30 June 2023 RMB'000
Trade payables (Note (a))	3,691,320	3,277,468
Bills payables	<u>8,529,944</u>	<u>6,370,854</u>
	<u>12,221,264</u>	<u>9,648,322</u>

(a) As at 31 December 2023, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2023 RMB'000	30 June 2023 RMB'000
0-90 days	3,372,398	2,746,127
Over 90 days	<u>318,922</u>	<u>531,341</u>
	<u>3,691,320</u>	<u>3,277,468</u>

17. CAPITAL COMMITMENTS

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

	31 December 2023 RMB'000	30 June 2023 RMB'000
Property, plant and equipment	<u>7,811,945</u>	<u>7,545,689</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the Period under review, the economy contended with a weaker-than-expected post-pandemic recovery. The lackluster consumer confidence and the generally insufficient demand dragged on the packaging paper market to a certain extent and were far from adequate to sustain the price level of products. Meanwhile, the packaging paper industry was also under downside pressure in the face of thrashing from various factors such as high interest rates, increased market supply and intensified import competition.

Despite the challenging operating environment, leveraging its consistent product quality and product diversification strategy, the sales volume of the Group registered an increase of 16.3% to 10.0 million tonnes during the Period, hitting a record high. At the same time, we, on the one hand, optimized the raw material structure and kept a close tab on the supply and prices of raw materials, while on the other hand, implemented our refined production and sales management, inventory management and a series of cost saving measures, thereby effectively improving our profitability and ultimately achieving a turnaround from loss to profit. In addition, we further strengthened our risk management and control, hence successfully minimized the risks in relation to working capital, foreign exchange and cash flows.

During the Period, several new projects of the Group commenced production successfully. Among which, the new base in Beihai was also officially put into operation, which further expanded the Group's market coverage. As of 31 December 2023, the Group's total design production capacity for fibre raw materials amounted to 4.72 million tpa (wood pulp of 2.17 million tonnes, recycled pulp of 0.70 million tonnes and wood fibre of 1.85 million tonnes), and the total design production capacity for paper amounted to 21.12 million tpa, while the total annual design production capacity for downstream packaging plants exceeded 2.8 billion sq.m.

Additionally, 0.20 million tpa for wood pulp as well as 0.55 million tpa for printing and writing paper in Beihai have started operation in January 2024.

Capacity Expansion Plan

The Group has the advantages of vertical integration of the supply chain, which include high-quality and sustainable raw material supply, an efficient scale of paper production and downstream packaging business. The Group has been taking progressive steps to realize the blueprint of integrated pulp and paper production. Aside from adding an annual production capacity of 1.70 million tonnes for wood pulp in Beihai and 0.42 million tonnes for wood fibre in Beihai and Malaysia, the Group also pressed on with capacity expansion projects for paper production in respect of bleached folding boxboard, sack kraft paper and printing and writing paper with a total production capacity of 2.00 million tonnes in Beihai and Jingzhou. Upon completion of the above projects, the Group's total design production capacity for fibre raw materials will reach 7.04 million tpa (wood pulp of 4.07 million tonnes, recycled pulp of 0.70 million tonnes and wood fibre of 2.27 million tonnes), and the total design production capacity for paper will reach 23.67 million tpa. These projects would lay a solid foundation for improving structural profitability in the future.

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

<i>Capacity expansion project — wood pulp</i>	<i>New annual production capacity</i>	<i>Expected completion time</i>
	<i>(million tpa)</i>	

China

Beihai, Guangxi Zhuang Autonomous Region	(Chemical pulp) 1.10 (Bleached chemi-thermo mechanical pulp) 0.60	Q3 of 2024 Q3 of 2024
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Total	1.70	
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<i>Capacity expansion project — wood fibre</i>	<i>New annual production capacity</i>	<i>Expected completion time</i>
	<i>(million tpa)</i>	

Beihai, Guangxi Zhuang Autonomous Region	0.21	Q1 of 2024
Malaysia	0.21	Q1 of 2024

Total	0.42	
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<i>Capacity expansion project — paper production</i>	<i>New annual production capacity</i>	<i>Expected completion time</i>
	<i>(million tpa)</i>	

China

Beihai, Guangxi Zhuang Autonomous Region	(Bleached folding boxboard) 1.20 (Sack kraft paper) 0.20	Q3 of 2024 Q4 of 2025
Jingzhou, Hubei Province (Phase II)	(Printing and writing paper) 0.60	Q2 of 2025

Total	2.00	
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FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB30,611.2 million for the Period, representing a decrease of approximately 1.9% as compared with the corresponding period last year. The major contributor of the Group's revenue was still its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 91.9% of the revenue, with the remaining revenue of approximately 8.1% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's revenue for the period decreased by 1.9% as compared with the corresponding period last year, resulting from the net-off effect of the increase in sales volume of approximately 16.3% and the decrease in average selling price of approximately 15.6%.

The Group's annual design production capacity in packaging paperboard, printing and writing paper, high value specialty paper and pulp products as at 31 December 2023 was approximately 24.0 million tpa in aggregation, comprising approximately 13.4 million tpa of linerboard, approximately 3.7 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper, approximately 3.2 million tpa of high value specialty paper and pulp products. The four US mills capacity of approximately 1.3 million tpa, including of approximately 0.9 million tpa coated one-side, coated freesheet and coated groundwood grade for printing and writing paper and specialty paper products, and of approximately 0.4 million tpa recycled pulp and wood pulp products.

The Group's sales volume increased by approximately 16.3% to 10.0 million tonnes as compared with 8.6 million tonnes in the corresponding period last year. The increase in sales volume was driven by approximately 1.2 million tonnes increase in the China business.

The sales volume of linerboard for the period increased by 9.1% while high performance corrugating medium and coated duplex board for the period decreased by approximately 5.6% and 2.0% respectively as compared with those in the corresponding period last year.

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

During the Period, revenue from the Group's top five customers in aggregate accounted for approximately 6.3% (six months ended 31 December 2022: 7.7%) of the Group's total revenue, with that to the single largest customer accounted for approximately 2.8% (six months ended 31 December 2022: 3.6%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB2,705.6 million, an increase of approximately RMB2,019.5 million or 294.4% as compared with RMB686.1 million in the corresponding period last year. The gross profit margin increased from 2.2% in the corresponding period last year to approximately 8.8% for the Period mainly due to the decreased in the cost of raw materials being more significant and faster than the decrease in the selling price of the products; and the wood pulp operation in various bases commenced production which optimize our fiber and raw material mix, therefore, lower the cost of raw materials at the same time.

Selling and marketing costs

Selling and marketing costs decreased by approximately 1.2% from RMB1,125.2 million in the corresponding period last year to approximately RMB1,111.5 million for the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue increase from 3.6% in the corresponding period last year to approximately 3.6% in the Period.

Administrative expenses

Administrative expenses decreased by approximately 11.9% from RMB1,225.5 million in the corresponding period last year to approximately RMB1,079.3 million in the Period which was mainly contributed by tighten control of management and administrative costs as well as optimization of management personnel structure. As a percentage of Group's revenue, the administrative expenses decreased from 3.9% in the corresponding period last year to 3.5% in the Period.

Operating profit/loss

The operating profit for the Period was approximately RMB1,243.5 million as compared with operating loss of RMB861.6 million in corresponding period last year. The increase in operating profit for the Period was mainly due to the increase in gross profit margin of the Group.

Finance costs — net

The net finance costs for the Period increased by approximately RMB43.5 million, or increased by 7.8% from RMB560.2 million in the corresponding period last year to approximately RMB603.7 million in the Period. The increase in finance cost was mainly contributed by the increase in total borrowing from RMB51,240.2 million as at 31

December 2022 to RMB61,026.4 million as at 31 December 2023 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 contributed new production capacity for wood pulp and paper products during the Period and in the coming one to two years.

Exchange losses on operating and financing activities — net

The exchange losses on operating and financing activities before tax for the Period in aggregation amounted to approximately RMB58.4 million (represented by exchange losses on operating activities before tax of approximately RMB12.8 million and exchange losses on financing activities before tax of approximately RMB45.6 million).

In the corresponding period last year, the exchange losses on operating and financing activities before tax in aggregation amounted to approximately RMB51.4 million (represented by exchange losses on operating activities before tax of approximately RMB12.0 million and exchange losses on financing activities before tax of approximately RMB39.4 million).

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB58.2 million for the Period as compared to the aggregated exchange losses on operating and financing activities RMB45.8 million in the corresponding period last year.

Income tax expense/credit

Income tax expense for the Period amounted to approximately RMB295.4 million as compared with income tax credit for the corresponding period last year amounted to approximately RMB43.0 million.

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 qualifies 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.

Net profit/loss

The profit attributable to the equity holders of the Company amounted to approximately RMB292.4 million as compared to the loss attributable to the equity holders of the Company amounted to RMB1,388.8 million in the corresponding period last year. The profit attributable to the equity holder of the Company mainly attributable to the increase in gross profit margin.

Working capital

The level of inventory as at 31 December 2023 increased by approximately 6.3% to approximately RMB9,410.9 million from RMB8,855.7 million as at 30 June 2023. Inventories mainly comprise of raw materials (mainly recovered paper, wood chips, coal and spare parts) of approximately RMB5,985.1 million and finished goods of approximately RMB3,425.8 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 31 days and 23 days respectively during the Period, compared with 24 days and 25 days in the same period last year.

Trade receivables as at 31 December 2023 were approximately RMB3,360.1 million, increased by approximately 8.9% from RMB3,086.4 million as at 30 June 2023. During the Period, the turnover days of trade receivables were approximately 20 days, compared with 21 days in the same period last year.

Trade payables were approximately RMB3,691.3 million as at 31 December 2023, increased by approximately 12.6% from RMB3,277.5 million as at 30 June 2023. The turnover days of trade payables were approximately 24 days, compared with 21 days in the same period last year.

Liquidity and financial resources

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

In terms of the Group's available financial resources as at 31 December 2023, the Group had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB7,435.5 million and total undrawn bank facilities of approximately RMB42,323.8 million.

As at 31 December 2023, the shareholders' funds were approximately RMB45,209.5 million, an increase of approximately RMB73.1 million or approximately 0.2% from that as at 30 June 2023.

Treasury policies

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

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

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

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

(b) Minimise currency risk

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings and will consider arranging for monetary and interest rate hedge at appropriate time to mitigate the corresponding risk. As at 31 December 2023, total foreign currency borrowings amounted to the equivalent of approximately RMB1,470.0 million and loans denominated in RMB amounted to approximately RMB59,556.5 million, representing approximately 2.4% and 97.6% of the Group's borrowings respectively.

FUTURE OUTLOOK

Looking forward to the second half of the financial year, as China gradually implements various stimulus policies, a boost in consumer confidence can be expected, which will be conducive to driving the demand in the packaging paper industry. However, factors such as zero tariff on imported paper and new supply of production capacity remain in play, and economic growth and consumer confidence also take time to ramp up while constraints of varying geopolitics linger. As such, the current business environment continues to be clouded by uncertainties. In the mid-to-long term, market drivers such as opportunities arising from both the trend of replacing plastic with paper and consumption upgrades as well as the tightened raw material supply will further underscore the Group's competitive advantages of integrated pulp and paper production, which will be beneficial to enhancing its market share and broadening its earning base.

The Group will strive to strike a proper balance between production and sales, and complete the raw material expansion plans both at home and abroad in an orderly manner. With a focus on fostering profitable growth in the long run, the Group will endeavor to raise the proportion of high value-added products.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2023 (six months ended 31 December 2022: Nil) to the shareholders.

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

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

AUDIT COMMITTEE REVIEW

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

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Appendix C1 — Corporate Governance Code to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during the Period, they were in compliance with provisions of the Model Code.

APPRECIATION

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

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

Hong Kong, 27 February 2024

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 Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Ms. Chan Man Ki Maggie and Dr. Li Huiqun.

* *For identification purposes only*