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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 2022**

FINANCIAL HIGHLIGHTS

- Revenue decreased by 9.5% to approximately RMB31,198.0 million.
- The Group's sales volume increased by 2.4% to approximately 8.6 million tonnes.
- Gross profit decreased by 85.3% to approximately RMB686.1 million.
- Loss attributable to equity holders of the Company for the Period was approximately RMB1,388.8 million.
- Basic losses per share decreased to approximately RMB0.30.

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 2022 (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>	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Revenue	5	31,198,020	34,471,332
Cost of goods sold		<u>(30,511,935)</u>	<u>(29,790,762)</u>
Gross profit		686,085	4,680,570
Other income, other expense and other gains — net		815,070	396,502
Exchange losses on operating activities — net		(12,029)	(39,047)
Selling and marketing costs		(1,125,200)	(947,340)
Administrative expenses		<u>(1,225,541)</u>	<u>(1,202,365)</u>
Operating (loss)/profit		(861,615)	2,888,320
Finance costs — net		(560,189)	(334,394)
— Finance income	7	81,130	97,356
— Finance costs	7	(641,319)	(431,750)
Exchange (losses)/gains on financing activities — net		(39,397)	256,704
Share of profit of associates and a joint venture — net		<u>19,286</u>	<u>64,465</u>
(Loss)/profit before income tax		(1,441,915)	2,875,095
Income tax credit/(expense)	8	<u>43,005</u>	<u>(80,015)</u>
(Loss)/profit for the Period		<u>(1,398,910)</u>	<u>2,795,080</u>
(Loss)/profit attributable to:			
— Equity holders of the Company		(1,388,795)	2,774,725
— Non-controlling interests		<u>(10,115)</u>	<u>20,355</u>
		<u>(1,398,910)</u>	<u>2,795,080</u>

		Six months ended	
		31 December	
		2022	2021
	<i>Note</i>	(Unaudited)	(Unaudited)
Basic (losses)/earnings per share for (loss)/profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	9	<u><u>(0.30)</u></u>	<u><u>0.59</u></u>
Diluted (losses)/earnings per share for (loss)/profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	9	<u><u>(0.30)</u></u>	<u><u>0.59</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 December	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the Period	(1,398,910)	2,795,080
Other comprehensive loss: <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>(220,122)</u>	<u>(4,869)</u>
Total comprehensive (loss)/income for the Period	<u>(1,619,032)</u>	<u>2,790,211</u>
Total comprehensive (loss)/income for the period attributable to:		
— Equity holders of the Company	<u>(1,608,765)</u>	<u>2,776,054</u>
— Non-controlling interests	<u>(10,267)</u>	<u>14,157</u>
	<u>(1,619,032)</u>	<u>2,790,211</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2022	30 June 2022
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	80,131,581	70,669,667
Right-of-use assets	<i>11</i>	2,929,127	2,155,567
Intangible assets		343,198	312,318
Investment in associates and a joint venture		222,466	270,832
Prepayments	<i>13</i>	551,800	896,824
Deferred income tax assets		68,514	154,146
		<u>84,246,686</u>	<u>74,459,354</u>
Current assets			
Inventories	<i>12</i>	9,649,749	12,170,100
Trade and bills receivables	<i>13</i>	4,866,285	4,951,111
Other receivables and prepayments	<i>13</i>	6,505,419	5,418,883
Financial assets at fair value through profit or loss		82,940	79,533
Tax recoverable		60,860	237,240
Restricted cash		109,514	67,774
Short-term bank deposits		1,183	42,485
Cash and cash equivalents		8,305,636	9,654,344
		<u>29,581,586</u>	<u>32,621,470</u>
Total assets		<u><u>113,828,272</u></u>	<u><u>107,080,824</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	<i>14</i>	480,531	480,531
Share premium	<i>14</i>	1,084,720	1,084,720
Other reserves		6,113,893	6,403,756
Retained earnings		37,673,046	39,085,792
		<u>45,352,190</u>	<u>47,054,799</u>
Non-controlling interests		<u>440,260</u>	<u>450,527</u>
Total equity		<u><u>45,792,450</u></u>	<u><u>47,505,326</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December	30 June
		2022	2022
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	<i>15</i>	35,196,739	36,861,721
Other payables		102,946	107,468
Deferred income tax liabilities		4,293,917	4,414,832
		<u>39,593,602</u>	<u>41,384,021</u>
Current liabilities			
Borrowings	<i>15</i>	16,043,510	7,379,280
Trade and bills payables	<i>16</i>	8,156,046	6,667,945
Contract liabilities		377,748	374,065
Other payables		3,676,693	3,516,906
Current income tax liabilities		188,223	253,281
		<u>28,442,220</u>	<u>18,191,477</u>
Total liabilities		<u>68,035,822</u>	<u>59,575,498</u>
Total equity and liabilities		<u>113,828,272</u>	<u>107,080,824</u>

CASH FLOWS INFORMATION

	Six months ended	
	31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit for the Period	(1,398,910)	2,795,080
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects/changes in working capital	<u>5,030,264</u>	<u>1,186,693</u>
Cash generated from operations	3,631,354	3,981,773
Income tax received/(paid)	18,515	(267,618)
Interest paid	<u>(931,782)</u>	<u>(525,942)</u>
Net cash generated from operating activities	2,718,087	3,188,213
Net cash used in investing activities	(10,565,198)	(5,682,609)
Net cash generated from financing activities	<u>6,492,565</u>	<u>602,860</u>
Net decrease in cash and cash equivalents	(1,354,546)	(1,891,536)
Cash and cash equivalents at beginning of the Period	9,654,344	10,031,059
Exchange gains/(losses) on cash and cash equivalents	<u>5,838</u>	<u>(4,750)</u>
Cash and cash equivalents at end of the Period	<u>8,305,636</u>	<u>8,134,773</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 22 February 2023.

The condensed consolidated interim financial information has not been audited.

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 has actively monitored the impact on its financial position and operating results.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2022 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 2022, 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 2022.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2022, as described in those annual financial statements, except for the adoption of amendments to standards effective for the financial year beginning on 1 July 2022.

(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 2022:

HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020 Cycle
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

The impacts of the adoption of HKAS 16 (Amendments) are disclosed in Note 3(c). Apart from aforementioned HKAS 16 (Amendments), the adoption of other 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 2022 and have not been early adopted by the Group:

HKFRS 17	Insurance Contract ¹
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
HKAS 8 (Amendments)	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction 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 HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9 ¹
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

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

² Effective date to be determined

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

(c) **Impact of the adoption of HKAS 16 (Amendments)**

The amendment to HKAS 16 Property, Plant and Equipment (PP&E) prescribes an entity recognised any proceeds received from selling produced items in profit or loss instead of deducting from the cost of an item of PP&E while the entity is preparing the asset for its intended use.

The adoption of the amendments has had no significant impact on the Group's condensed consolidated financial statements.

4. SEGMENT INFORMATION

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

5. REVENUE

Revenue recognised during the Period are as follows:

	Six months ended 31 December	
	2022	2021
	RMB'000	RMB'000
Sales of packaging paper	27,756,328	32,178,350
Sales of printing and writing paper	2,808,705	1,815,224
Sales of high value specialty paper products	339,888	328,377
Sales of pulp	293,099	149,381
	<u>31,198,020</u>	<u>34,471,332</u>

6. OPERATING (LOSS)/PROFIT

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

	Six months ended 31 December	
	2022	2021
	RMB'000	RMB'000
Raw materials and consumables used	25,512,684	28,924,859
Changes in finished goods	2,428,966	(1,722,409)
Employee benefit expenses	1,946,290	1,803,611
Depreciation (<i>Note 11</i>)	1,574,678	1,437,070
Less: amount charged to other expenses	—	(3,153)
	1,574,678	1,433,917
Amortisation of right-of-use assets (<i>Note 11</i>)	37,062	28,995
Less: amount capitalised in property, plant and equipment	(9,053)	—
	<u>28,009</u>	<u>28,995</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>81,130</u>	<u>97,356</u>
Finance costs:		
Interest on borrowings	(876,965)	(438,693)
Other incidental borrowing costs	(40,117)	(33,471)
Less: amounts capitalised on property, plant and equipment <i>(Note (a))</i>	<u>308,125</u>	<u>76,354</u>
	(608,957)	(395,810)
Other finance costs	<u>(32,362)</u>	<u>(35,940)</u>
	<u>(641,319)</u>	<u>(431,750)</u>

(a) The capitalisation interest rate is approximately 3.9% for the six months ended 31 December 2022 (six months ended 31 December 2021: 2.8%).

8. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax <i>(Notes (a) and (b))</i>	4,208	(44,463)
— Vietnam income tax <i>(Note (c))</i>	<u>—</u>	<u>(9,800)</u>
	4,208	(54,263)
Deferred income tax		
— PRC corporate income tax and withholding income tax	109,727	(22,295)
— Vietnam income tax	4,370	(3,457)
— USA income tax	<u>(75,300)</u>	<u>—</u>
	38,797	(25,752)
	<u>43,005</u>	<u>(80,015)</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 2022 as those subsidiaries fulfil the requirements of High and New Technology Enterprise ("HNTE") according to relevant rules and regulations (six months ended 31 December 2021: 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 2022 was 5% (six months ended 31 December 2021: 5%).

(c) Vietnam income tax

Vietnam income tax has been provided at the income tax rate on the estimated assessable profit during the six months ended 31 December 2022 in respect of operations in Vietnam (six months ended 31 December 2021: same).

(d) USA income tax

USA income tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2022 (six months ended 31 December 2021: same).

(e) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2022 (six months ended 31 December 2021: same).

9. (LOSSES)/EARNINGS PER SHARE

— Basic

	Six months ended 31 December	
	2022	2021
(Loss)/profit attributable to equity holders of the Company (RMB'000)	<u>(1,388,795)</u>	<u>2,774,725</u>
Weighted average number of ordinary shares in issue (shares in thousands)	<u>4,692,221</u>	<u>4,692,221</u>
Basic (losses)/earnings per share (RMB per share)	<u>(0.30)</u>	<u>0.59</u>

— Diluted

Diluted (losses)/earnings per share is the same as basic (losses)/earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 31 December 2022 (six months ended 31 December 2021: same).

10. DIVIDENDS

	Six months ended 31 December	
	2022	2021
	RMB'000	RMB'000
Interim dividend (Note (b))	<u>—</u>	<u>375,378</u>

- (a) 2022 final dividend of RMB2.0 cents per ordinary share, totaling approximately RMB93,844,000 has been approved in the Company's Annual General Meeting on 6 December 2022 out of other reserves of the Company and paid on 20 January 2023.
- (b) The Board does not recommend the payment of an interim dividend for the six month ended 31 December 2022 (six months ended 31 December 2021: RMB8.0 cents per ordinary share).

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 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>
Six months ended 31 December 2021		
Opening net book amount as at 1 July 2021	60,198,470	1,650,534
Additions	5,963,572	457,979
Acquisition of subsidiaries	80,082	30,177
Disposals	(73,576)	—
Depreciation/amortisation (<i>Note 6</i>)	(1,437,070)	(28,995)
Exchange differences	(89,122)	(3,066)
	<u>64,642,356</u>	<u>2,106,629</u>

12. INVENTORIES

	31 December 2022 <i>RMB'000</i>	30 June 2022 <i>RMB'000</i>
At cost:		
Raw materials	5,460,314	5,551,699
Finished goods	4,189,435	6,618,401
	<u>9,649,749</u>	<u>12,170,100</u>

13. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2022 RMB'000	30 June 2022 RMB'000
Trade receivables (<i>Notes (b)</i>)	3,604,982	3,682,958
Bills receivable (<i>Note (c)</i>)	<u>1,261,303</u>	<u>1,268,153</u>
	<u>4,866,285</u>	<u>4,951,111</u>
Value-added tax recoverable	2,142,454	1,484,845
Other receivables and deposits	978,519	635,371
Prepayments	<u>3,936,246</u>	<u>4,195,491</u>
Less: prepayments included in non-current assets	<u>(551,800)</u>	<u>(896,824)</u>
	<u>6,505,419</u>	<u>5,418,883</u>

- (a) As at 31 December 2022, 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 2022, the ageing analysis of trade receivables based on invoice date was as follows:

	31 December 2022 RMB'000	30 June 2022 RMB'000
0–60 days	3,549,470	3,641,485
Over 60 days	<u>55,512</u>	<u>41,473</u>
	<u>3,604,982</u>	<u>3,682,958</u>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are widely dispersed. Management does not expect any credit losses of the customers as at 31 December 2022.

- (c) Bills receivable are mainly with maturity period of 180 to 360 days (30 June 2022: 90 to 180 days). Bills receivable as at 31 December 2022 mainly represents bank acceptance notes (30 June 2022: same).

14. SHARE CAPITAL AND SHARE PREMIUM

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

15. BORROWINGS

	31 December 2022 <i>RMB'000</i>	30 June 2022 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	<u>35,196,739</u>	<u>36,861,721</u>
Current		
— Short-term bank borrowings	<u>6,407,808</u>	<u>4,492,142</u>
— Current portion of long-term bank borrowings	<u>9,635,702</u>	<u>2,887,138</u>
	<u>16,043,510</u>	<u>7,379,280</u>
	<u>51,240,249</u>	<u>44,241,001</u>

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

	31 December 2022 RMB'000	30 June 2022 RMB'000
Within 1 year	16,043,510	7,379,280
Between 1 and 2 years	12,724,502	20,528,865
Between 2 and 5 years	19,566,372	15,280,836
Over 5 years	<u>2,905,865</u>	<u>1,052,020</u>
	<u>51,240,249</u>	<u>44,241,001</u>

16. TRADE AND BILLS PAYABLES

	31 December 2022 RMB'000	30 June 2022 RMB'000
Trade payables (Note (a))	3,486,069	2,650,968
Bills payable	<u>4,669,977</u>	<u>4,016,977</u>
	<u>8,156,046</u>	<u>6,667,945</u>

(a) As at 31 December 2022, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2022 RMB'000	30 June 2022 RMB'000
0-90 days	3,212,538	2,484,165
Over 90 days	<u>273,531</u>	<u>166,803</u>
	<u>3,486,069</u>	<u>2,650,968</u>

17. CAPITAL COMMITMENTS

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

	31 December 2022 RMB'000	30 June 2022 RMB'000
Property, plant and equipment	<u>10,954,012</u>	<u>8,316,524</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the Period under review, consumption remained sluggish under the impact of the pandemic containment measures in mainland China. Both the demand and selling prices of packaging paper saw a marked decline accordingly. Meanwhile, the surging costs of energy and chemicals resulted from ongoing geopolitical conflicts, coupled with adverse factors such as weakening Renminbi and interest rate hikes, have exerted an immense negative impact on the Group's profit performance.

The Group strictly implemented its “cost reduction and efficiency enhancement” measures during the Period. We, on the one hand, adopted a product diversification strategy to develop new products, such as white cardboard, and expand our customer base in response to market changes, while on the other hand, reduced expenses in all aspects and lowered our financial risks by strengthening the management over working capital and cash flows. Despite the Group recorded a relatively stable sales volume during the Period, the sluggish market has impelled us to suspend production for destocking and lower prices to promote sales on multiple occasions. Combined with the high costs of coal and other materials, we recorded a loss during the Period.

During the Period, several projects of the Group commenced production as scheduled. Production capacities of 0.60 million tonnes for virgin kraftliner and 0.60 million tpa for wood pulp in Hubei have been put into trial production; an additional production capacity of 1.10 million tpa in total for wood pulp in Dongguan and Chongqing has also commenced production during the Period, signifying a new chapter of Nine Dragons Paper for its integrated pulp and paper production. As of 31 December 2022, the Group's total design production capacity for fibre raw materials amounted to 2.55 million tpa (wood pulp of 1.85 million tonnes and recycled pulp of 0.70 million tonnes), and the total design production capacity for paper amounted to 18.77 million tpa, while the total annual design production capacity for downstream packaging plants exceeded 2.40 billion sq.m.

Capacity Expansion Plan

Sourcing of raw material is the key to providing “a piece of exemplary quality paper” to our customers steadily, and is also a matter of great urgency. We are pressing on several capacity expansion projects by adding 2.22 million tpa of wood pulp, 0.60 million tpa of recycled pulp, and 2.06 million tpa of wood fibre. Upon completion of the above projects, the Group's total design production capacity for fibre raw materials will reach 7.43 million tpa (wood pulp of 4.07 million tonnes, recycled pulp of 1.30 million tonnes and wood fibre of 2.06 million tonnes), which will give better play to the advantages of its vertical integration of the production chain.

Currently, a number of our domestic and overseas expansion projects for paper production capacity are well-underway, paving way for our optimization of product mix and thus an increase in structural profitability. These projects, including the production capacity expansion projects for virgin kraftliner and bleached folding boxboard, are expected to add new production capacity of 6.25 million tonnes to the Group upon commencement of production, bringing the total design production capacity for paper manufacturing to over 25.02 million tpa by that time.

In respect of the downstream packaging capacity, we will expand a total production capacity of 440 million sq.m. in Zhenjiang and Quanzhou (Phase II), and take proactive actions to acquire new clients and develop new technologies. We will push ahead with the integration of paper and packaging products manufacturing in the Group's operation by leveraging our top-notch cardboard and carton box production lines, processing equipment and logistic systems. 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:

<i>Capacity expansion project</i> <i>— wood pulp and recycled pulp</i>	<i>New annual production capacity</i> <i>(million tpa)</i>	<i>Expected completion time</i>
China		
Shenyang, Liaoning Province	(Chemical pulp) 0.32	Q1 of 2023
Beihai, Guangxi Zhuang Autonomous Region	(Bleached chemi-thermo mechanical pulp) 0.80	Q4 of 2023
	(Chemical pulp) 1.10	Q4 of 2023
Malaysia	(Recycled pulp) 0.60	Q1 of 2023
Total	2.82	

<i>Capacity expansion project — wood fibre</i>	<i>New annual production capacity (million tpa)</i>	<i>Expected completion time</i>
China		
Dongguan, Guangdong Province	0.21	Q1 of 2023
Taicang, Jiangsu Province	0.15	Q1 of 2023
	0.21	Q2 of 2023
Tianjin Municipality	0.10	Q1 of 2023
Chongqing Municipality	0.21	Q1 of 2023
Quanzhou, Fujian Province	0.21	Q1 of 2023
Tangshan, Hebei Province	0.21	Q1 of 2023
Shenyang, Liaoning Province	0.24	Q1 of 2023
Jingzhou, Hubei Province	0.21	Q1 of 2023
Malaysia	0.21	Q3 of 2023
Vietnam	0.10	Q2 of 2023
Total	2.06	

<i>Capacity expansion project — paper production</i>	<i>New annual production capacity (million tpa)</i>	<i>Expected completion time</i>
China		
Shenyang, Liaoning Province	(Virgin kraftliner) 0.65	Q1 of 2023
Beihai, Guangxi Zhuang Autonomous Region	(Virgin kraftliner) 0.80	Q4 of 2023
	(Virgin kraftliner) 0.30	Q4 of 2024
	(Printing & writing paper) 0.55	Q4 of 2023
	(Bleached folding boxboard) 1.20	Q1 of 2024
	(Sack kraft paper, bag paper) 0.20	Q2 of 2024
	(White top linerboard) 0.45	Q4 of 2024
Jingzhou, Hubei Province	(Virgin kraftliner) 0.60	Q4 of 2024
(Phase II)	(Corrugating medium) 0.60	Q4 of 2024
Malaysia	(Kraftliner) 0.60	Q1 of 2023
	(Corrugating medium) 0.30	Q2 of 2023
Total	6.25	

<i>Capacity expansion project</i> <i>— downstream packaging plants</i>	<i>New annual production capacity</i>	<i>Expected completion time</i>
	<i>(million sq.m.)</i>	
China		
Zhenjiang, Jiangsu Province	220	Q1 of 2023
Quanzhou, Fujian Province (Phase II)	220	Q1 of 2023
Total	440	

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB31,198.0 million for the Period, representing a decrease of approximately 9.5% 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 89.0% of the revenue, with the remaining revenue of approximately 11.0% generated from its printing and writing paper, high value specialty paper and pulp products.

The Group's revenue for the period decreased by 9.5% as compared with the corresponding period last year, resulting from the net-off effect of the decrease in average selling price of approximately 11.4% and the increase in sales volume of approximately 2.4%.

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 2022 was approximately 21.3 million tpa in aggregation, comprising approximately 11.4 million tpa of linerboard, approximately 3.4 million tpa of high performance corrugating medium, approximately 2.6 million tpa of coated duplex board, approximately 1.1 million tpa of printing and writing paper, approximately 2.8 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 2.4% to 8.6 million tonnes as compared with 8.4 million tonnes in the corresponding period last year. The slight increase in sales volume was driven by approximately 0.2 million tonnes increase in the China business.

The sales volume of linerboard and coated duplex board for the period decreased by 3.3% and 13.2% respectively while high performance corrugating medium for the period increased by approximately 16.4% 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 88.1% of the Group's total revenue, while the remaining revenue of 11.9% represented sales recorded in other countries outside China.

During the Period, revenue from the Group's top five customers in aggregate accounted for approximately 7.7% (six months ended 31 December 2021: 7.2%) of the Group's total revenue, with that to the single largest customer accounted for approximately 3.6% (six months ended 31 December 2021: 3.2%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB686.1 million, a decrease of approximately RMB3,994.5 million or 85.3% as compared with RMB4,680.6 million in the corresponding period last year. The gross profit margin decreased from 13.6% in the corresponding period last year to approximately 2.2% for the Period mainly due to the substantial decrease in the selling price of the products while the cost of raw material remained relatively stable for the Period.

Selling and marketing costs

Selling and marketing costs increased by approximately 18.8% from RMB947.3 million in the corresponding period last year to approximately RMB1,125.2 million for the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue increase from 2.7% in the corresponding period last year to approximately 3.6% in the Period.

Administrative expenses

Administrative expenses increased by approximately 1.9% from RMB1,202.4 million in the corresponding period last year to approximately RMB1,225.5 million in the Period 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 3.5% in the corresponding period last year to 3.9% in the Period.

Operating loss/profit

The operating loss for the Period was approximately RMB861.6 million as compared with operating profit of RMB2,888.3 million in corresponding period last year. The operating loss for the Period was mainly due to the decrease in gross profit margin of the Group.

Finance costs — net

The net finance costs for the Period increased by approximately RMB225.8 million, or increased by 67.5% from RMB334.4 million in the corresponding period last year to approximately RMB560.2 million in the Period. The increase in finance cost was mainly contributed by the increase in total borrowing from RMB34,738.9 million as at 31 December 2021 to RMB51,240.2 million as at 31 December 2022 and the US interest rate hike impacted bank borrowings denominated in US dollars and Hong Kong dollars with higher finance costs for the Period.

Exchange losses/gains on financing and operating activities — net

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

In the corresponding period last year, the exchange gains on operating and financing activities before tax in aggregation amounted to approximately RMB217.7 million (represented by exchange losses on operating activities before tax of approximately RMB39.0 million and exchange gains on financing activities before tax of approximately RMB256.7 million).

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB45.8 million for the Period as compared to the aggregated exchange gains on operating activities RMB214.4 million in the corresponding period last year.

Income tax credit/expense

Income tax credit for the Period amounted to approximately RMB43.0 million as compared with income tax expense for the corresponding period last year amounted to approximately RMB80.0 million. The income tax credit arised mainly attributable by the loss incurred by the various subsidiaries in China for the Period.

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 loss/profit

The loss attributable to the equity holders of the Company amounted to approximately RMB1,388.8 million as compared to the profit attributable to the equity holders of the Company amounted to RMB2,774.7 million in the corresponding period last year. The loss attributable to the equity holder of the Company mainly attributable to the substantial decrease in gross profit margin.

Working capital

The level of inventory as at 31 December 2022 decreased by approximately 20.7% to approximately RMB9,649.7 million from RMB12,170.1 million as at 30 June 2022. Inventories mainly comprise of raw materials (mainly recovered paper, coal and spare parts) of approximately RMB5,460.3 million and finished goods of approximately RMB4,189.4 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 24 days and 25 days respectively during the Period, compared with 24 days and 32 days in the same period last year.

Trade and bills receivables as at 31 December 2022 were approximately RMB4,866.3 million, decreased by approximately 1.7% from RMB4,951.1 million as at 30 June 2022. During the Period, the turnover days of trade receivables were approximately 21 days, compared with 19 days in the same period last year.

Trade and bills payables were approximately RMB8,156.0 million as at 31 December 2022, increased by approximately 22.3% from RMB6,667.9 million as at 30 June 2022. The turnover days of trade and bills payable were approximately 49 days, compared with 32 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 2022, the Group had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB8,416.3 million and total undrawn bank facilities of approximately RMB62,380.6 million.

As at 31 December 2022, the shareholders' funds were approximately RMB45,792.5 million, a decrease of approximately RMB1,712.9 million or approximately 3.6% from that as at 30 June 2022.

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 2022, total foreign currency borrowings amounted to the equivalent of approximately RMB19,315.8 million and loans denominated in RMB amounted to approximately RMB31,924.4 million, representing approximately 37.7% and 62.3% of the Group's borrowings respectively.

FUTURE OUTLOOK

The year of 2023 marks a turning point in the COVID-19 pandemic over the past three years. As the Chinese Central Government further optimized the pandemic prevention policies with a series of policies and measures being put in place to stabilize the economic growth, domestic demand and consumption in China are expected to recover gradually, which would enable the packaging paper industry to get back on track. However, the current business environment remains uncertain given various headwinds faced by the export business, such as the unresolved geopolitical crisis, ongoing global interest rate hikes and overseas economic contraction. In the mid-to-long term, market drivers such as opportunities arising from both the trend of replacing plastic with paper in packaging and consumption upgrade as well as the tightened raw material supply will further strengthen the Group's competitive advantages of integrated pulp and paper production, which will be beneficial to enhancing its market share and broadening its earnings base.

The Group will make every effort to strike a balance between production and sales, and exploit domestic and overseas raw materials and markets, at the same time striving to develop new products to cater to market needs and working aggressively on cost reduction and efficiency enhancement, aiming to realize a turnaround from loss to profit as soon as possible. The Group will leverage the key drivers for long-term growth in profitability while pursuing safe and green production.

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

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

AUDIT COMMITTEE REVIEW

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

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

APPRECIATION

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

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

Hong Kong, 22 February 2023

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 six Independent Non-Executive Directors, being Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Mr. Chen Kefu, Ms. Chan Man Ki Maggie and Dr. Li Huiqun.

* *For identification purposes only*