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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 2016**

### **FINANCIAL HIGHLIGHTS**

- Sales increased by 17.3% to approximately RMB19,125.0 million.
- Gross profit rose by 23.4% to approximately RMB3,490.8 million.
- Gross margin increased from 17.3% to 18.3%.
- The exchange losses on operating and financial activities before tax for the Period decreased very substantially by approximately RMB971.8 million or 90.1% to approximately RMB107.1 million as compared to the corresponding period last year.
- Profit attributable to equity holders of the Company for the Period was approximately RMB1,914.7 million.
- If the exchange losses on operating and financing activities net of tax were excluded, the profit attributable to equity holders of the Company for the Period was approximately RMB2,002.2 million increased by 51.4% as compared to the corresponding period last year, due to stable growth of the revenue of the Group.
- The net bank borrowings to total equity ratio decreased to approximately 71.2%.
- Basic earnings per share increased by RMB0.34 to approximately RMB0.41.
- Interim dividend per share of RMB5.0 cents (equivalent to approximately HK5.65 cents).

### **FINANCIAL RESULTS**

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2016 (the “Period”), together with the comparative figures for the corresponding period of the last year.

\* *for identification purpose only*

## INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited Six months ended 31 December	
	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Sales</b>	5	<b>19,125,024</b>	16,310,521
Cost of goods sold	6	<b>(15,634,210)</b>	(13,482,631)
<b>Gross profit</b>		<b>3,490,814</b>	2,827,890
Other income, other expense and other gains — net		<b>470,510</b>	319,138
Exchange losses on operating activities — net		<b>(191,794)</b>	(116,839)
Selling and marketing costs	6	<b>(499,560)</b>	(378,653)
Administrative expenses	6	<b>(534,016)</b>	(538,270)
<b>Operating profit</b>		<b>2,735,954</b>	2,113,266
Finance income	7	<b>74,531</b>	49,065
Finance costs	7	<b>(573,162)</b>	(652,290)
Finance costs — net		<b>(498,631)</b>	(603,225)
Exchange gains/(losses) on financing activities — net		<b>84,732</b>	(962,057)
Share of profit of an associate and a joint venture — net		<b>45,070</b>	18,895
<b>Profit before income tax</b>		<b>2,367,125</b>	566,879
Income tax expense	8	<b>(448,041)</b>	(239,221)
<b>Profit for the Period</b>		<b>1,919,084</b>	327,658
<b>Profit attributable to:</b>			
— Equity holders of the Company		<b>1,914,683</b>	312,023
— Non-controlling interests		<b>4,401</b>	15,635
		<b>1,919,084</b>	327,658
<b>Basic earnings per share for profit attributable to equity holders of the Company</b> <i>(expressed in RMB per share)</i>	9	<b>0.41</b>	0.07
<b>Diluted earnings per share for profit attributable to equity holders of the Company</b> <i>(expressed in RMB per share)</i>	9	<b>0.41</b>	0.07

Details of dividends to equity holders of the Company attributable to the profit for the Period are set out in Note 10.

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b> <b>Six months ended</b> <b>31 December</b>	
	<b>2016</b> <i>RMB'000</i>	<b>2015</b> <i>RMB'000</i>
<b>Profit for the Period</b>	<b>1,919,084</b>	327,658
<b>Other comprehensive income:</b> <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	<u>29,817</u>	<u>17,735</u>
<b>Total comprehensive income for the Period</b>	<u><b>1,948,901</b></u>	<u>345,393</u>
<b>Total comprehensive income attributable to:</b>		
— Equity holders of the Company	<u>1,937,097</u>	325,551
— Non-controlling interests	<u>11,804</u>	<u>19,842</u>
	<u><b>1,948,901</b></u>	<u>345,393</u>

## INTERIM CONSOLIDATED BALANCE SHEET

		31 December 2016	30 June 2016
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	45,727,229	44,860,821
Land use rights	11	1,541,393	1,521,765
Intangible assets	12	229,365	245,275
Investment in an associate and a joint venture		110,479	65,759
Other receivables	14	23,500	47,500
Deferred income tax assets		100	15,884
		<u>47,632,066</u>	<u>46,757,004</u>
<b>Current assets</b>			
Inventories	13	3,147,241	3,605,520
Trade and bills receivables	14	5,317,837	4,597,675
Other receivables and prepayments	14	1,031,390	954,649
Tax recoverable		44,544	46,665
Restricted cash		31,898	53,634
Short-term bank deposits		17,800	274,008
Cash and cash equivalents		5,880,072	11,002,470
		<u>15,470,782</u>	<u>20,534,621</u>
<b>Total assets</b>		<u><b>63,102,848</b></u>	<u><b>67,291,625</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	15	9,220,436	9,208,587
Other reserves		836,531	1,323,109
Retained earnings		17,457,206	15,542,523
		<u>27,514,173</u>	<u>26,074,219</u>
<b>Non-controlling interests</b>		<u>344,653</u>	<u>346,642</u>
<b>Total equity</b>		<u><b>27,858,826</b></u>	<u><b>26,420,861</b></u>

**INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)**

		<b>31 December</b>	30 June
		<b>2016</b>	2016
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>16</i>	<b>18,059,992</b>	20,852,384
Deferred income tax liabilities		<b>2,327,158</b>	2,176,336
		<u><b>20,387,150</b></u>	<u>23,028,720</u>
<b>Current liabilities</b>			
Trade and bills payables	<i>17</i>	<b>4,485,881</b>	4,097,964
Other payables and deposits received		<b>2,139,656</b>	1,315,229
Current income tax liabilities		<b>525,578</b>	434,853
Borrowings	<i>16</i>	<b>7,705,757</b>	11,992,892
Derivative financial instruments		—	1,106
		<u><b>14,856,872</b></u>	<u>17,842,044</u>
<b>Total liabilities</b>		<u><b>35,244,022</b></u>	<u>40,870,764</u>
<b>Total equity and liabilities</b>		<u><b>63,102,848</b></u>	<u>67,291,625</u>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Cash generated from operations	4,347,239	4,031,207
Income tax paid	(188,713)	(122,236)
Interest paid	(630,436)	(798,150)
	<u>3,528,090</u>	<u>3,110,821</u>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(1,703,742)	(922,103)
Payment for land use rights	(37,509)	(37,290)
Payment for intangible assets	(1,995)	—
Proceed from disposal of property, plant and equipment	16,817	10,552
Interest received	74,531	49,065
Proceeds from government grants for purchase of property, plant and equipment	38,133	—
Disposal of a subsidiary	—	681
Changes in short-term bank deposits	256,208	42,090
	<u>(1,357,557)</u>	<u>(857,005)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	15,616,006	21,024,105
Repayments of borrowings	(22,795,193)	(22,167,237)
Changes in restricted cash	21,736	(125,671)
Acquisition of additional interest in a subsidiary	—	(5,127)
Capital injection made by a non-controlling interest	—	75,020
Dividends paid to equity holders of the Company	(93,324)	(93,802)
Dividends paid to non-controlling interests	(21,029)	(39,539)
Proceeds from the issuance of shares upon the exercise of share options	9,783	—
	<u>(7,262,021)</u>	<u>(1,332,251)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,091,488)</b>	<b>921,565</b>
Cash and cash equivalents at beginning of the Period	11,002,470	7,310,840
Exchange (losses)/gains on cash and cash equivalents	(30,910)	91,680
	<u>5,880,072</u>	<u>8,324,085</u>
<b>Cash and cash equivalents at end of the Period</b>	<b>5,880,072</b>	<b>8,324,085</b>

## **1. GENERAL INFORMATION**

The Company was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Group are principally engaged in the manufacture and sales of packaging paper, recycled printing and writing paper and high value specialty paper products in the People's Republic of China (the "PRC"). 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").

The condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. The condensed consolidated interim financial information was approved for issue by the Board on 23 February 2017.

The condensed consolidated interim financial information has not been audited.

## **2. BASIS OF PREPARATION**

The condensed consolidated interim financial information for the Period has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2016, 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 annual financial statements for the year ended 30 June 2016.

## **3. ACCOUNTING POLICIES**

The accounting policies and method of computation used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2016, except for the adoption of new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are effective to the Group for accounting periods beginning on or after 1 July 2016. The adoption of the new HKFRSs has no material impact on the Group's results and financial position for the current or prior periods.

## **4. SEGMENT INFORMATION**

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

Sales recognised during the Period are as follows:

	Six months ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of packaging paper	17,954,226	15,261,400
Sales of recycled printing and writing paper	1,042,439	937,457
Sales of high value specialty paper products	128,359	111,664
	<u>19,125,024</u>	<u>16,310,521</u>

## 6. EXPENSES 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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation ( <i>Note 11</i> )	991,260	965,650
Less: amount charged to other expenses	(1,981)	(1,827)
	989,279	963,823
Amortisation of land use rights ( <i>Note 11</i> )	18,765	17,472
Amortisation of intangible assets ( <i>Note 12</i> )	2,905	2,999
Impairment loss of intangible assets ( <i>Note 12</i> )	15,000	—
Employee benefit expenses	780,253	700,653
Changes in finished goods	532,045	67,349
Raw materials and consumables used (net of claims)	13,814,480	12,159,009

## 7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>74,531</u>	<u>49,065</u>
Finance costs:		
Interest on borrowings	(491,350)	(497,487)
Other incidental borrowing costs	(66,117)	(112,018)
Less: interest and other incidental borrowing costs capitalised	<u>21,382</u>	<u>6,205</u>
	(536,085)	(603,300)
Bills discount charge	(38,183)	(50,425)
Gains from interest rate swap contracts	<u>1,106</u>	<u>1,435</u>
	<u>(573,162)</u>	<u>(652,290)</u>

## 8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax and withholding income tax ( <i>Notes (a)&amp;(b)</i> )	281,559	122,244
— Hong Kong profits tax ( <i>Note (c)</i> )	—	—
	<u>281,559</u>	<u>122,244</u>
Deferred income tax	<u>166,482</u>	<u>116,977</u>
	<u>448,041</u>	<u>239,221</u>

### (a) PRC corporate income tax

The Group's subsidiaries in the PRC 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 Period (six months ended 31 December 2015: same).

### (b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the PRC 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 PRC 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 PRC subsidiaries for the Period was 5% (six months ended 31 December 2015: 10%).

### (c) Hong Kong profits tax

Hong Kong profits tax has not been provided for as the Group did not have any assessable profits for the Period (six months ended 31 December 2015: nil).

## 9. EARNINGS PER SHARE

### — Basic

	Six months ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>1,914,683</u>	<u>312,023</u>
Weighted average number of ordinary shares in issue ( <i>shares in thousands</i> )	<u>4,667,683</u>	<u>4,666,221</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>0.41</u>	<u>0.07</u>

### — Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options.

For the Period, a calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the period) based on the total proceeds receivable upon exercising the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of shares issued for no consideration.

	Six months ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>1,914,683</u>	<u>312,023</u>
Weighted average number of ordinary shares in issue ( <i>shares in thousands</i> )	<u>4,667,683</u>	<u>4,666,221</u>
Adjustment for share options ( <i>shares in thousands</i> )	<u>6,146</u>	<u>569</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>shares in thousands</i> )	<u>4,673,829</u>	<u>4,666,790</u>
Diluted earnings per share ( <i>RMB per share</i> )	<u>0.41</u>	<u>0.07</u>

## 10. DIVIDENDS

	Six months ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend ( <i>Note b</i> )	<u>233,444</u>	<u>93,324</u>

- (a) 2016 final dividend of RMB8.0 cents (2015 final: RMB5.0 cents) and special dividend of RMB3.0 cents per ordinary share, totalling approximately RMB513,583,000 (2015 final: RMB233,311,000) has been approved in the Company's Annual General Meeting on 7 December 2016 out of other reserves of the Company and paid on 12 January 2017.
- (b) The directors recommend the payment of an interim dividend of RMB5.0 cents (six months ended 31 December 2015: RMB2.0 cents) per ordinary share, totalling approximately RMB233,444,000 for the Period (six months ended 31 December 2015: RMB93,324,000). Such interim dividend has been approved in the meeting of the Board on 23 February 2017. This condensed consolidated interim financial information does not reflect this interim dividend payable.

## 11. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

<b>Property, plant and equipment</b>	<b>Land use rights</b>
<i>RMB'000</i>	<i>RMB'000</i>

### Six months ended 31 December 2016

Opening net book amount as at 1 July 2016	44,860,821	1,521,765
Additions	1,899,752	37,509
Disposals	(42,906)	—
Depreciation/amortisation ( <i>Note 6</i> )	(991,260)	(18,765)
Exchange difference	822	884
	<u>45,727,229</u>	<u>1,541,393</u>

### Six months ended 31 December 2015

Opening net book amount as at 1 July 2015	45,010,861	1,472,399
Additions	884,226	37,290
Disposals	(21,515)	—
Depreciation/amortisation ( <i>Note 6</i> )	(965,650)	(17,472)
Exchange difference	1,831	425
	<u>44,909,753</u>	<u>1,492,642</u>

## 12. INTANGIBLE ASSETS

<b>Intangible assets</b>
<i>RMB'000</i>

### Six months ended 31 December 2016

Opening net book amount as at 1 July 2016	245,275
Additions	1,995
Amortisation ( <i>Note 6</i> )	(2,905)
Impairment ( <i>Note 6</i> )	(15,000)
	<u>229,365</u>

### Six months ended 31 December 2015

Opening net book amount as at 1 July 2015	251,528
Amortisation ( <i>Note 6</i> )	(2,999)
	<u>248,529</u>

### 13. INVENTORIES

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
At cost:		
Raw materials	2,666,306	2,592,540
Finished goods	480,935	1,012,980
	<u>3,147,241</u>	<u>3,605,520</u>

### 14. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
Trade receivables ( <i>Notes (b) &amp; (c)</i> )	2,557,744	2,025,246
Bills receivable ( <i>Note (d)</i> )	2,760,093	2,572,429
	<u>5,317,837</u>	<u>4,597,675</u>
Value-added tax recoverable	445,309	412,422
Other receivables and deposits	249,265	252,555
Prepayments	360,316	337,172
Less: other receivables included in non-current assets	(23,500)	(47,500)
	<u>1,031,390</u>	<u>954,649</u>

- (a) As at 31 December 2016, the fair value of trade, bills and other receivables approximate their carrying amounts due to their short term maturities.
- (b) The Group's credit sales to customers are mainly entered into on credit terms of 30 to 60 days.
- (c) As at 31 December 2016, the ageing analysis of trade receivables based on invoice date is as follows:

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
0–30 days	2,275,908	1,669,939
31–60 days	258,574	338,020
61–90 days	10,916	14,244
Over 90 days	12,346	3,043
	<u>2,557,744</u>	<u>2,025,246</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 within the PRC.

- (d) Bills receivable issued by banks are mainly with maturity period of 90 to 180 days (30 June 2016: 90 to 180 days).

## 15. SHARE CAPITAL

	Number of ordinary shares <i>in thousands</i>	Nominal value of ordinary shares <i>HKD'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Six months ended 31 December 2016</b>					
Balance as at 1 July 2016	4,666,221	466,622	478,272	8,730,315	9,208,587
Issuance of shares upon the exercise of share options	2,650	265	227	11,622	11,849
Balance as at 31 December 2016	<u>4,668,871</u>	<u>466,887</u>	<u>478,499</u>	<u>8,741,937</u>	<u>9,220,436</u>
<b>Six months ended 31 December 2015</b>					
Balance as at 1 July 2015 and 31 December 2015	<u>4,666,221</u>	<u>466,622</u>	<u>478,272</u>	<u>8,730,315</u>	<u>9,208,587</u>

## 16. BORROWINGS

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	18,059,992	20,453,784
— Medium-term note	—	398,600
	<u>18,059,992</u>	<u>20,852,384</u>
Current		
— Short-term bank borrowings	6,362,049	10,674,355
— Current portion of long-term bank and other borrowings	944,508	1,318,537
— Current portion of medium-term note	399,200	—
	<u>7,705,757</u>	<u>11,992,892</u>
	<u>25,765,749</u>	<u>32,845,276</u>

(a) The maturity of the borrowings is as follows:

	31 December 2016		
	Bank and other borrowings <i>RMB'000</i>	Medium-term note <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	7,306,557	399,200	7,705,757
Between 1 and 2 years	11,576,042	—	11,576,042
Between 2 and 5 years	6,483,950	—	6,483,950
	<u>25,366,549</u>	<u>399,200</u>	<u>25,765,749</u>

	30 June 2016		
	Bank and other borrowings <i>RMB'000</i>	Medium- term note <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	11,992,892	—	11,992,892
Between 1 and 2 years	7,340,269	398,600	7,738,869
Between 2 and 5 years	13,113,515	—	13,113,515
	<u>32,446,676</u>	<u>398,600</u>	<u>32,845,276</u>

## 17. TRADE AND BILLS PAYABLES

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
Trade payables ( <i>Note (a)</i> )	1,373,061	1,030,229
Bills payable	3,112,820	3,067,735
	<u>4,485,881</u>	<u>4,097,964</u>

(a) As at 31 December 2016, the ageing analysis of trade payables is as follows:

	31 December 2016 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
0–90 days	1,343,340	1,010,871
91–180 days	14,543	7,070
181–365 days	10,244	7,001
Over 365 days	4,934	5,287
	<u>1,373,061</u>	<u>1,030,229</u>

## 18. COMMITMENTS

### (a) Capital commitments

The Group has material capital commitments on property, plant and equipment as follows:

	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Contracted but not provided for</b>		
Not later than one year	<b>1,287,934</b>	1,871,060
Later than one year and not later than five years	<b>475,381</b>	85,022
	<u><b>1,763,315</b></u>	<u>1,956,082</u>

### (b) Operating lease commitments — where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases in relation to land and buildings are as follows:

	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	<b>3,725</b>	3,560
Later than one year and not later than five years	<b>3,742</b>	5,102
Later than five years	<b>16,434</b>	15,965
	<u><b>23,901</b></u>	<u>24,627</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS ANALYSIS

#### Review of Operations

As the largest containerboard manufacturer in Asia, ND Paper is primarily engaged in the production and sale of a broad variety of packaging paper products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as the production and sale of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) and specialty paper.

The containerboard industry in China demonstrated remarkable improvements during the Period. While demand was well supported by the everyday consumption of a large population and boosted by growth in the online shopping sector, better supply-side discipline, as a result of faster closure of outdated and inefficient capacities and much more stringent approval requirements on new capacities, has given strong support to product pricing. Therefore, notwithstanding the high price levels of the Group's two major cost elements — recovered paper and coal, the Group was able to steadily elevate its profitability by effectively passing on the cost increases through product price hikes. Meanwhile, although the Group did not have any new paper machine commencing production during the Period, with total design production capacity remaining at 13.7 million tpa, it was able to deliver yet another record high sales volume, a positive result of its continuous efforts in equipment upgrading and effective sales strategies.

As its production platform is further enhanced and integrated, the Group has been expanding its “Express Services” to cover more customers. This convenient and reliable service system enables customers to lower their operating costs and manage their inventory more efficiently, thus reinforcing customer loyalty. On the other hand, the successful and smooth implementation of the system also reflects on the seamless integration of the Group's various internal operating functions.

The Group adopts a flexible procurement strategy that is based on the selection and purchase of raw materials offering the most optimal cost-value relationship by closely monitoring the market price trends of different sources. During the Period, the purchase value of domestic recovered paper accounted for approximately 36.7% of the total value of the Group's purchase of recovered paper.

The Group continued as the industry's role model in environmental governance and compliance. Its production bases have been named “Environmental Credible Enterprise” by local environmental authorities for consecutive years, and continued to obtain ISO14001 certification for environmental management systems and certification for clean production. As more and more containerboard manufacturers in China are required to close or suspend their operations due to environmental concern, the discipline demonstrated by ND Paper's environmentally friendly, sustainable management provides confidence to the government, customers, suppliers, banks and other stakeholders, making it a dependable business partner even at times of market fluctuations.

The Group continually drives innovation in the various aspects of management, technology, products, etc. To date, 297 patents have been obtained and another 103 patent applications or approvals are being processed.

## Business Strategy and Development Plan

As the Group's debt gearing becomes lower progressively, it may consider various potential development directions available in the market. Based on the respective supply-demand environment in various regional markets, when market conditions improve to justify further growth, the Group will be in an advantageous position against its competitors, as it has already mastered an efficient infrastructure and the necessary resources, including adequate land reserves, to accommodate future business expansion. Nevertheless, development decisions will be made prudently with sound management judgment and governance.

According to the Group's current production capacity plan, PM2(VN) at the Vietnam base will commence production by the end of June, 2017. With a design production capacity of 350,000 tpa (linerboard), the commencement of this new paper machine will bring the Group's total design production capacity to over 14 million tpa. As for the markets in Mainland China, in view of the improving order in industry supply, the Group is implementing new paper machine plans at a number of production bases. These include:

Production Base	Product	Design Capacity
Quanzhou	Linerboard	350,000 tpa
Chongqing	Linerboard	550,000 tpa
Hebei Yongxin	Linerboard	500,000 tpa
Shenyang	Linerboard	600,000 tpa

These projects are planned to be completed and commence production successively in the 4th quarter of 2018. By then, the two relatively smaller production bases of Shenyang and Hebei Yongxin are expected to see significant improvements in their economies of scale, while more synergy with Tianjin base will be created in product sales and recovered paper procurement, thus further strengthening the Group's leadership position in this regional market. The new machines for the Chongqing and Quanzhou bases can meet additional demand in these regional markets, as well as further enhance the economies of scale of these production bases.

In parallel with the abovementioned expansion plans, the Group maintains continuous efforts in enhancing its existing operations, e.g. equipment upgrading, efficiency improvements, cost controls and the lowering of its net debt gearing ratio. The Group is also proactively developing a more comprehensive and effective information system for intelligent management, progressing towards the goals of "informatization, automation and intelligentization".

## FINANCIAL REVIEW

### Sales

The Group achieved a revenue of approximately RMB19,125.0 million for the Period, representing an increase of approximately 17.3% over 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 93.9% of the revenue, with the remaining revenue of approximately 6.1% generated from its recycled printing and writing paper and high value specialty paper products business.

The increase of Group's sales was mainly driven by approximately 6.2% increase in sales volume and approximately 10.4% increase in average selling price for the Period as compared with the corresponding period last year.

The Group's annual design production capacity in packaging paperboard and recycled printing and writing paper as at 31 December 2016 was 13.7 million tpa, comprising 7.2 million tpa of linerboard, 3.4 million tpa of high performance corrugating medium, 2.6 million tpa of coated duplex board and 0.5 million tpa of recycled printing and writing paper. The Group's sales volume of packaging paperboard products and recycled printing and writing paper reached approximately 7.1 million tonnes, representing an increase of approximately 6.2% as compared with the corresponding period last year, while the design capacity in the Period remained unchanged as compared with the corresponding period last year. The increase of sales volume of packaging paperboard and recycled printing and writing paper was supported by the production efficiency as a result of the Group's continuous equipment upgrade and improvement on production skills of the existing paper machines.

The sales volume of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for the Period increased by approximately 7.1%, 5.0%, 4.2% and 15.9% respectively, as compared with those in the corresponding period last year.

The majority of the Group's sales continued to be realised from the domestic market, in particular from the linerboard and high performance corrugating medium sectors. For the Period, revenue related to domestic consumption represented 94.6% of the Group's total revenue, while the remaining revenue of 5.4% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

During the Period, sales to the Group's top five customers in aggregate accounted for approximately 5.2% (six months ended 31 December 2015: 5.6%) of the total revenue, with that to the single largest customer accounted for approximately 1.5% (six months ended 31 December 2015: 1.4%).

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

The gross profit for the Period was approximately RMB3,490.8 million, an increase of approximately RMB662.9 million or 23.4% as compared with RMB2,827.9 million in the corresponding period last year. The gross profit margin increased from 17.3% to approximately 18.3%, mainly contributed by the increase in average selling prices which was partially offset by the increase in the cost of raw materials (mainly cost of recovered paper and coal) for the Period.

### **Selling and marketing costs**

Selling and marketing costs increased by approximately 31.9% from RMB378.7 million in the corresponding period last year to approximately RMB499.6 million in the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.3% in the corresponding period last year to approximately 2.6% in the Period. The increase in the selling and marketing costs was due to larger sales volume and more geographical coverage in the Period.

### **Administrative expenses**

Administrative expenses was approximately RMB534.0 million in the Period which was comparable to RMB538.3 million in the corresponding period last year. As a percentage of Group's revenue, the administrative expenses decreased from 3.3% in the corresponding period last year to approximately 2.8% in the Period.

## **Operating profit**

The operating profit for the Period was approximately RMB2,736.0 million, representing an increase of approximately RMB622.7 million or 29.5% over the RMB2,113.3 million of the corresponding period last year. The operating profit margin increased to approximately 14.3% in the Period from 13.0% in the corresponding period last year.

## **Finance costs**

The finance costs for the Period decreased by approximately 12.1% from RMB652.3 million in the corresponding period last year to approximately RMB573.2 million in the Period. The decrease in finance cost was mainly due to the decrease in average borrowings in the Period as compared with the corresponding period last year. The Group's bank borrowings decreased by approximately RMB7,079.5 million from RMB32,845.3 million as at 30 June 2016 to approximately RMB25,765.8 million as at 31 December 2016.

## **Exchange losses/gains on operating and financing activities**

The exchange losses on operating and financing activities before tax for the Period in aggregation amounted to approximately RMB107.1 million (represented by exchange losses on operating activities before tax of approximately RMB191.8 million and exchange gains on financing activities before tax of approximately RMB84.7 million respectively), decreased very substantially by approximately RMB971.8 million or 90.1% from RMB1,078.9 million in the corresponding period last year.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB87.5 million for the Period as compared to RMB1,010.0 million in the corresponding period last year.

## **Income tax expense**

The Group's income tax expenses increased from RMB239.2 million in the corresponding period last year to approximately RMB448.0 million. The Group's effective tax rate decreased from 42.2% in the corresponding period last year to approximately 18.9% in the Period due to substantial decrease in foreign exchange losses of which mainly offshore portion of exchange losses recorded were not deductible for tax purpose in the corresponding period last year. The Group's effective tax rate for the Period and the corresponding period last year were remained relatively stable if excluding the tax impact of exchange losses.

## **Net profit**

The profit attributable to the equity holders of the Company for the Period was approximately RMB1,914.7 million. If the exchange losses on operating and financing activities net of tax of approximately RMB87.5 million were excluded, the profit attributable to equity holders of the Company for the Period was approximately RMB2,002.2 million, increased by approximately 51.4% as compared to the corresponding period last year due to stable growth of the revenue of the Group.

The profit attributable to equity holders of the Company for the corresponding period last year was RMB1,322.0 million if the exchange losses on operating and financing activities net of tax amounted to RMB1,010.0 million were excluded.

## **Working capital**

The level of inventory as at 31 December 2016 decreased by approximately 12.7% to approximately RMB3,147.2 million from RMB3,605.5 million as at 30 June 2016. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB2,666.3 million and finished goods of approximately RMB480.9 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 22 days and 6 days respectively during the Period, compare with 18 days and 13 days in the same period last year.

The trade and bills receivables as at 31 December 2016 were approximately RMB5,317.8 million, increased by approximately 15.7% from RMB4,597.7 million as at 30 June 2016. The turnover days of trade receivables remained stable at approximately 24 days, as compared to the same period last year. As at 31 December 2016, the trade receivables with age less than 60 days accounted for approximately 99.1% of the total trade receivables.

The trade and bills payables increased by approximately 9.5% to approximately RMB4,485.9 million as at 31 December 2016 from RMB4,098.0 million as at 30 June 2016. The turnover days of trade and bills payable were approximately 52 days, compare with 55 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 2016, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB5,929.8 million and total undrawn bank facilities of approximately RMB30,079.1 million.

As at 31 December 2016, the shareholders' funds were approximately RMB27,514.2 million, an increase of approximately RMB1,440.0 million from that as at 30 June 2016.

The Group had outstanding bank borrowings as at 31 December 2016 of approximately RMB25,765.8 million. The short-term and long-term borrowings amounted to approximately RMB7,705.8 million and RMB18,060.0 million respectively, accounting for approximately 29.9% and 70.1% of the total borrowings respectively. As at the end of the Period, about 98.4% of the Group's debts were on unsecured basis.

The net bank borrowings to total equity ratio of the Group decreased from 81.4% as at 30 June 2016 to approximately 71.2% as at 31 December 2016. The Group had put an effort on repayment of borrowings (net) of approximately RMB7,079.5 million during the Period. The Board will closely monitor the Group's net bank borrowings to total equity ratio and reduce the bank borrowings gradually.

## **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. As at 31 December 2016, total foreign currency borrowings amounted to the equivalent of approximately RMB7,901.5 million and loans denominated in RMB amounted to approximately RMB17,864.3 million, representing approximately 30.7% and 69.3% of the Group's borrowings respectively.

## **Capital expenditures**

The Group's payments for the construction of factory buildings, purchase of plants and machineries, equipments and land use rights during the Period were approximately RMB1,741.3 million. These capital expenditures were fully financed by internal resources and bank borrowings.

## **Capital commitments**

The Group made capital expenditure commitments mainly for machineries and equipments of approximately RMB1,763.3 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the expansion of the Group's production capacity and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

## **Contingencies**

As at 31 December 2016, the Group had no material contingent liabilities.

## **FUTURE OUTLOOK**

The Group has built an enormous production and sales platform covering the major manufacturing hubs in China, with the best economies of scale, a comprehensive product range, adequate ancillary production facilities and reliable logistics support, as well as efficient sharing of resources and experiences. As the containerboard industry in China becomes more orderly, the competitive advantages and development potential of ND Paper are becoming more prominent. Past investments made by the Group are now expected to deliver impressive returns for a sustainable period of time, and such returns may be further enhanced by more investments in a prudent and selective manner. This positive trend is already getting into shape now, and will continue in more visible ways in the near future.

## **INTERIM DIVIDEND**

The Board has declared and approved an interim dividend of RMB5.0 cents (equivalent to approximately HK5.65 cents) per share for the Period, which is expected to be paid to the shareholders by post on or before Friday, 21 July 2017. The dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 7 July 2017. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.88515 as at 23 February 2017 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

## **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of ascertaining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Wednesday, 5 July 2017 to Friday, 7 July 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 4 July 2017.

## **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, 23 February 2017

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

\* *For identification purposes only*