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**玖龍紙業(控股)有限公司\***

**NINE DRAGONS PAPER (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 2689)**

## **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017**

### **FINANCIAL HIGHLIGHTS**

- Sales increased by 22.0% to approximately RMB39,154.8 million.
- Gross profit rose by 36.1% to approximately RMB7,976.3 million.
- Gross margin increased from 18.3% to 20.4%.
- The exchange losses on operating and financial activities (net of tax) decreased substantially by approximately RMB1,235.3 million or 76.3% to approximately RMB382.7 million.
- Profit attributable to equity holders was approximately RMB4,383.7 million.
- If the exchange losses on operating and financing activities (net of tax) of approximately RMB382.7 million and the gain from derivative financial instruments (net of tax) of approximately RMB1.1 million were excluded, the profit attributable to equity holders of the Company increased by approximately 68.1%, to approximately RMB4,765.3 million due to an increase in the selling price of the products and a better profit margin of the Group.
- The net borrowings to total equity ratio decreased to approximately 74.6%.
- Basic earnings per share increased by RMB0.70 to approximately RMB0.94.
- Proposed final dividend of RMB25.0 cents per share (equivalent to approximately HK29.6 cents).
- Dividend payout ratio was approximately 32.0%.

### **FINANCIAL RESULTS**

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the year ended 30 June 2017 (“FY2017” or the “Year”), together with the comparative figures for the last financial year (“FY2016”).

## CONSOLIDATED INCOME STATEMENT

		For the year ended 30 June	
		2017	2016
	Note	RMB'000	RMB'000
<b>Sales</b>	2	39,154,808	32,092,770
Cost of goods sold		<u>(31,178,547)</u>	<u>(26,231,444)</u>
<b>Gross profit</b>		7,976,261	5,861,326
Other income, other expenses and other losses, net		681,674	590,954
Exchange losses on operating activities, net		(117,037)	(337,597)
Selling and marketing costs		(837,882)	(736,018)
Administrative expenses		<u>(1,142,334)</u>	<u>(1,047,598)</u>
<b>Operating profit</b>		6,560,682	4,331,067
Finance costs, net		(959,266)	(1,271,570)
— Finance income	4	106,689	138,740
— Finance costs	4	<u>(1,065,955)</u>	<u>(1,410,310)</u>
Exchange losses on financing activities, net		(282,588)	(1,434,494)
Share of profit of an associate and a joint venture, net		<u>116,170</u>	<u>42,430</u>
<b>Profit before income tax</b>		5,434,998	1,667,433
Income tax expense	5	<u>(1,025,364)</u>	<u>(518,054)</u>
<b>Profit for the year</b>		<u>4,409,634</u>	<u>1,149,379</u>
<b>Profit attributable to:</b>			
— Equity holders of the Company		4,383,668	1,121,742
— Non-controlling interests		<u>25,966</u>	<u>27,637</u>
		<u>4,409,634</u>	<u>1,149,379</u>
<b>Basic earnings per share for profit attributable to equity holders of the Company during the year</b> (expressed in RMB per share)	6	<u>0.9387</u>	<u>0.2404</u>
<b>Diluted earnings per share for profit attributable to equity holders of the Company during the year</b> (expressed in RMB per share)	6	<u>0.9372</u>	<u>0.2403</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2017	2016
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>4,409,634</b>	<b>1,149,379</b>
<b>Other comprehensive income:</b> <i>(items that may be reclassified subsequently to profit or loss)</i>		
Currency translation differences	<u>3,690</u>	<u>32,852</u>
<b>Total comprehensive income for the year</b>	<b><u>4,413,324</u></b>	<b><u>1,182,231</u></b>
<b>Attributable to:</b>		
— Equity holders of the Company	<b>4,385,969</b>	<b>1,142,280</b>
— Non-controlling interests	<u>27,355</u>	<u>39,951</u>
	<b><u>4,413,324</u></b>	<b><u>1,182,231</u></b>

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	30 June 2017 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	46,415,144	44,860,821
Land use rights	8	1,520,792	1,521,765
Intangible assets	9	230,664	245,275
Investments in associate and joint venture		119,749	65,759
Other receivables and prepayments		21,305	47,500
Deferred income tax assets		2,425	15,884
		<u>48,310,079</u>	<u>46,757,004</u>
<b>Current assets</b>			
Inventories	10	4,679,114	3,605,520
Trade and bills receivables	11	5,399,248	4,597,675
Other receivables and prepayments		1,220,678	954,649
Tax recoverable		50,103	46,665
Restricted cash		24,000	53,634
Short-term bank deposits		10,833	274,008
Cash and cash equivalents		6,472,756	11,002,470
		<u>17,856,732</u>	<u>20,534,621</u>
<b>Total assets</b>		<u><b>66,166,811</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	12	478,977	478,272
Share premium	12	8,765,002	8,730,315
Other reserves		1,539,236	1,323,109
Retained earnings		18,965,490	15,542,523
		<u>29,748,705</u>	<u>26,074,219</u>
<b>Non-controlling interests</b>		<u>336,084</u>	<u>346,642</u>
<b>Total equity</b>		<u><b>30,084,789</b></u>	<u><b>26,420,861</b></u>

## CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	<b>30 June 2017</b> <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>13</i>	<b>16,832,996</b>	20,852,384
Deferred income tax liabilities		<b>2,433,172</b>	2,176,336
		<b>19,266,168</b>	23,028,720
<b>Current liabilities</b>			
Trade and bills payables	<i>14</i>	<b>2,291,195</b>	4,097,964
Other payables and advance from customers		<b>1,842,678</b>	1,315,229
Current income tax liabilities		<b>565,855</b>	434,853
Borrowings	<i>13</i>	<b>12,116,126</b>	11,992,892
Derivative financial instruments		<b>—</b>	1,106
		<b>16,815,854</b>	17,842,044
<b>Total liabilities</b>		<b>36,082,022</b>	40,870,764
<b>Total equity and liabilities</b>		<b>66,166,811</b>	67,291,625

## CASH FLOWS INFORMATION

	For the year ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	4,409,634	1,149,379
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects	4,510,006	5,531,676
Changes in working capital	<u>(3,670,745)</u>	<u>1,389,177</u>
Cash generated from operations	5,248,895	8,070,232
Income tax paid	(627,517)	(270,313)
Interest paid	<u>(1,108,075)</u>	<u>(1,339,445)</u>
Net cash generated from operating activities	3,513,303	6,460,474
Net cash used in investing activities	(3,166,399)	(1,360,566)
Net cash used in financing activities	<u>(4,843,982)</u>	<u>(1,497,460)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,497,078)</b>	3,602,448
Cash and cash equivalents at beginning of the year	11,002,470	7,310,840
Exchange (losses)/gains on cash and cash equivalents	<u>(32,636)</u>	<u>89,182</u>
<b>Cash and cash equivalents at end of the year</b>	<b><u>6,472,756</u></b>	<b><u>11,002,470</u></b>

## 1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group is mainly engaged in the manufacture and sale of packaging paper, recycled printing and writing paper and high value specialty paper products principally in the People's Republic of China (the "PRC").

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").

These consolidated financial statements are presented in Renminbi thousand, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 21 September 2017.

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs").

### (a) Effect of adopting amendments to standards

The following amendments to standards are relevant and mandatory for the Group's financial year beginning on 1 July 2016. The adoption of these amended standards do not have any significant impact to the results and financial position of the Group.

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle

### (b) New standards, interpretations and amendments to standards relevant to the Group and have been issued but are not effective

The following new standards, interpretations and amendments to standards relevant to the Group have been issued but are not effective for the financial year beginning 1 July 2016 and have not been early adopted by the Group:

HKAS 7 (Amendment)	Changes in Liabilities Arising from Financial Activities <sup>1</sup>
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities <sup>1</sup>
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures <sup>2</sup>
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
HK(IFRIC) 23	Uncertainty over Income Tax Treatments <sup>3</sup>
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

1. Effective for annual period beginning on 1 July 2017.
2. Effective for annual period beginning on 1 July 2018.
3. Effective for annual period beginning on 1 July 2019.
4. Effective date to be determined.

The above new standards, interpretations and amendments to standards will be adopted in the years listed and the Group is in the process of assessing the impact on future accounting periods.

## 2. SALES AND SEGMENT INFORMATION

Sales recognised during the Year are as follows:

	<b>For the year ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales of packaging paper	<b>36,722,348</b>	30,006,173
Sales of recycled printing and writing paper	<b>2,181,592</b>	1,851,945
Sales of high value specialty paper products	<b>250,868</b>	234,652
	<b><u>39,154,808</u></b>	<b><u>32,092,770</u></b>

### Segment information

The Group is principally engaged in the manufacture and sale 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.

## 3. OPERATING PROFIT

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

	<b>For the year ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Depreciation ( <i>Note 8</i> )	<b>2,019,894</b>	1,923,889
Less: amount charged to other expenses	<b>(3,536)</b>	(3,740)
	<b>2,016,358</b>	1,920,149
Amortisation of intangible assets ( <i>Note 9</i> )	<b>7,779</b>	4,952
Employee benefit expenses	<b>1,610,104</b>	1,347,452
Changes in finished goods	<b>(816,562)</b>	(19,074)
Raw materials and consumables used (net of claims)	<b>28,585,959</b>	23,251,542
Operating leases		
— Land use rights ( <i>Note 8</i> )	<b>41,657</b>	36,045
— Buildings	<b>3,158</b>	2,476
	<b><u>3,158</u></b>	<b><u>2,476</u></b>

#### 4. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2017	2016
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	<u>106,689</u>	<u>138,740</u>
Finance costs:		
Interest on borrowings	(968,111)	(986,079)
Other incidental borrowing costs	(109,854)	(212,149)
Less: interest capitalised	<u>56,398</u>	<u>18,622</u>
	(1,021,567)	(1,179,606)
Bills discount charge	(45,494)	(127,940)
Gain/(loss) on currency and interest rate swap contracts and foreign exchange option contracts	<u>1,106</u>	<u>(102,764)</u>
	<u>(1,065,955)</u>	<u>(1,410,310)</u>

#### 5. INCOME TAX EXPENSE

	For the year ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax and withholding income tax (Note (a) and (b))	755,081	263,313
— Hong Kong profits tax (Note (c))	—	—
	<u>755,081</u>	<u>263,313</u>
Deferred income tax	<u>270,283</u>	<u>254,741</u>
	<u>1,025,364</u>	<u>518,054</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 Group's financial year ended 30 June 2017 (2016: 15%).

##### (b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the 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 year ended 30 June 2017 was 5% (2016: 5%).

(c) **Hong Kong profits tax**

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2017 (2016: Nil).

**6. EARNINGS PER SHARE**

— **Basic**

	<b>For the year ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u><b>4,383,668</b></u>	<u>1,121,742</u>
Weighted average number of ordinary shares in issue ( <i>shares in thousands</i> )	<u><b>4,669,721</b></u>	<u>4,666,221</u>
Basic earnings per share ( <i>RMB per share</i> )	<u><b>0.9387</b></u>	<u>0.2404</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 year ended 30 June 2017, 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 year) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated 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.

	<b>For the year ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u><b>4,383,668</b></u>	<u>1,121,742</u>
Weighted average number of ordinary shares for basic earnings per share ( <i>shares in thousands</i> )	<u><b>4,669,721</b></u>	4,666,221
Adjustment for share options ( <i>shares in thousands</i> )	<u><b>7,699</b></u>	<u>1,185</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>shares in thousands</i> )	<u><b>4,677,420</b></u>	<u>4,667,406</u>
Diluted earnings per share ( <i>RMB per share</i> )	<u><b>0.9372</b></u>	<u>0.2403</u>

## 7. DIVIDENDS

	<b>For the year ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interim dividend, paid, of RMB5.0 cents (2016: RMB2.0 cents) per ordinary share	<b>233,711</b>	93,324
Final dividend, proposed, of RMB25.0 cents (2016: RMB8.0 cents) per ordinary share	<b>1,168,555</b>	373,575
Special dividend, proposed, of RMB nil cents (2016: RMB3.0 cents) per ordinary share	—	140,068
	<b><u>1,402,266</u></b>	<b><u>606,907</u></b>

At a meeting held on 21 September 2017, the Board proposed a final dividend of RMB25.0 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2018.

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

	<b>Land use rights</b>	<b>Property, plant and equipment</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Year ended 30 June 2016</b>		
Opening net book amount	1,472,399	45,010,861
Additions	83,989	1,813,998
Disposals	—	(46,147)
Amortisation/depreciation ( <i>Note 3</i> )	(36,045)	(1,923,889)
Exchange differences	1,422	5,998
Closing net book amount as at 30 June 2016	<b><u>1,521,765</u></b>	<b><u>44,860,821</u></b>
<b>Year ended 30 June 2017</b>		
Opening net book amount	<b>1,521,765</b>	<b>44,860,821</b>
Additions	<b>40,730</b>	<b>3,768,803</b>
Disposals	<b>(156)</b>	<b>(180,581)</b>
Amortisation/depreciation ( <i>Note 3</i> )	<b>(41,657)</b>	<b>(2,019,894)</b>
Exchange differences	<b>110</b>	<b>(14,005)</b>
Closing net book amount as at 30 June 2017	<b><u>1,520,792</u></b>	<b><u>46,415,144</u></b>

## 9. INTANGIBLE ASSETS

RMB'000

Year ended 30 June 2016

Opening net book amount as at 1 July 2015

251,528

Amortisation (*Note 3*)

(6,253)

Closing net book amount as at 30 June 2016

245,275

Year ended 30 June 2017

Opening net book amount as at 1 July 2016

245,275

Addition

8,890

Amortisation (*Note 3*)

(8,501)

Impairment

(15,000)

Closing net book amount as at 30 June 2017

230,664

Amortisation of RMB7,779,000 and RMB722,000 (2016: RMB4,952,000 and RMB1,301,000) are charged to the “administrative expense” and capitalised in construction in progress included in “property, plant and equipment”, respectively.

## 10. INVENTORIES

30 June 2017

30 June 2016

RMB'000

RMB'000

At cost:

Raw materials

2,849,572

2,592,540

Finished goods

1,829,542

1,012,980

4,679,114

3,605,520

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB31,178,547,000 for the Year (2016: RMB26,231,444,000).

## 11. TRADE AND BILLS RECEIVABLES

30 June 2017

30 June 2016

RMB'000

RMB'000

Trade receivables (*Note (a)*)

3,074,962

2,025,246

Bills receivable (*Note (b)*)

2,324,286

2,572,429

5,399,248

4,597,675

(a) As at 30 June 2017, the ageing analysis of trade receivables based on invoice date is as follows:

	<b>30 June 2017</b>	30 June 2016
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0–30 days	<b>2,730,132</b>	1,669,939
31–60 days	<b>335,500</b>	338,020
61–90 days	<b>8,129</b>	14,244
Over 90 days	<b>1,201</b>	3,043
	<b><u>3,074,962</u></b>	<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.

The Group's credit sales to customers are mainly entered into on credit terms of 30 to 60 days.

(b) Bills receivables are mainly with maturity period of 90 to 180 days (2016: 90 to 180 days). Bills receivables as at 30 June 2017 represents the bank acceptance notes and commercial bills (2016: bills receivables were mainly bank acceptance notes).

## 12. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Issued and fully paid</b>					
<b>Year ended 30 June 2016</b>					
At 1 July 2015 and 30 June 2016	<u>4,666,220,811</u>	<u>466,622</u>	<u>478,272</u>	<u>8,730,315</u>	<u>9,208,587</u>
<b>Year ended 30 June 2017</b>					
Balance as at 1 July 2016	<b>4,666,220,811</b>	<b>466,622</b>	<b>478,272</b>	<b>8,730,315</b>	<b>9,208,587</b>
Issuance of shares upon the exercise of share options	<u>8,000,000</u>	<u>800</u>	<u>705</u>	<u>34,687</u>	<u>35,392</u>
Balance as at 30 June 2017	<b><u>4,674,220,811</u></b>	<b><u>467,422</u></b>	<b><u>478,977</u></b>	<b><u>8,765,002</u></b>	<b><u>9,243,979</u></b>

### 13. BORROWINGS

	30 June 2017 <i>RMB'000</i>	30 June 2016 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	16,832,996	20,453,784
— Medium-term notes	—	398,600
	<u>16,832,996</u>	<u>20,852,384</u>
Current		
— Short-term bank borrowings	9,843,130	10,674,355
— Current portion of long-term bank and other borrowings	1,873,196	1,318,537
— Current portion of medium-term notes	399,800	—
	<u>12,116,126</u>	<u>11,992,892</u>
<b>Total borrowings</b>	<u><b>28,949,122</b></u>	<u><b>32,845,276</b></u>

The maturity of the borrowings is as follows:

	30 June 2017		
	Bank and other borrowings <i>RMB'000</i>	Medium- term notes <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	11,716,326	399,800	12,116,126
Between 1 and 2 years	9,530,511	—	9,530,511
Between 2 and 5 years	7,054,034	—	7,054,034
Over 5 years	248,451	—	248,451
	<u>28,549,322</u>	<u>399,800</u>	<u>28,949,122</u>
	30 June 2016		
	Bank and other borrowings <i>RMB'000</i>	Medium- term notes <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>

#### 14. TRADE AND BILLS PAYABLES

	<b>30 June 2017</b>	30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables ( <i>Note (a)</i> )	1,438,397	1,030,229
Bills payables	852,798	3,067,735
	<u>2,291,195</u>	<u>4,097,964</u>

(a) As at 30 June 2017, the ageing analysis of trade payables based on invoice date is as follows:

	<b>30 June 2017</b>	30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	1,404,215	1,010,871
91–180 days	17,693	7,070
181–365 days	11,475	7,001
Over 365 days	5,014	5,287
	<u>1,438,397</u>	<u>1,030,229</u>

#### 15. COMMITMENTS

##### (a) Capital commitments

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

	<b>30 June 2017</b>	30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	3,778,224	1,871,060
Later than one year and not later than five years	516,731	85,022
	<u>4,294,955</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>30 June 2017</b>	30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	7,023	3,560
Later than one year and not later than five years	2,055	5,102
Later than five years	15,409	15,965
	<u>24,487</u>	<u>24,627</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### 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 paperboard 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.

During the Year, the unprecedented intensity of government environmental inspection and enforcement has become a regular practice, accelerating the closure of non-compliant capacities in the paper industry. Much stricter approval requirements were also limiting the number of new capacities entering the market, while the policy prohibiting new coal-fired power plants further reduced the number of new paper production projects. Meanwhile, demand was well supported by the everyday consumption of a large population and boosted by growth in the online shopping sector. This new balance in supply-demand dynamics has given strong support to the pricing power of containerboard producers.

Although prices of the Group's products and its two major cost elements, recovered paper & coal, were volatile during the Year, the Group was able to achieve a historical high in profitability — the result of competent cost management and a market-oriented, forward-looking sales strategy utilizing information from the Group's own market database. Furthermore, although the Group did not have any new paper machine commenced production during the Year, with total design production capacity remaining at 13.7 million tpa, it was also able to deliver record high sales revenue for the Year. Sales volume for the Year was approximately 13.0 million tonnes, relatively stable as compared to FY2016.

The Group purchases its supplies and equipment in accordance with government policy and market conditions. It has a flexible procurement strategy that is based on the selection and purchase of raw materials offering the most optimal cost-value relationship, which is enabled by closely monitoring the market price trends of different sources. As a large buyer of recovered paper in the market, the Group is able to leverage effectively on various overseas and domestic channels of recovered paper supply, thus allowing optimization of its raw material costs at all times, including periods of price fluctuations. During the Year, the purchase value of domestic recovered paper accounted for approximately 38% of the total value of the Group's purchase of recovered paper.

The Group continually drives innovation in the various aspects of management, technology, products, etc. Up to June 30, 2017, 336 patents have been obtained and another 89 patent applications or approvals are being processed.

As at June 30, 2017, the Group employed a total of approximately 16,400 full-time staff and continued to obtain OHSAS 18001 certification for its occupational health and safety management system at its production bases.

## Business Strategy and Development Plan

ND Paper has built an enormous production, sales and logistics platform with an efficient cost structure, offering its extensive network of customers a one-stop shop for a complete range of products and excellence in pre-sales and after-sales services. As this comprehensive platform is progressively enhanced and integrated, the Group proactively expands 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. Meanwhile, the Group also continually expands its customer network by initiating relationships with new customers.

The Group maintains continuous efforts in enhancing its existing operations, e.g. equipment upgrading, efficiency improvements, cost controls and strengthening environmental standards. The Group has also developed a comprehensive and effective information system for intelligent management, progressing towards the goals of “informatization, automation and intelligentization”.

ND Paper masters the infrastructural foundation and the necessary resources, including adequate land reserves, to facilitate future business expansion. This puts the Group into an advantageous position against its competitors in each of the regional markets in which it operates, when market conditions justify further growth based on the respective supply-demand environment in any of these markets. When considering potential development opportunities available in the market, decisions will be made prudently with sound management judgment and governance, maintaining the appropriate balance among funding requirements, control of financial expenses, managing foreign exchange risks and shareholders’ return.

Under the Group’s current development plan, PM2(VN) at the Vietnam base has already commenced production in August, 2017. With a design production capacity of 350,000 tpa (linerboard), this new paper machine has brought 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 has already announced new paper machine plans at a number of production bases. These include:

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

Upon completion of these projects by the end of 2018, the Group’s total design production capacity is expected to exceed 16 million tpa. The three currently relatively smaller production bases of Quanzhou, Shenyang and Hebei Yongxin are all expected to see significant improvements in their economies of scale, thus further enhancing the Group’s profitability and cost optimization in each of these regional markets. The new machine for the Chongqing base can meet additional market demand, as well as further enhance the economies of scale of this production base.

## **FINANCIAL REVIEW**

### **Sales**

The Group achieved a revenue of approximately RMB39,154.8 million for FY2017, representing an increase of approximately 22.0% as compared with FY2016. 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 93.8% of the revenue, with the remaining revenue of approximately 6.2% generated from its recycled printing and writing paper and high value specialty paper products business.

The Group's revenue for FY2017 increased by approximately 22.0% as compared with FY2016, mainly driven by the increase in the selling price of the products. Revenue of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for FY2017 accounted for 49.9%, 23.1%, 20.8% and 5.6% respectively of the total revenue, compared to 47.2%, 22.6%, 23.7% and 5.8% respectively in FY2016.

The Group's annual design production capacity in packaging paperboard and recycled printing and writing paper as at 30 June 2017 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 total sales volume of packaging paperboard products and recycled printing and writing paper remained stable at approximately 13.0 million tonnes in FY2017 and FY2016.

The sales volume of linerboard and the recycled printing and writing paper for FY2017 increased by approximately 3.8% and 9.3% respectively, while the sale volume of high performance corrugating medium remained stable for FY2017 as compared with FY2016 and the coated duplex board for FY2017 decreased by approximately 10.6% as compared with FY2016.

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 FY2017, revenue related to domestic consumption represented 95.6% of the Group's total revenue, while the remaining revenue of 4.4% were sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2017, sales to the Group's top five customers in aggregate accounted for approximately 4.2% (FY2016: 5.3%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.1% (FY2016: 1.3%).

### **Gross profit**

The gross profit for FY2017 was approximately RMB7,976.3 million, an increase of approximately RMB2,115.0 million or 36.1% as compared with RMB5,861.3 million in FY2016. The gross profit margin increased from 18.3% in FY2016 to approximately 20.4% in FY2017, mainly contributed by the increase in the selling price of the products.

### **Other income, other expenses and other losses — net**

Other income, other expenses and other losses (net) increased by approximately 15.3%, from RMB591.0 million in FY2016 to approximately RMB681.7 million in FY2017. The major contributor of the increase was derived from the value added tax refund amounted to approximately RMB632.0 million pursuant to the preferential value added tax (“VAT”) policies collectively issued by the Ministry of Finance and the PRC State Administration of Taxation. The Group’s VAT paid in relation to the production and sales of paper products using the recovered paper as major raw materials were eligible for fifty percent of refund.

### **Selling and marketing costs**

Selling and marketing costs were approximately RMB837.9 million in FY2017, increased by approximately 13.8% as compared with RMB736.0 million in FY2016. The increase in the selling and marketing costs was attributable to the increase in sales and more geographical coverage in FY2017. The total amount of selling and marketing costs as a percentage of the Group’s revenue decreased slightly from 2.3% in FY2016 to 2.1% in FY2017.

### **Administrative expenses**

Administrative expenses increased by approximately 9.0% from RMB1,047.6 million in FY2016 to approximately RMB1,142.3 million in FY2017. The amount of administrative expenses as a percentage of the Group’s revenue decreased slightly from 3.3% in FY2016 to 2.9% in FY2017.

### **Operating profit**

The operating profit for FY2017 was approximately RMB6,560.7 million, representing an increase of approximately RMB2,229.6 million or 51.5% over FY2016. The operating profit margin increased from 13.5% in FY2016 to approximately 16.8% in FY2017 mainly due to increase in gross profit margin from 18.3% in FY2016 to 20.4% in FY2017.

### **Finance costs**

Finance costs decreased by approximately 24.4% to approximately RMB1,066.0 million in FY2017 from RMB1,410.3 million in FY2016. The decrease in finance cost was mainly contributed by (i) a gain from derivative financial instruments of approximately RMB1.1 million in FY2017 as compared to a loss of RMB102.8 million in FY2016; (ii) the decrease of incidental borrowing costs of approximately RMB102.3 million resulting from the decrease in average borrowings in FY2017 as compared with FY2016; and (iii) the reduction of bills discount charges of approximately RMB82.4 million in FY2017 over FY2016.

The impact of derivative financial instruments (net of tax) recorded a gain of approximately RMB1.1 million in FY2017 as compared with a loss of RMB94.4 million in FY2016.

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

The exchange losses on operating and financing activities before tax for FY2017 in aggregation amounted to approximately RMB399.6 million (represented by exchange losses on operating activities before tax of approximately RMB117.0 million and exchange losses on financing activities before tax of approximately RMB282.6 million respectively), decreased substantially by approximately RMB1,372.5 million or 77.5% from RMB1,772.1 million in FY2016.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB382.7 million in FY2017 as compared to RMB1,618.0 million in FY2016.

### **Income tax expense**

Income tax charged for the FY2017 amounted to approximately RMB1,025.4 million and increased by approximately 97.9% or RMB507.3 million as compared with FY2016 due to the substantial increase in profit before tax.

The Group's effective tax rate (income tax expense divided by profit before income tax for the Year) decreased to approximately 18.9% in FY2017 as compared to 31.1% in FY2016 of which mainly offshore portion of exchange losses recorded were not deductible for tax purpose in FY2016.

### **Net profit**

The profit attributable to equity holders of the Company increased by RMB3,262.0 million from RMB1,121.7 million in FY2016 to approximately RMB4,383.7 million in FY2017. If the exchange losses on operating and financing activities (net of tax) of approximately RMB382.7 million and the gain from derivative financial instruments (net of tax) of approximately RMB1.1 million were excluded, the profit attributable to equity holders of the Company for FY2017 increased by approximately 68.1%, to approximately RMB4,765.3 million due to an increase in the selling price of the products and a better profit margin of the Group.

In FY2016, the profit attributable to equity holders of the Company was RMB2,834.1 million if the exchange losses on operating and financing activities (net of tax) amounted to RMB1,618.0 million and the loss from derivative financial instruments (net of tax) amounted to RMB94.4 million were excluded.

### **Dividend**

In FY2017, the Group paid an interim dividend of RMB5.0 cents per share, which amounted to RMB233.7 million. The directors have proposed a final dividend of RMB25.0 cents per share, which will aggregate to approximately RMB1,168.6 million. The total dividend for the FY2017 amounted to RMB30.0 cents per share. The dividend pay out ratio was approximately 32.0% in FY2017.

### **Working capital**

The inventories increased by approximately 29.8% to approximately RMB4,679.1 million in FY2017 from RMB3,605.5 million in FY2016. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB2,849.6 million and finished goods of approximately RMB1,829.5 million.

The raw materials increased by approximately 9.9% to approximately RMB2,849.6 million in FY2017 from RMB2,592.5 million in FY2016. The increase in raw materials balance was mainly due to the substantial increase in the cost of recovered paper and coal during FY2017.

The finished goods increased by approximately 80.6% to approximately RMB1,829.5 million in FY2017 from RMB1,013.0 million in FY2016.

In FY2017, raw material (excluding spare parts) turnover days remained relatively stable at approximately 25 days as compared to 24 days for FY2016 while the finished goods turnover days increased to approximately 21 days as compared to 14 days for FY2016.

Trade and bills receivables were approximately RMB5,399.2 million in FY2017, increased by approximately 17.4% from RMB4,597.7 million in FY2016. During FY2017, the turnover days of trade receivables were approximately 29 days which was within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB2,291.2 million in FY2017, decreased by approximately 44.1% from RMB4,098.0 million in FY2016. The turnover days of trade and bills payable were approximately 27 days for FY2017 which was within the credit period granted by most suppliers.

### **Liquidity and financial resources**

The working capital and long-term funding required by the Group in FY2017 primarily comes from its operating cash flows and borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's cash generated from operations decreased from RMB8,070.2 million in FY2016 to approximately RMB5,248.9 million in FY2017, representing a decrease of approximately 35.0%. The decrease was primarily attributable to the increase in the working capital. In terms of available financial resources as at 30 June 2017, the Group had total undrawn banking facilities of approximately RMB32,668.4 million and cash and cash equivalents, short-term bank deposits and restricted cash of approximately RMB6,507.6 million.

As at 30 June 2017, the shareholders' funds were approximately RMB29,748.7 million, an increase of approximately RMB3,674.5 million from that of FY2016. The shareholders' fund per share increased from RMB5.6 in FY2016 to approximately RMB6.4 in FY2017.

### **Debts Management**

The Group's outstanding borrowings decreased by approximately RMB3,896.2 million from RMB32,845.3 million as at 30 June 2016 to approximately RMB28,949.1 million as at 30 June 2017. The short-term and long-term borrowings amounted to approximately RMB12,116.1 million and RMB16,833.0 million respectively, accounting for 41.9% and 58.1% of the total borrowings respectively. As at 30 June 2017, about 98.9% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 81.4% as at 30 June 2016 to approximately 74.6% as at 30 June 2017. The Board will closely monitor the Group's net debt to total equity ratio and reduce the borrowing 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 potential Renminbi exchange rate fluctuation, the Board closely monitors the Group's foreign currency borrowings and will consider arranging for monetary and interest rate hedge at appropriate time to mitigate the corresponding risk. As at 30 June 2017, total foreign currency borrowings amounted to the equivalent of approximately RMB10,542.5 million and loans denominated in RMB amounted to approximately RMB18,406.6 million, representing approximately 36.4% and 63.6% of the Group's borrowings respectively.

## **Cost of borrowing**

The effective interest rates of long-term borrowings and short-term borrowings were 3.5% and 3.3% per annum as at 30 June 2017 and 3.4% and 2.8% per annum as at 30 June 2016. The gross interest and finance charges (including interest capitalised but before interest income, exchange losses on financing activities and impact from all the derivative financial instruments) decreased to approximately RMB1,123.5 million in FY2017 from RMB1,326.2 million in FY2016.

## **Capital expenditures**

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments and land use rights during FY2017 were approximately RMB3,612.3 million. These capital expenditures were fully financed by internal resources and borrowings.

## **Capital commitments**

The Group made capital expenditure commitments mainly for machineries and equipments of approximately RMB4,295.0 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 FY2017, the Group had no material contingent liabilities.

## **FUTURE OUTLOOK**

Amidst a volatile global macro-environment and further economic transformation in China, the manufacturing sector will put more emphasis on economies of scale and operating efficiency. As the containerboard industry in China becomes more orderly, the Group will continue to enjoy strong pricing power. ND Paper differentiates itself from its competitors with various winning edges: an experienced and visionary management team, advanced production and environmental equipment, comprehensive ancillary facilities, abundant land reserves, product and service quality, diversity in geographical coverage, market intelligence and operations information database, effective management and cost control. All these serve to reinforce ND Paper's leadership position in the market and provide a strong foundation for profit maximization. Past investments made by the Group have already started to deliver impressive returns, and such returns are expected to be further enhanced as more investments are made in a prudent and selective manner.

## **DIVIDEND**

An interim dividend of RMB5.0 cents (equivalent to approximately HK5.65 cents) per share for the six months ended 31 December 2016 (six months ended 31 December 2015: RMB2.0 cents) was paid to shareholders on 21 July 2017.

The Board has resolved to recommend the payment of a final dividend of RMB25.0 cents (equivalent to approximately HK29.6 cents) per share for FY2017, which are expected to be paid on Friday, 26 January 2018 subject to the approval of the forthcoming annual general meeting ("2017 AGM"). The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 28 December 2017. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 = RMB0.84429 as at 21 September 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**

The register of members of the Company will be closed during the following periods:

- (i) from Thursday, 30 November 2017 to Wednesday, 6 December 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2017 AGM. In order to be eligible to attend and vote at the 2017 AGM, 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 Wednesday, 29 November 2017; and

- (ii) from Friday, 22 December 2017 to Thursday, 28 December 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final 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 Thursday, 21 December 2017.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

## **ANNUAL GENERAL MEETING**

The 2017 AGM will be held on Wednesday, 6 December 2017 and the notice of 2017 AGM will be published and despatched in the manner as required by the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2017.

## **AUDIT COMMITTEE REVIEW**

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

The consolidated financial statements of the Group for FY2017 has been reviewed by the audit committee, with the directors and the Company's auditor, PricewaterhouseCoopers.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

During FY2017, the Group has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during FY2017, they were in compliance with provisions of the Model Code.

## APPRECIATION

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

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

Hong Kong, 21 September 2017

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

\* *For identification purposes only*