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 2017

FINANCIAL HIGHLIGHTS

- Sales increased by 34.1% to approximately RMB25,649.4 million.
- Gross profit rose by 80.2% to approximately RMB6,289.7 million.
- Gross margin increased from 18.3% to approximately 24.5%.
- Profit attributable to equity holders of the Company for the Period was approximately RMB4,329.3 million.
- If the exchange losses on operating and financing activities net of tax of approximately RMB21.2 million were excluded, the profit attributable to equity holders of the Company for the Period was approximately RMB4,350.5 million increased by 117.3% as compared to the corresponding period last year, 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 62.3%.
- Basic earnings per share increased by RMB0.52 or 126.8% to approximately RMB0.93.
- Interim dividend per share of RMB10.0 cents (equivalent to approximately HK12.34 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 2017 (the "Period"), together with the comparative figures for the corresponding period of the last year.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Unaudited Six months ended 31 December **2017** ***RMB'000***	 2016 *RMB'000*
Sales	*5*	**25,649,442**	19,125,024
Cost of goods sold		**(19,359,777)**	(15,634,210)
Gross profit		**6,289,665**	3,490,814
Other income, other expense and other losses — net		**604,037**	470,510
Exchange gain/(loss) on operating activities — net		**96,063**	(191,794)
Selling and marketing costs		**(501,344)**	(499,560)
Administrative expenses		**(557,049)**	(534,016)
Operating profit		**5,931,372**	2,735,954
Finance costs — net		**(446,958)**	(498,631)
— Finance income	*7*	**45,763**	74,531
— Finance costs	*7*	**(492,721)**	(573,162)
Exchange (loss)/gain on financing activities — net		**(101,004)**	84,732
Share of profit of an associate and a joint venture — net		**48,361**	45,070
Profit before income tax		**5,431,771**	2,367,125
Income tax expense	*8*	**(1,102,123)**	(448,041)
Profit for the Period		**4,329,648**	1,919,084
Profit attributable to:			
— Equity holders of the Company		**4,329,268**	1,914,683
— Non-controlling interests		**380**	4,401
		4,329,648	1,919,084
Basic earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*	*9*	**0.93**	0.41
Diluted earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*	*9*	**0.92**	0.41

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

	Unaudited Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the Period	**4,329,648**	1,919,084
Other comprehensive income:		
(items that may be reclassified subsequently to profit or loss)		
— Currency translation differences	**(17,938)**	29,817
Total comprehensive income for the Period	**4,311,710**	1,948,901
Total comprehensive income attributable to:		
— Equity holders of the Company	**4,318,429**	1,937,097
— Non-controlling interests	**(6,719)**	11,804
	4,311,710	1,948,901

INTERIM CONSOLIDATED BALANCE SHEET

	Note	**31 December 2017** *RMB'000* **(Unaudited)**	30 June 2017 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**47,471,808**	46,415,144
Land use rights	*11*	**1,500,865**	1,520,792
Intangible assets	*12*	**228,028**	230,664
Investment in an associate and a joint venture		**168,405**	119,749
Other receivables and prepayments	*14*	**21,305**	21,305
Deferred income tax assets		**317**	2,425
		49,390,728	48,310,079
Current assets			
Inventories	*13*	**6,225,806**	4,679,114
Trade and bills receivables	*14*	**4,983,527**	5,399,248
Other receivables and prepayments	*14*	**1,427,438**	1,220,678
Tax recoverable		**768**	50,103
Restricted cash		**24,000**	24,000
Short-term bank deposits		**38,018**	10,833
Cash and cash equivalents		**8,618,076**	6,472,756
		21,317,633	17,856,732
Total assets		**70,708,361**	66,166,811
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*15*	**478,977**	478,977
Share premium	*15*	**3,765,002**	8,765,002
Other reserves		**5,885,834**	1,539,236
Retained earnings		**22,789,566**	18,965,490
		32,919,379	29,748,705
Non-controlling interests		**271,187**	336,084
Total equity		**33,190,566**	30,084,789

INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**31 December 2017**	30 June 2017
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**15,141,509**	16,832,996
Deferred income tax liabilities		**2,601,490**	2,433,172
		17,742,999	19,266,168
Current liabilities			
Trade and bills payables	*17*	**2,154,371**	2,291,195
Other payables and advance from customers		**2,618,944**	1,842,678
Current income tax liabilities		**797,802**	565,855
Borrowings	*16*	**14,203,679**	12,116,126
		19,774,796	16,815,854
Total liabilities		**37,517,795**	36,082,022
Total equity and liabilities		**70,708,361**	66,166,811

CASH FLOW INFORMATION

	Unaudited Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the Period	**4,329,648**	1,919,084
Adjustments for non-cash items/income tax/other items with investing or financing cash flows effects	**2,614,120**	2,065,666
Changes in working capital	**(1,629,667)**	362,489
Cash generated from operations	**5,314,101**	4,347,239
Income tax paid	**(650,261)**	(188,713)
Interest paid	**(589,343)**	(630,436)
Net cash generated from operating activities	**4,074,497**	3,528,090
Net cash used in investing activities	**(2,118,908)**	(1,357,557)
Net cash generated from/(used in) financing activities	**223,290**	(7,262,021)
Net increase/(decrease) in cash and cash equivalents	**2,178,879**	(5,091,488)
Cash and cash equivalents at beginning of the period	**6,472,756**	11,002,470
Exchange losses on cash and cash equivalents	**(33,559)**	(30,910)
Cash and cash equivalents at end of the period	**8,618,076**	5,880,072

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 26 February 2018.

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 2017, 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 2017.

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 2017, 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 2017. 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	
	2017	2016
	RMB'000	*RMB'000*
Sales of packaging paper	**24,192,370**	17,954,226
Sales of recycled printing and writing paper	**1,294,686**	1,042,439
Sales of high value specialty paper products	**162,386**	128,359
	25,649,442	19,125,024

6. OPERATING PROFIT

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

	Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Depreciation *(Note 11)*	**991,903**	991,260
Less: amount charged to other expenses	**(2,037)**	(1,981)
	989,866	989,279
Amortisation of land use rights *(Note 11)*	**19,579**	18,765
Amortisation of intangible assets *(Note 12)*	**3,986**	2,905
Employee benefit expenses	**846,752**	780,253
Changes in finished goods	**(1,051,615)**	532,045
Raw materials and consumables used	**19,056,222**	13,814,480

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income:		
Interest income from bank deposits	**45,763**	74,531
Finance costs:		
Interest on borrowings	**(485,012)**	(491,350)
Other incidental borrowing costs	**(44,869)**	(66,117)
Less: interest capitalised	**38,482**	21,382
	(491,399)	(536,085)
Bills discount charge	**(1,322)**	(38,183)
Gains from interest rate swap contracts	**—**	1,106
	(492,721)	(573,162)

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax and withholding income tax *(Notes (a)&(b))*	**931,543**	281,559
— Hong Kong profits tax *(Note (c))*	**—**	—
	931,543	281,559
Deferred income tax	**170,580**	166,482
	1,102,123	448,041

(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 2016: 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 2016: 5%).

(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 2016: nil).

9. EARNINGS PER SHARE

— Basic

	Six months ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**4,329,268**	1,914,683
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,674,221**	4,667,683
Basic earnings per share *(RMB per share)*	**0.93**	0.41

— 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 monetary value of the subscription right 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.

	Six months ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**4,329,268**	1,914,683
Weighted average number of ordinary shares for basic earnings per share *(shares in thousands)*	**4,674,221**	4,667,683
Adjustment for share options *(shares in thousands)*	**10,961**	6,146
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,685,182**	4,673,829
Diluted earnings per share *(RMB per share)*	**0.92**	0.41

10. DIVIDENDS

	Six months ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interim dividend *(Note b)*	**467,422**	233,444

(a) 2017 final dividend of RMB25.0 cents per ordinary share, totalling approximately RMB1,168,555,000 has been approved in the Company's Annual General Meeting on 18 December 2017 out of other reserves of the Company and paid on 26 January 2018.

2016 final dividend of RMB8.0 cents and special dividend of RMB3.0 cents per ordinary share, totaling approximately RMB513,583,000 has been approved in the Company's Annual General Meeting on 7 December 2016 out of other reserve of the Company and paid on 12 January 2017.

(b) The directors recommend the payment of an interim dividend of RMB10.0 cents (six months ended 31 December 2016: RMB5.0 cents) per ordinary share, totalling approximately RMB467,422,000 for the Period (six months ended 31 December 2016: RMB233,444,000). Such interim dividend has been approved in the meeting of the Board on 26 February 2018. This condensed consolidated interim financial information does not reflect this interim dividend payable.

11. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment	**Land use rights**
	RMB'000	*RMB'000*
Six months ended 31 December 2017		
Opening net book amount as at 1 July 2017	**46,415,144**	**1,520,792**
Additions	**2,227,901**	**—**
Disposals	**(128,942)**	**—**
Depreciation/amortisation *(Note 6)*	**(991,903)**	**(19,579)**
Exchange difference	**(50,392)**	**(348)**
Closing net book amount as at 31 December 2017	**47,471,808**	**1,500,865**
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 *(Note 6)*	(991,260)	(18,765)
Exchange difference	822	884
Closing net book amount as at 31 December 2016	45,727,229	1,541,393

12. INTANGIBLE ASSETS

	Intangible assets *RMB'000*
Six months ended 31 December 2017	
Opening net book amount as at 1 July 2017	**230,664**
Additions	**1,350**
Amortisation *(Note 6)*	**(3,986)**
Closing net book amount as at 31 December 2017	**228,028**
Six months ended 31 December 2016	
Opening net book amount as at 1 July 2016	245,275
Additions	1,995
Amortisation *(Note 6)*	(2,905)
Impairment	(15,000)
Closing net book amount as at 31 December 2016	229,365

13. INVENTORIES

	31 December 2017 ***RMB'000***	30 June 2017 *RMB'000*
At cost:		
Raw materials	**3,344,649**	2,849,572
Finished goods	**2,881,157**	1,829,542
	6,225,806	4,679,114

14. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2017 RMB'000	30 June 2017 RMB'000
Trade receivables *(Notes (b)&(c))*	**2,902,126**	3,074,962
Bills receivable *(Note (d))*	**2,081,401**	2,324,286
	4,983,527	5,399,248
Value-added tax recoverable	**368,612**	431,413
Other receivables and deposits	**304,887**	376,133
Prepayments	**775,244**	434,437
Less: other receivables included in non-current assets	**(21,305)**	(21,305)
	1,427,438	1,220,678

(a) As at 31 December 2017, 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 2017, the ageing analysis of trade receivables based on invoice date is as follows:

	31 December 2017 RMB'000	30 June 2017 RMB'000
0–30 days	**2,653,895**	2,730,132
31–60 days	**233,507**	335,500
61–90 days	**14,724**	8,129
Over 90 days	**—**	1,201
	2,902,126	3,074,962

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 are mainly with maturity period of 90 to 180 days (30 June 2017: 90 to 180 days). Bills receivable as at 31 December 2017 represents the bank acceptance notes and commercial bills (30 June 2017: same).

15. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares in thousands	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
		HKD'000	*RMB'000*	*RMB'000*	*RMB'000*
Issued and fully paid:					
Six months ended 31 December 2017					
Balance as at 1 July 2017	**4,674,221**	**467,422**	**478,977**	**8,765,002**	**9,243,979**
Reduction of share premium and transfer to contributed surplus	**—**	**—**	**—**	**(5,000,000)**	**(5,000,000)**
Balance as at 31 December 2017	**4,674,221**	**467,422**	**478,977**	**3,765,002**	**4,243,979**
Six months ended 31 December 2016					
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	4,668,871	466,887	478,499	8,741,937	9,220,436

16. BORROWINGS

	31 December 2017	30 June 2017
	RMB'000	*RMB'000*
Non-current		
— Long-term bank and other borrowings	**15,141,509**	16,832,996
Current		
— Short-term bank borrowings	**10,572,321**	9,843,130
— Current portion of long-term bank and other borrowings	**3,631,358**	1,873,196
— Current portion of medium-term notes	**—**	399,800
	14,203,679	12,116,126
	29,345,188	28,949,122

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

	31 December 2017 Bank and other borrowings *RMB'000*
Within 1 year	**14,203,679**
Between 1 and 2 years	**9,512,818**
Between 2 and 5 years	**5,499,502**
Over 5 years	**129,189**
	29,345,188

	30 June 2017		
	Bank and other borrowings *RMB'000*	Medium-term notes *RMB'000*	Total *RMB'000*
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
	28,549,322	399,800	28,949,122

17. TRADE AND BILLS PAYABLES

	31 December 2017 *RMB'000*	30 June 2017 *RMB'000*
Trade payables *(Note (a))*	**1,358,616**	1,438,397
Bills payable	**795,755**	852,798
	2,154,371	2,291,195

(a) As at 31 December 2017, the ageing analysis of trade payables based on invoice date is as follows:

	31 December 2017 *RMB'000*	30 June 2017 *RMB'000*
0–90 days	**1,305,765**	1,404,215
91–180 days	**21,799**	17,693
181–365 days	**15,737**	11,475
Over 365 days	**15,315**	5,014
	1,358,616	1,438,397

18. COMMITMENTS

(a) Capital commitments

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

	31 December 2017 *RMB'000*	30 June 2017 *RMB'000*
Not later than one year	**4,674,433**	3,778,224
Later than one year and not later than five years	**439,060**	516,731
	5,113,493	4,294,955

(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:

	31 December 2017 *RMB'000*	30 June 2017 *RMB'000*
Not later than one year	**5,300**	7,023
Later than one year and not later than five years	**2,024**	2,055
Later than five years	**14,932**	15,409
	22,256	24,487

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 quality 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. The Group employs advanced, highly automated imported equipment and systems for production, and has a highly proficient, service-oriented sales team to address the needs of its extensive network of customers.

As government environmental policy becomes more determined and stringent, and environmental enforcement becomes more extensive and rigorous, supply-demand dynamics in the China packaging paperboard industry is further improving, thus making ND Paper's leadership advantages more prominent in a market where profitability is basically stabilizing at reasonable levels. Meanwhile, the government's tightened control on imported recovered paper has resulted in significant volatility in both imported and domestic recovered paper prices. In such a challenging market environment, the Group has adopted a proactive strategy to achieve the appropriate balance between selling prices, sales volume and inventory levels for optimal profitability, and has recorded historical high sales revenue and profits during the Period.

Although the import of recovered paper into China has become more restrictive, the Group is still able to maintain 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. The purchase value of domestic recovered paper accounted for approximately 57.3% of the total value of the Group's purchase of recovered paper in the Period.

During the Period, PM2(VN) at the Vietnam base commenced production in August, 2017. With a design production capacity of 350,000 tpa for linerboard products, the commencement of this new paper machine has brought the Group's total design production capacity to 14.1 million tpa.

In addition to production efficiency, flexibility in procurement, product quality and service excellence, the Group's leadership position in the industry is also reflected in its technological differentiation and innovation in various facets of paper production and environmental management. To date, 362 patents have been obtained and another 129 patent applications or approvals are being processed.

Business Strategy and Development Plan

The Group is currently implementing new paper machine plans at a number of production bases. These include:

Production Base	Product	Design Capacity	Target Commencement Date
Quanzhou (Phase II)	Linerboard	350,000 tpa	Before end of 2018
Chongqing (Phase III)	Linerboard	550,000 tpa	Before end of 2018
Hebei (Phase II)	Linerboard	500,000 tpa	Before end of 2018
Shenyang (Phase II)	Linerboard	600,000 tpa	Before end of Jun, 2019
Dongguan	Linerboard	600,000 tpa	Before end of Jun, 2019
Quanzhou (Phase III)	Linerboard	650,000 tpa	Before end of Jun, 2019

Upon completion of these projects targeted at before the end of June, 2019, the Group's total design production capacity will exceed 17 million tpa, with significant improvements in economies of scale, in particular at those currently relatively smaller production bases.

In parallel with the abovementioned expansion plans, the Group maintains continuous efforts in enhancing its existing operations for long-term competitive advantages and profitability, e.g. equipment upgrading, efficiency improvements and cost controls. The Group is also proactively developing a more comprehensive and effective "Big Data" information system for intelligent management, progressing towards the goals of more comprehensive "informatization, automation and intelligentization".

The Group continued as the industry's role model in environmental governance and compliance, and has successfully completed the necessary government environmental assessment and approval. 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.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB25,649.4 million for the Period, representing an increase of approximately 34.1% 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 94.3% of the revenue, with the remaining revenue of approximately 5.7% generated from its recycled printing and writing paper and high value specialty paper products business.

The Group's design capacity in commercial production in packaging paperboard and recycled printing and writing paper as at 31 December 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. PM2(VN) at the Vietnam base commenced its commercial production in January 2018, adding an additional design production capacity of 350,000 tpa for linerboard products, and lifting the Group's design capacity in commercial production to 14.1 million tpa.

The increase of Group's sales was mainly driven by the increase in the selling price of the products, which was partially offset by the decrease in the Group's sales volume. The Group's sale volume of packaging paperboard products, recycled printing and writing paper and specialty paper products decreased by approximately 10.7% to approximately 6.3 million tonnes, as compared with the corresponding period last year.

The sales volume of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for the Period decreased by approximately 7.4%, 13.6%, 15.3% and 8.0% 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 97.4% of the Group's total revenue, while the remaining revenue of 2.6% 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 4.5% (six months ended 31 December 2016: 5.2%) of the total revenue, with that to the single largest customer accounted for approximately 1.1% (six months ended 31 December 2016: 1.5%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB6,289.7 million, an increase of approximately RMB2,798.9 million or 80.2% as compared with RMB3,490.8 million in the corresponding period last year. The gross profit margin increased from 18.3% to approximately 24.5%, 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 0.3% from RMB499.6 million in the corresponding period last year to approximately RMB501.3 million in the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue decreased from 2.6% in the corresponding period last year to approximately 2.0% in the Period.

Administrative expenses

Administrative expenses increased by approximately 4.3% from RMB534.0 million in the corresponding period last year to approximately RMB557.0 million in the Period. As a percentage of Group's revenue, the administrative expenses decreased from 2.8% in the corresponding period last year to approximately 2.2% in the Period.

Operating profit

The operating profit for the Period was approximately RMB5,931.4 million, representing an increase of approximately RMB3,195.4 million or 116.8% over the RMB2,736.0 million of the corresponding period last year. The operating profit margin increased to approximately 23.1% in the Period from 14.3% in the corresponding period last year.

Finance costs

The finance costs for the Period decreased by approximately 14.0% from RMB573.2 million in the corresponding period last year to approximately RMB492.7 million in the Period. The decrease in finance cost was mainly contributed by (i) the decrease of incidental borrowing costs of approximately RMB21.2 million; (ii) the reduction of bills discount charges of approximately RMB36.9 million; and (iii) the increase of interest capitalised of approximately RMB17.1 million in the Period as compared with the corresponding period last year.

Exchange losses on operating and financing activities

The exchange losses on operating and financing activities before tax for the Period in aggregation amounted to approximately RMB4.9 million (represented by exchange gains on operating activities before tax of approximately RMB96.1 million and exchange losses on financing activities before tax of approximately RMB101.0 million respectively), decreased substantially by approximately RMB102.2 million or 95.4% from RMB107.1 million in the corresponding period last year.

The aggregated exchange losses on operating and financing activities net of tax amounted to approximately RMB21.2 million for the Period as compared to RMB87.5 million in the corresponding period last year.

Income tax expense

The Group's income tax expenses increased from RMB448.0 million in the corresponding period last year to approximately RMB1,102.1 million due to the substantial increase in profit before tax.

The Group's effective tax rate increased from 18.9% in the corresponding period last year to approximately 20.3% in the Period.

Net profit

The profit attributable to the equity holders of the Company for the Period was approximately RMB4,329.3 million. If the exchange losses on operating and financing activities net of tax of approximately RMB21.2 million were excluded, the profit attributable to equity holders of the Company for the Period was approximately RMB4,350.5 million, increased by approximately 117.3% as compared to the corresponding period last year due to an increase in the selling price of the products and a better profit margin of the Group.

The profit attributable to equity holders of the Company for the corresponding period last year was RMB2,002.2 million if the exchange losses on operating and financing activities net of tax amounted to RMB87.5 million were excluded.

Working capital

The level of inventory as at 31 December 2017 increased by approximately 33.1% to approximately RMB6,225.8 million from RMB4,679.1 million as at 30 June 2017. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB3,344.6 million and finished goods of approximately RMB2,881.2 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 24 days and 27 days respectively during the Period, compared with 22 days and 6 days in the same period last year.

The trade and bills receivables as at 31 December 2017 were approximately RMB4,983.5 million, decreased by approximately 7.7% from RMB5,399.2 million as at 30 June 2017. The turnover days of trade receivables were approximately 20 days, compared to 24 days in the same period last year. As at 31 December 2017, the trade receivables with age less than 60 days accounted for approximately 99.5% of the total trade receivables.

The trade and bills payables decreased by approximately 6.0% to approximately RMB2,154.4 million as at 31 December 2017 from RMB2,291.2 million as at 30 June 2017. The turnover days of trade and bills payable were approximately 20 days, compare with 52 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 2017, the Groups had bank and cash balances, short-term bank deposits and restricted cash amounted to approximately RMB8,680.1 million and total undrawn bank facilities of approximately RMB35,467.7 million.

As at 31 December 2017, the shareholders' funds were approximately RMB32,919.4 million, an increase of approximately RMB3,170.7 million from that as at 30 June 2017.

Debts Management

The Group had outstanding borrowings as at 31 December 2017 of approximately RMB29,345.2 million. The short-term and long-term borrowings amounted to approximately RMB14,203.7 million and RMB15,141.5 million respectively, accounting for approximately 48.4% and 51.6% of the total borrowings respectively. As at the end of the Period, about 99.2% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio of the Group decreased from 74.6% as at 30 June 2017 to approximately 62.3% as at 31 December 2017. The Board will closely monitor the Group's net borrowings to total equity ratio and reduce the 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 2017, total foreign currency borrowings amounted to the equivalent of approximately RMB10,609.9 million and loans denominated in RMB amounted to approximately RMB18,735.3 million, representing approximately 36.2% and 63.8% 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 RMB2,179.6 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 RMB5,113.5 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 2017, the Group had no material contingent liabilities.

FUTURE OUTLOOK

As China transforms into a sustainable economy, corporates with strong emphasis on more disciplined management and environmental standards are expected to excel, with immense potential for more stable long-term development. Non-compliant capacities in the packaging paperboard industry will continue to be shut down. New capacities of ND Paper will offer more high quality products to replace low quality products in the market. Nevertheless, new capacities are expected to emerge during certain periods and imported raw materials will also be tightened, representing challenges to be met by the Group with confidence and great "inner power". ND Paper will adopt an effective strategy to adjust for changing supply-demand dynamics in the market, and enhance upstream and downstream integration along the supply chain in order to create the optimal synergy for the best shareholders' value in the long term.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB10.0 cents (equivalent to approximately HK12.34 cents) per share for the Period, which is expected to be paid to the shareholders by post on or about Friday, 18 May 2018. 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 Monday, 7 May 2018. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 to RMB0.81009 as at 26 February 2018 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 Thursday, 3 May 2018 to Monday, 7 May 2018, 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 Wednesday, 2 May 2018.

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, 26 February 2018

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 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*