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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 2014**

**FINANCIAL HIGHLIGHTS**

- Sales increased by 6.6% to approximately RMB15,686.5 million.
- Gross profit margin decreased to approximately 13.5%.
- Loss arising from disposal of a subsidiary of approximately RMB26.6 million.
- Profit for the Period decreased by 28.7% to approximately RMB700.8 million.
- The net borrowings to total equity ratio decreased to approximately 102.9%.
- Basic earnings per share decreased by 28.6% to approximately RMB0.15.
- Interim dividend per share of RMB2.0 cents (equivalent to approximately HK2.53 cents).

**FINANCIAL RESULTS**

The Board of Directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2014 (the “Period”), together with the comparative figures for the corresponding period of last year.

\* *for identification purposes only*

## INTERIM CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2014</b>	<b>2013</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Sales</b>	5	<b>15,686,503</b>	14,713,844
Cost of goods sold	6	<b>(13,566,110)</b>	(12,394,239)
<b>Gross profit</b>		<b>2,120,393</b>	2,319,605
Other income/(expenses) and other gains — net		<b>144,370</b>	121,531
Loss arising from disposal of a subsidiary		<b>(26,640)</b>	—
Selling and marketing costs	6	<b>(291,317)</b>	(250,975)
Administrative expenses	6	<b>(472,404)</b>	(430,782)
<b>Operating profit</b>		<b>1,474,402</b>	1,759,379
Finance income	7	<b>86,068</b>	28,331
Finance costs	7	<b>(670,858)</b>	(588,423)
Finance costs — net		<b>(584,790)</b>	(560,092)
Share of profit of an associate		<b>31,116</b>	14,712
<b>Profit before income tax</b>		<b>920,728</b>	1,213,999
Income tax expense	8	<b>(219,883)</b>	(231,321)
<b>Profit for the Period</b>		<b>700,845</b>	982,678
<b>Profit attributable to:</b>			
— Equity holders of the Company		<b>679,333</b>	972,602
— Non-controlling interests		<b>21,512</b>	10,076
		<b>700,845</b>	982,678
<b>Basic and diluted earnings per share for profit attributable to equity holders of the Company</b> <i>(expressed in RMB per share)</i>	9	<b>0.15</b>	0.21

Details of dividends payable 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>2014</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the Period</b>	<b>700,845</b>	982,678
<b>Other comprehensive income:</b>		
<i>(items that may be reclassified to profit or loss)</i>		
— Currency translation differences	(3,821)	(6,103)
— Cash flow hedges	(294)	—
	<hr/>	<hr/>
<b>Other comprehensive income for the Period</b>	<b>(4,115)</b>	(6,103)
	<hr/>	<hr/>
<b>Total comprehensive income for the Period</b>	<b>696,730</b>	976,575
	<hr/> <hr/>	<hr/> <hr/>
<b>Attributable to:</b>		
— Equity holders of the Company	676,591	968,469
— Non-controlling interests	20,139	8,106
	<hr/>	<hr/>
	<b>696,730</b>	976,575
	<hr/> <hr/>	<hr/> <hr/>

## INTERIM CONSOLIDATED BALANCE SHEET

		31 December 2014	30 June 2014
	<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	45,209,625	45,599,196
Land use rights	11	1,490,135	1,479,774
Intangible assets	12	220,703	223,245
Investment in an associate and a joint venture		104,795	52,739
Deferred income tax assets		15,438	24,284
<b>Total non-current assets</b>		<b>47,040,696</b>	47,379,238
<b>Current assets</b>			
Inventories	13	3,500,809	4,523,339
Trade and bills receivables	14	5,135,712	4,894,602
Other receivables and prepayments	14	2,158,007	2,230,970
Tax recoverable		23,001	12,990
Derivative financial instruments		—	3,460
Restricted cash		—	36,759
Cash and cash equivalents		7,018,172	7,901,644
<b>Total current assets</b>		<b>17,835,701</b>	19,603,764
<b>Total assets</b>		<b>64,876,397</b>	66,983,002
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	15	9,208,587	9,208,587
Other reserves		1,172,869	1,174,678
Retained earnings			
— Proposed dividend		93,324	279,973
— Unappropriated retained earnings		13,995,356	13,409,347
		<b>24,470,136</b>	24,072,585
<b>Non-controlling interests</b>		<b>414,779</b>	526,891
<b>Total equity</b>		<b>24,884,915</b>	24,599,476

**INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)**

		<b>31 December 2014</b>	30 June 2014
	<i>Note</i>	<i>RMB'000</i> <b>(Unaudited)</b>	<i>RMB'000</i> <b>(Audited)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	16	<b>21,231,537</b>	23,124,364
Deferred income tax liabilities		<b>1,775,134</b>	1,628,329
Other payables		<b>38,764</b>	31,457
<b>Total non-current liabilities</b>		<b>23,045,435</b>	24,784,150
<b>Current liabilities</b>			
Trade and bills payables	17	<b>3,637,235</b>	3,243,183
Other payables and deposits received		<b>1,566,698</b>	1,649,556
Current income tax liabilities		<b>361,196</b>	354,311
Borrowings	16	<b>11,380,918</b>	12,349,656
Derivative financial instruments		<b>—</b>	2,670
<b>Total current liabilities</b>		<b>16,946,047</b>	17,599,376
<b>Total liabilities</b>		<b>39,991,482</b>	42,383,526
<b>Total equity and liabilities</b>		<b>64,876,397</b>	66,983,002
<b>Net current assets</b>		<b>889,654</b>	2,004,388
<b>Total assets less current liabilities</b>		<b>47,930,350</b>	49,383,626

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2014</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Cash generated from operations	3,641,953	2,437,529
Income tax paid	(59,734)	(55,558)
Interest paid	(908,184)	(881,112)
	<b>2,674,035</b>	1,500,859
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(801,822)	(1,456,766)
Payment for intangible assets	—	(1,940)
Payment for land use rights	(59,298)	(45,748)
Proceeds from disposal of property, plant and equipment	7,784	7,788
Interest received	86,068	28,331
Capital injection to a joint venture	(20,940)	—
Disposal of a subsidiary	(7,075)	—
	<b>(795,283)</b>	(1,468,335)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	13,684,447	11,262,737
Repayments of borrowings	(16,372,727)	(10,770,902)
Restricted cash released	35,759	—
Payment for acquisition of additional interests in a subsidiary	(1,000)	—
Payment for derivative financial instruments	(11,526)	—
Dividend paid to equity holders of the Company	(93,576)	—
Exercise of share options	—	2,445
	<b>(2,758,623)</b>	494,280
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(879,871)</b>	526,804
Cash and cash equivalents at beginning of the Period	7,901,644	6,015,451
Exchange losses on cash and cash equivalents	(3,601)	(19,917)
	<b>7,018,172</b>	6,522,338
<b>Cash and cash equivalents at end of the Period</b>	<b>7,018,172</b>	6,522,338

## **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 Company and its subsidiaries (together the “Group”) are principally engaged in the manufacture and sales of packaging paper, recycled printing and writing paper, pulp 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 thousands of Renminbi (“RMB”), unless otherwise stated. The condensed consolidated interim financial information was approved for issue on 25 February 2015.

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 2014, 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 the 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 2014, with the exception of changes in estimates that are required in determining the provision for income taxes.

## **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 2014, 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 2014. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

## **4. SEGMENT INFORMATION**

The Group is principally engaged in the manufacture and sale of packaging paper, recycled printing and writing paper, pulp 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	
	2014	2013
	RMB'000	RMB'000
Sales of packaging paper	14,500,447	13,552,827
Sales of recycled printing and writing paper	1,043,240	988,087
Sales of high value specialty paper products	120,640	115,030
Sales of pulp	22,176	57,900
	<u>15,686,503</u>	<u>14,713,844</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	
	2014	2013
	RMB'000	RMB'000
Depreciation ( <i>Note 11</i> )	902,682	814,878
Less: amount charged to other expenses	(1,827)	(2,319)
	900,855	812,559
Amortisation of land use rights ( <i>Note 11</i> )	16,918	17,594
Amortisation of intangible assets ( <i>Note 12</i> )	2,542	2,248
Employee benefit expenses	624,237	569,380
Changes in finished goods	398,475	364,109
Raw materials and consumables used (net of claims)	<u>11,989,546</u>	<u>10,971,849</u>

## 7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>86,068</u>	<u>28,331</u>
Finance costs:		
Interest on borrowings	(681,624)	(751,199)
Other incidental borrowing costs	(98,021)	(60,906)
Less: interest and other incidental borrowing costs capitalised	<u>27,973</u>	<u>122,525</u>
	<u>(751,672)</u>	<u>(689,580)</u>
Bills discount charge	(55,734)	(49,252)
Exchange gains on financing activities	146,001	150,409
Cash flow hedge reserve released	(5,993)	—
Fair value loss on foreign exchange option contracts	<u>(3,460)</u>	<u>—</u>
	<u>(670,858)</u>	<u>(588,423)</u>

## 8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
— Hong Kong profits tax ( <i>Note (a)</i> )	—	—
— PRC corporate income tax ( <i>Note (b)</i> )	<u>64,232</u>	<u>94,611</u>
	<u>64,232</u>	<u>94,611</u>
Deferred income tax	<u>155,651</u>	<u>136,710</u>
	<u>219,883</u>	<u>231,321</u>

### (a) 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 2013: nil).

### (b) 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 2013: 15%).

## 9. EARNINGS PER SHARE

### — Basic

	Six months ended 31 December	
	2014	2013
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>679,333</u>	<u>972,602</u>
Weighted average number of ordinary shares in issue ( <i>shares in thousands</i> )	<u>4,666,221</u>	<u>4,665,516</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>0.15</u>	<u>0.21</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. As the exercise price of the share options is higher than the average market price of the Company's shares during the six months ended 31 December 2014 and 2013, respectively, there is no potential dilutive impact of the share options for the six months ended 31 December 2014 and 2013.

## 10. DIVIDEND

	Six months ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend ( <i>Note b</i> )	<u>93,324</u>	<u>93,324</u>

- (a) A 2014 final dividend of RMB6.0 cents (2013 final: RMB8.0 cents) per ordinary share, totalling approximately RMB279,973,000 (2013 final: RMB373,170,000) has been approved in the Company's Annual General Meeting on 15 December 2014 and paid in January 2015.
- (b) The directors recommend the payment of an interim dividend of RMB2.0 cents (six months ended 31 December 2013: RMB2.0 cents) per ordinary share, totalling approximately RMB93,324,000 for the Period (six months ended 31 December 2013: RMB 93,324,000). Such interim dividend has been approved in the meeting of the Board on 25 February 2015. The condensed interim financial information does not reflect this interim dividend payable.

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

Property, plant and equipment <i>RMB'000</i>	Land use rights <i>RMB'000</i>
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### Six months ended 31 December 2014

Opening net book amount as at 1 July 2014	45,599,196	1,479,774
Additions	789,940	69,298
Disposals	(30,311)	—
Disposal of a subsidiary	(245,905)	(41,918)
Exchange difference	(613)	(101)
Depreciation /amortisation charges ( <i>Note 6</i> )	(902,682)	(16,918)
	<u>45,209,625</u>	<u>1,490,135</u>
Closing net book amount as at 31 December 2014		

### Six months ended 31 December 2013

Opening net book amount as at 1 July 2013	44,690,831	1,522,704
Additions	1,504,388	—
Disposals	(8,347)	—
Exchange difference	(1,054)	(550)
Depreciation /amortisation charges ( <i>Note 6</i> )	(814,878)	(17,594)
	<u>45,370,940</u>	<u>1,504,560</u>
Closing net book amount as at 31 December 2013		

## 12. INTANGIBLE ASSETS

*RMB'000*

### Six months ended 31 December 2014

Opening net book amount as at 1 July 2014	223,245
Amortisation ( <i>Note 6</i> )	(2,542)
	<u>220,703</u>
Closing net book amount as at 31 December 2014	

### Six months ended 31 December 2013

Opening net book amount as at 1 July 2013	225,747
Additions	1,940
Amortisation ( <i>Note 6</i> )	(2,248)
	<u>225,439</u>
Closing net book amount as at 31 December 2013	

### 13. INVENTORIES

	31 December 2014 RMB'000	30 June 2014 RMB'000
At cost:		
Raw materials	2,244,358	2,779,141
Finished goods	1,256,451	1,744,198
	<u>3,500,809</u>	<u>4,523,339</u>

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

	31 December 2014 RMB'000	30 June 2014 RMB'000
Trade receivables ( <i>Notes (b) &amp; (c)</i> )	1,949,931	2,116,397
Bills receivable ( <i>Note (d)</i> )	3,185,781	2,778,205
	<u>5,135,712</u>	<u>4,894,602</u>
Value-added tax receivable	973,407	1,279,857
Other receivables, deposits and prepayments	1,184,600	951,113
	<u>2,158,007</u>	<u>2,230,970</u>

- (a) As at 31 December 2014, the fair value of trade, bills and other receivables approximate their carrying amounts.
- (b) The Group's credit sales to corporate customers are entered into on credit terms of around 30 to 60 days.
- (c) As at 31 December 2014, the ageing analysis of trade receivables is as follows:

	31 December 2014 RMB'000	30 June 2014 RMB'000
0-30 days	1,555,260	1,359,182
31-60 days	343,524	672,258
61-90 days	23,916	41,830
Over 90 days	27,231	43,127
	<u>1,949,931</u>	<u>2,116,397</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 are normally with maturity period of 90 to 180 days. (30 June 2014: 90 to 180 days)

## 15. SHARE CAPITAL

	Number of ordinary shares <i>Shares in thousands</i>	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>Six months ended 31 December 2014</b>					
Balance as at 1 July 2014 and 31 December 2014	<u>4,666,221</u>	<u>466,622</u>	<u>478,272</u>	<u>8,730,315</u>	<u>9,208,587</u>
<b>Six months ended 31 December 2013</b>					
Balance as at 1 July 2013	4,664,621	466,462	478,145	8,726,836	9,204,981
Exercise of share options	1,600	160	127	3,479	3,606
Balance as at 31 December 2013	<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 2014 <i>RMB'000</i>	30 June 2014 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	19,737,712	22,028,389
— Medium-term note	1,493,825	1,095,975
	<u>21,231,537</u>	<u>23,124,364</u>
Current		
— Short-term bank borrowings	8,935,084	6,872,435
— Current portion of long-term bank and other borrowings	2,145,834	2,280,309
— Current portion of medium-term note	—	2,797,179
— Short-term commercial paper	300,000	399,733
	<u>11,380,918</u>	<u>12,349,656</u>
	<u>32,612,455</u>	<u>35,474,020</u>

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

	31 December 2014			
	Bank and other borrowings <i>RMB'000</i>	Short-term commercial paper <i>RMB'000</i>	Medium- term note <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	11,080,918	300,000	—	11,380,918
Between 1 and 2 years	12,692,192	—	1,097,025	13,789,217
Between 2 and 5 years	7,016,942	—	396,800	7,413,742
Over 5 years	28,578	—	—	28,578
	<u>30,818,630</u>	<u>300,000</u>	<u>1,493,825</u>	<u>32,612,455</u>

	30 June 2014			
	Bank and other borrowings <i>RMB'000</i>	Short-term commercial paper <i>RMB'000</i>	Medium- term note <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	9,152,744	399,733	2,797,179	12,349,656
Between 1 and 2 years	10,782,965	—	1,095,975	11,878,940
Between 2 and 5 years	10,284,208	—	—	10,284,208
Over 5 years	961,216	—	—	961,216
	<u>31,181,133</u>	<u>399,733</u>	<u>3,893,154</u>	<u>35,474,020</u>

## 17. TRADE AND BILLS PAYABLES

	31 December 2014 <i>RMB'000</i>	30 June 2014 <i>RMB'000</i>
Trade payables ( <i>Note (a)</i> )	1,225,130	1,672,379
Bills payable	<u>2,412,105</u>	<u>1,570,804</u>
	<u>3,637,235</u>	<u>3,243,183</u>

(a) As at 31 December 2014, the ageing analysis of trade payables is as follows:

	31 December 2014 <i>RMB'000</i>	30 June 2014 <i>RMB'000</i>
0–90 days	1,187,963	1,476,116
91–180 days	11,896	158,497
181–365 days	4,061	15,452
Over 365 days	<u>21,210</u>	<u>22,314</u>
	<u>1,225,130</u>	<u>1,672,379</u>

## 18. COMMITMENTS

### (a) Capital commitments

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

	<b>31 December</b> <b>2014</b> <i>RMB'000</i>	30 June 2014 <i>RMB'000</i>
<b>Contracted but not provided for</b>		
Not later than one year	<b>369,672</b>	380,097
Later than one year and not later than five years	<b>443,408</b>	496,359
	<u><b>813,080</b></u>	<u>876,456</u>
<b>Authorised but not contracted for</b>		
Not later than one year	<b>450,000</b>	500,000
Later than one year and not later than five years	<b>1,150,000</b>	1,100,000
	<u><b>1,600,000</b></u>	<u>1,600,000</u>
	<u><b>2,413,080</b></u>	<u>2,476,456</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> <b>2014</b> <i>RMB'000</i>	30 June 2014 <i>RMB'000</i>
Not later than one year	<b>2,078</b>	1,198
Later than one year and not later than five years	<b>1,889</b>	1,906
Later than five years	<b>15,388</b>	15,767
	<u><b>19,355</b></u>	<u>18,871</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.

Since 2014, China's economy has entered a "new normal" stage of structural transformation. Market demand growth has slowed down. Facing such market changes, the manufacturing sector has adopted a conservative and prudent approach. Within such an environment, although the sales volume in the packaging paper industry has been affected by the continued downturn of the traditional retail model, the changing pattern of market consumption and related logistics driven by online shopping has been able to upkeep a relatively stable demand for packaging paper. Meanwhile, the quantity and scale of terminated outdated production capacities have both been increasing due to the government's proactive implementation of environmental policies at a severity level that has never been seen before. In pace with the continuously accelerating industry consolidation, the Group's advantages in various aspects, including nationwide production base network, diversified product offerings, economies of scale and environmentally friendly paper manufacturing, are becoming more prominent. The Group draws upon its strengths in its stable and strong production capability and a sales team trusted by customers, so as to further consolidate its leading position and unrivalled role in the industry.

During the Period, owing to changes in the general market environment, while terminated outdated capacities and new capacities required adjustments in the short term, product prices were under considerable pressure. Nonetheless, the Group strived to provide customers with products at optimal price/value by leveraging upon its enormous production platform and highly experienced sales team, and continued to maintain a balance between production and sales. A new sales volume record exceeding expectation was achieved while maintaining the record of no bad debt. In the meantime, the Group put cost reduction, efficiency enhancement as well as internal control reinforcement as the main focuses in its operations, diligently enhancing its "inner power". Through stringent systematic control over raw materials, production costs, logistics expenses and capital expenditures as well as further reduction in debts and interest on borrowings, the Group was able to provide more room for profitability and drive stable long-term development.

As at the end of December 2014, the Group's total design production capacity has reached 13.73 million tpa. This included PM37 at the new Shenyang base which completed its construction and commenced production in September 2014, with a design production capacity of 350,000 tpa for linerboard products.

In connection with environmental protection and emission reduction, the Group conducted conscientious and comprehensive implementation of all pertinent government policies and regulations by keeping abreast of the latest government environmental standards and continually increasing investments on environmental management. Employing international state-of-the-art equipment and technology, the Group was able to meet or even exceed government requirements in various aspects and be consecutively recognized as an "Environmental Credible Enterprise in Guangdong Province", establishing itself as an environmentally friendly role model in the paper-making industry. During the Period, the Group's bases continued to obtain ISO14001 certification.

With proactive efforts in developing the domestic procurement of recovered paper, approximately 48% of the Group's total purchase value of recovered paper was sourced in China during the Period.

Technological innovation is a key to future development for an enterprise. The Group continually drives innovation in the various aspects of management, technology and products, etc. To date, 142 patents have been obtained and another 52 patent applications or approvals are being processed.

**The current design production capacities of packaging paper and printing and writing paper at each of the Group's production bases**

<b>(Breakdown by product category)</b>	<i>(million tpa)</i>
Linerboard	7.23
Corrugating medium	3.40
Coated duplex board	2.60
	13.23
Recycled printing and writing paper	0.45

**(Distribution by location)**

Dongguan	38.38%
Taicang	22.15%
Tianjin	15.72%
Chongqing	9.87%
Quanzhou	4.75%
Shenyang	2.56%
Hebei Yongxin	3.65%
Leshan	2.19%
Vietnam	0.73%
Total	100.00%

**The current number of paper machines for packaging paper and printing and writing paper at each of the Group's production bases**

**(Distribution by location)**

Dongguan	15
Taicang	8
Tianjin	5
Chongqing	3
Quanzhou	2
Shenyang	1
Hebei Yongxin	2
Leshan	1
Vietnam	1
Total	38

## **Business Strategy and Development Plan**

The Group firmly adheres to the philosophy of “No environmental management, no paper-making”. With continuous technological innovations and service consciousness enhancements, it steps up equipment automation, enhances production efficiency as well as proactively develops knockout products and explores new products, while persists on the targets for scaling down its borrowings and lowering the debt gearing ratio. ND Paper is continuously making its best endeavours on product diversification, product quality, customer service, economies of scale and financial structure optimization, in a bid to fortify its leading position in the industry and maintain a healthy, prudent and sustainable development, laying the solid foundation for “an enterprise that thrives for a century”.

The Group has basically accomplished its strategic production roadmap for this stage. According to the current production capacity plan, PM2(VN) at the Vietnam base will be completed and commence production by the end of 2016, with a design production capacity of 350,000 tpa, bringing the Group’s total design production capacity to over 14 million tpa. PM39 at the Shenyang base will be completed and commence production in 2017, with a design production capacity of 350,000 tpa. Although no new paper machine will commence production during 2015, sales volume is expected to continue to increase as upgrading efforts on existing paper machines may further enhance production efficiency.

## **FINANCIAL REVIEW**

### **Sales**

The Group achieved a revenue of approximately RMB15,686.5 million for the Period, representing an increase of approximately 6.6% over the corresponding period last year. The major contributor of the Group’s revenue was still from its paper packaging business which accounted for approximately 92.4% of the total Group revenue, with the remaining revenue generated from its recycled printing and writing paper and high value specialty paper products business.

The increase of Group’s sales is mainly driven by approximately 12.9% increase in sales volume, while drop in average selling price by approximately 5.5% for the Period as compared with the corresponding period last year.

The Group’s annual design production capacity of packaging paperboard and recycled printing and writing paper under commercial operation as at 31 December 2014 was 13.33 million tpa, comprising 6.88 million tpa of linerboard, 3.40 million tpa of high performance corrugating medium, 2.60 million tpa of coated duplex board and 0.45 million tpa of recycled printing and writing paper. The Group’s sales volume of packaging paperboard products and recycled printing and writing paper increased by 12.5% to approximately 6.3 million tones in the Period from 5.6 million tones in the corresponding period last year. The increase of the sales volume of packaging paperboard was supported by the contribution from the newly introduced PM35 and PM36 in Quanzhou and PM38 in Leshan, which commenced their commercial operation in March 2014 and November 2014 respectively.

The sales volume of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for the Period increased by approximately 8.0%, 16.6% , 21.4% and 6.8% respectively, as compared with the corresponding period last year.

The majority of the Group’s sales continued to be realised from the domestic market, in particular from the corrugating medium and coated duplex board sectors. For the six month ended 31 December 2014 and 2013, sales related to domestic consumption represented approximately 92.1% and 90.2% of the Group’s total sales respectively, while the remaining sales are 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% (2013: 4.9%) of the total revenue, out of which the single largest customer accounted for approximately 1.6% (2013: 1.5%).

### **Gross Profit**

The gross profit for the Period was approximately RMB2,120.4 million, representing a decrease of approximately 8.6% as compared with RMB2,319.6 million in the same period last year. The gross profit margin for the Period decreased from 15.8% to approximately 13.5%, mainly as a result of drop in average selling price by approximately 5.5% while drop in average cost of sales only by approximately 3.0% for the Period as compared with the corresponding period last year.

### **Loss arising from disposal of a subsidiary**

During the Period, the Group has disposed 55% equity interest held in Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("Inner Mongolia") with a loss arising from this disposal of approximately RMB26.6 million.

Inner Mongolia principally engaged in the manufacture of pulp and paper in the PRC. Due to the serious shortage of raw material and in light of the unsatisfactory financial performance of Inner Mongolia, it is in the best interest of the Group to dispose of its equity interest in Inner Mongolia to avoid further loss. Sales contributed by Inner Mongolia was approximately 0.1% of total sales of the Group for the Period, of which was insignificant to the Group.

### **Selling and marketing costs**

Selling and marketing costs increased by approximately 16.1% from RMB251.0 million in the same period last year to approximately RMB291.3 million in the Period. The increase in the selling and marketing costs was due to more geographical coverage in the Period. As a percentage of the Group's revenue, the selling and marketing costs increased from 1.7% in the same period last year to approximately 1.9% in the Period.

### **Administrative expenses**

Administrative expenses increased from RMB430.8 million in the period last year to approximately RMB472.4 million in the Period. As a percentage of Group revenue, the administrative expenses slightly increased from 2.9% in the same period last year to approximately 3.0% in the Period. The increase during the Period under review was mainly a result of additional management and administrative costs incurred to support the commencement of new paper machines.

### **Operating Profit**

The Group's operating profit for the Period was RMB1,474.4 million, representing a decrease of RMB285.0 million or 16.2% over the RMB1,759.4 million of the same period last year.

### **Finance Costs**

The finance costs for the Period increased from RMB588.4 million in the same period last year to approximately RMB670.9 million. The increase in finance cost was mainly due to the substantial decrease in interest capitalized in property, plant and equipment by approximately RMB94.6 million in the Period as compared to same period last year.

## **Income Tax**

The Group's income tax expenses decreased from RMB231.3 million in the same period last year to approximately RMB219.9 million. The Group's effective tax rate increased from 19.1% in the corresponding period last year to approximately 23.9% in the Period.

## **Net Profit and Net Profit Margin**

The profit attributable to the equity holders of the Company for the Period was approximately RMB679.3 million, representing a decrease of approximately 30.2% over the corresponding period last year. Whilst the net profit margin decreased from 6.6% in the corresponding period last year to approximately 4.3% in the Period.

## **Working Capital**

The level of inventory as at 31 December 2014 decreased by 22.6% to approximately RMB3,500.8 million from RMB4,523.3 million as at 30 June 2014. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB2,244.4 million and finished goods of approximately RMB1,256.4 million.

The turnover days for raw materials (excluding spare parts) and finished products were approximately 18 days and 17 days respectively during the Period, compared to 21 days and 13 days in the corresponding period last year.

The trade and bills receivables as at 31 December 2014 were RMB5,135.7 million, increased by approximately 4.9% from RMB4,894.6 million as at 30 June 2014. The turnover days for trade receivables were 23 days, compared to 26 days in the corresponding period last year. As at 31 December 2014, the trade receivables with age less than 60 days accounted for approximately 97.4% of the total trade receivables.

The trade and bills payables increased by approximately 12.2% to RMB3,637.2 million as at 31 December 2014 from RMB3,243.2 million as at 30 June 2014. The turnover days for trade and bill payables were 49 days, compared to 40 days in the corresponding 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 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 2014, the Group had bank and cash balances of approximately RMB7,018.2 million and total undrawn bank facilities of approximately RMB31,759.3 million.

As at 31 December 2014, the shareholders' funds were approximately RMB24,470.1 million, an increase of RMB397.6 million from that as at 30 June 2014.

The Group had outstanding borrowings as at 31 December 2014 of approximately RMB32,612.5 million. The short-term and long-term borrowings amounted to approximately RMB11,380.9 million and RMB21,231.6 million respectively, accounting for 34.9% and 65.1% of the total borrowings respectively. As at the end of the Period, about 98.6% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio for the Group as at 31 December 2014 decreased to approximately 102.9% from 111.9% as at 30 June 2014, mainly as a result of repayment of total borrowings amounted to approximately RMB2,861.6 million during the Period. The Board will closely monitor the Group's net debt to total equity ratio and reduce the bank borrowings gradually.

### **Treasury Policies**

The Group has established treasury policies with the objectives of achieving effective control of treasury operations and of 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 exchange rates and interest rates on specific transactions and 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 contracts 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 compares 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 foreign currency borrowings. As at 31 December 2014, total foreign currency borrowings amounted to the equivalent of RMB22,990.7 million and RMB loans amounted to RMB9,621.8 million, representing 70.5% and 29.5% of the Group's borrowings respectively.

### **Capital Expenditures**

The Group's payments for the construction of factory buildings, purchase of plant and machinery, and equipment and land use rights during the Period were approximately RMB861.1 million as compared to RMB1,502.5 million in the same period last year.

### **Capital Commitments and Contingencies**

The Group made capital expenditure commitments mainly for machinery of approximately RMB2,413.1 million, which were contracted or authorised but not provided for in the financial statements as at 31 December 2014. These commitments were mainly related to the construction of PM39 and PM2 (VN) for 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.

As of 31 December 2014, the Group had no material contingent liabilities.

## **OUTLOOK**

Looking ahead, China's economy is at a "new normal" stage undergoing transformation from rapid growth to sustainable growth with an emphasis on quality. This turns to more dependence on automation, information, human resources and technological innovations, thus favoring the long-term development for enterprises. Although market sentiment may remain conservative in the short term, with the tightening government environmental policies, a large amount of outdated production capacities are terminated while approval barriers for new paper-making projects will be more stringent. Thus, market order is expected to be back to normal in the future, and enterprises with strong capabilities can more readily stand out from the crowd. In the long run, demand for packaging paper will continue to be closely correlated with consumption. ND Paper will keep abreast of market changes at the "new normal" stage and seize new opportunities emerging from the thriving online shopping business. Furthermore, the Group will continue to refine its internal corporate administration and control, strengthen product quality management and enhance procurement processes and cost control, so as to bring the economies of scale of the current platform into full play, striving to develop into an international leading paper-making enterprise.

## **INTERIM DIVIDEND**

The Board has declared and approved an interim dividend of RMB2.0 cents (equivalent to approximately HK2.53 cents) per share for the Period, which is expected to be payable to the shareholders by post on or before Monday, 20 July 2015. The dividend will be payable to the shareholders whose names appear on the register of members of the Company at the close of business on Monday, 6 July 2015. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.79144 as at 25 February 2015 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, 2 July 2015 to Monday, 6 July 2015, 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, 30 June 2015.

## **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, which comprises four 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  
**Cheung Yan**  
*Chairlady*

Hong Kong, 25 February 2015

*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 independent non-executive directors are Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Dr. Cheng Chi Pang, Mr. Fok Kwong Man and Mr. Wang Hong Bo.*

\* *For identification purposes only*