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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 2015

FINANCIAL HIGHLIGHTS

- Sales increased by 4.0% to approximately RMB16,310.5 million.
- Gross profit rose by 33.4% to approximately RMB2,827.9 million.
- Gross profit margin increased from 13.5% to 17.3%.
- Profit for the Period decreased by 53.2% to approximately RMB327.7 million, mainly due to exchange losses on operating and financing activities of approximately RMB116.8 million and RMB962.1 million, respectively.
- The net borrowings to total equity ratio decreased to approximately 88.7%.
- Basic earnings per share decreased by 53.3% to approximately RMB0.07.
- Interim dividend per share of RMB2.0 cents (equivalent to approximately HK2.38 cents).

FINANCIAL RESULTS

The board of directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2015 (the “Period”), together with the comparative figures for the corresponding period of the last year.

* for identification purpose only

INTERIM CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31 December	
	Note	2015 RMB'000	2014 RMB'000
Sales	5	16,310,521	15,686,503
Cost of goods sold	6	(13,482,631)	(13,566,110)
Gross profit		2,827,890	2,120,393
Other income and other gains — net		319,138	136,235
Exchange (losses)/gains on operating activities — net		(116,839)	8,135
Loss arising from disposal of a subsidiary		—	(26,640)
Selling and marketing costs	6	(378,653)	(291,317)
Administrative expenses	6	(538,270)	(472,404)
Operating profit		2,113,266	1,474,402
Finance income	7	49,065	86,068
Finance costs	7	(652,290)	(816,859)
Finance costs — net		(603,225)	(730,791)
Exchange (losses)/gains on financing activities — net		(962,057)	146,001
Share of profit of an associate and a joint venture — net		18,895	31,116
Profit before income tax		566,879	920,728
Income tax expense	8	(239,221)	(219,883)
Profit for the Period		327,658	700,845
Profit attributable to:			
— Equity holders of the Company		312,023	679,333
— Non-controlling interests		15,635	21,512
		327,658	700,845
Basic earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	9	0.07	0.15
Diluted earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>	9	0.07	0.15

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

	Unaudited Six months ended 31 December	
	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit for the Period	327,658	700,845
Other comprehensive income: <i>(items that may be reclassified subsequently to profit or loss)</i>		
— Currency translation differences	17,735	(3,821)
— Cash flow hedges	—	(294)
Other comprehensive income for the Period	<u>17,735</u>	<u>(4,115)</u>
Total comprehensive income for the Period	<u>345,393</u>	<u>696,730</u>
Attributable to:		
— Equity holders of the Company	325,551	676,591
— Non-controlling interests	<u>19,842</u>	<u>20,139</u>
	<u>345,393</u>	<u>696,730</u>

INTERIM CONSOLIDATED BALANCE SHEET

		31 December 2015	30 June 2015
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	44,909,753	45,010,861
Land use rights	11	1,492,642	1,472,399
Intangible assets	12	248,529	251,528
Investment in an associate and a joint venture		83,135	64,240
Other receivables	14	47,500	—
Deferred income tax assets		27,436	6,750
		<u>46,808,995</u>	<u>46,805,778</u>
Current assets			
Inventories	13	3,182,442	3,553,245
Trade and bills receivables	14	5,158,408	5,351,488
Other receivables and prepayments	14	1,174,010	1,397,598
Tax recoverable		48,007	28,007
Restricted cash		148,771	23,100
Short-term bank deposits		521,527	563,617
Cash and cash equivalents		8,324,085	7,310,840
		<u>18,557,250</u>	<u>18,227,895</u>
Total assets		<u><u>65,366,245</u></u>	<u><u>65,033,673</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	9,208,587	9,208,587
Other reserves		1,290,776	1,240,359
Retained earnings			
— Proposed dividend		93,324	233,311
— Unappropriated retained earnings		14,740,181	14,544,482
		<u>25,332,868</u>	<u>25,226,739</u>
Non-controlling interests		<u>338,281</u>	<u>298,790</u>
Total equity		<u><u>25,671,149</u></u>	<u><u>25,525,529</u></u>

INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

		31 December	30 June
		2015	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	<i>16</i>	19,455,785	19,802,381
Deferred income tax liabilities		2,049,974	1,912,311
Other payables		28,114	34,529
		<u>21,533,873</u>	<u>21,749,221</u>
Current liabilities			
Trade and bills payables	<i>17</i>	4,076,085	3,963,649
Other payables and deposits received		1,336,831	1,181,424
Current income tax liabilities		443,203	423,195
Borrowings	<i>16</i>	12,304,012	12,188,128
Derivative financial instruments		1,092	2,527
		<u>18,161,223</u>	<u>17,758,923</u>
Total liabilities		<u>39,695,096</u>	<u>39,508,144</u>
Total equity and liabilities		<u>65,366,245</u>	<u>65,033,673</u>

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended	
	31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
Cash generated from operations	4,031,207	3,641,953
Income tax paid	(122,236)	(59,734)
Interest paid	(798,150)	(908,184)
	<u>3,110,821</u>	<u>2,674,035</u>
Cash flows from investing activities		
Payment for property, plant and equipment	(922,103)	(801,822)
Payment for land use rights	(37,290)	(59,298)
Proceed from disposal of property, plant and equipment	10,552	7,784
Interest received	49,065	86,068
Capital injection to a joint venture	—	(20,940)
Disposal of a subsidiary	681	(7,075)
Payments for short-term bank deposits	(213,947)	—
Proceeds from short-term bank deposits	256,037	—
	<u>(857,005)</u>	<u>(795,283)</u>
Cash flows from financing activities		
Proceeds from borrowings	21,024,105	13,684,447
Repayments of borrowings	(22,167,237)	(16,372,727)
Changes in restricted cash	(125,671)	35,759
Acquisition of additional interest in a subsidiary	(5,127)	—
Capital injection made by a non-controlling interest	75,020	—
Dividends paid to equity holders of the Company	(93,802)	(93,576)
Dividends paid to non-controlling interests	(39,539)	—
Payment for acquisition of additional interests in a subsidiary	—	(1,000)
Payment for derivate financial instruments	—	(11,526)
	<u>(1,332,251)</u>	<u>(2,758,623)</u>
Net increase/(decrease) in cash and cash equivalents	921,565	(879,871)
Cash and cash equivalents at beginning of the Period	7,310,840	7,901,644
Exchange gains/(losses) on cash and cash equivalents	91,680	(3,601)
	<u>8,324,085</u>	<u>7,018,172</u>
Cash and cash equivalents at end of the Period	8,324,085	7,018,172

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, unless otherwise stated. The condensed consolidated interim financial information was approved for issue by the Board on 24 February 2016.

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 2015, 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 2015.

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 2015, 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 2015. 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 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.

5. SALES

Sales recognised during the Period are as follows:

	Six months ended 31 December	
	2015	2014
	RMB'000	RMB'000
Sales of packaging paper	15,261,400	14,500,447
Sales of recycled printing and writing paper	937,457	1,043,240
Sales of high value specialty paper products	111,664	120,640
Sales of pulp	—	22,176
	<u>16,310,521</u>	<u>15,686,503</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	
	2015	2014
	RMB'000	RMB'000
Depreciation (<i>Note 11</i>)	965,650	902,682
Less: amount charged to other expenses	(1,827)	(1,827)
	963,823	900,855
Amortisation of land use rights (<i>Note 11</i>)	17,472	16,918
Amortisation of intangible assets (<i>Note 12</i>)	2,999	2,542
Employee benefit expenses	700,653	624,237
Changes in finished goods	67,349	398,475
Raw materials and consumables used (net of claims)	<u>12,159,009</u>	<u>11,989,546</u>

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Interest income from bank deposits	<u>49,065</u>	<u>86,068</u>
Finance costs:		
Interest on borrowings	(497,487)	(681,624)
Other incidental borrowing costs	(112,018)	(98,021)
Less: interest and other incidental borrowing costs capitalised	<u>6,205</u>	<u>27,973</u>
	<u>(603,300)</u>	<u>(751,672)</u>
Bills discount charge	(50,425)	(55,734)
Fair value loss on interest rate swap contracts	1,435	—
Cash flow hedge reserve released	—	(5,993)
Fair value loss on foreign exchange option contracts	—	(3,460)
	<u>(652,290)</u>	<u>(816,859)</u>

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
— PRC corporate income tax and withholding income tax (<i>Note (a)&(b)</i>)	122,244	64,232
— Hong Kong profits tax (<i>Note (c)</i>)	—	—
	<u>122,244</u>	<u>64,232</u>
Deferred income tax	116,977	155,651
	<u>239,221</u>	<u>219,883</u>

(a) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the Period (six months ended 31 December 2014: 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.

(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 2014: nil).

9. EARNINGS PER SHARE

— Basic

	Six months ended 31 December	
	2015	2014
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>312,023</u>	<u>679,333</u>
Weighted average number of ordinary shares in issue (<i>shares in thousands</i>)	<u>4,666,221</u>	<u>4,666,221</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.07</u>	<u>0.15</u>

— Diluted

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

For the Period, a calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the period) based on the total proceeds receivable upon exercising the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of shares issued for no consideration (six months ended 31 December 2014: as the exercise price of the share options was higher than the average market price of the Company's shares, there was no potential dilutive impact of the share options).

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

10. DIVIDENDS

	Six months ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend (<i>Note b</i>)	<u>93,324</u>	<u>93,324</u>

- (a) A 2015 final dividend of RMB5.0 cents (2014 final: RMB6.0 cents) per ordinary share, totalling approximately RMB233,311,000 (2014 final: RMB279,973,000) has been approved in the Company's Annual General Meeting on 11 December 2015 and paid in January 2016.
- (b) The directors recommend the payment of an interim dividend of RMB2.0 cents (six months ended 31 December 2014: RMB2.0 cents) per ordinary share, totalling approximately RMB93,324,000 for the Period (six months ended 31 December 2014: RMB93,324,000). Such interim dividend has been approved in the meeting of the Board on 24 February 2016. 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 <i>RMB'000</i>	Land use rights <i>RMB'000</i>
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Six months ended 31 December 2015

Opening net book amount as at 1 July 2015	45,010,861	1,472,399
Additions	884,226	37,290
Disposals	(21,515)	—
Exchange difference	1,831	425
Depreciation/amortisation (<i>Note 6</i>)	(965,650)	(17,472)
	<u>44,909,753</u>	<u>1,492,642</u>
Closing net book amount as at 31 December 2015		

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 (<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		

12. INTANGIBLE ASSETS

	Intangible assets <i>RMB'000</i>
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Six months ended 31 December 2015

Opening net book amount as at 1 July 2015	251,528
Amortisation (<i>Note 6</i>)	(2,999)
	<u>248,529</u>
Closing net book amount as at 31 December 2015	

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	

13. INVENTORIES

	31 December 2015 RMB'000	30 June 2015 RMB'000
At cost:		
Raw materials	2,255,885	2,559,339
Finished goods	926,557	993,906
	<u>3,182,442</u>	<u>3,553,245</u>

14. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2015 RMB'000	30 June 2015 RMB'000
Trade receivables (<i>Note (b) & (c)</i>)	2,181,533	2,094,915
Bills receivable (<i>Note (d)</i>)	2,976,875	3,256,573
	<u>5,158,408</u>	<u>5,351,488</u>
Value-added tax receivable	534,458	776,620
Other receivables and deposits (<i>Note (e)</i>)	259,453	248,280
Prepayments	427,599	372,698
Less: other receivables included in non-current assets	(47,500)	—
	<u>1,174,010</u>	<u>1,397,598</u>

- (a) As at 31 December 2015, 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 corporate customers are entered into on credit terms of around 30 to 60 days.
- (c) As at 31 December 2015, the ageing analysis of trade receivables based on invoice date is as follows:

	31 December 2015 RMB'000	30 June 2015 RMB'000
0–30 days	1,886,523	1,615,272
31–60 days	261,612	453,508
61–90 days	24,630	11,195
Over 90 days	8,768	14,940
	<u>2,181,533</u>	<u>2,094,915</u>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are widely dispersed within the PRC.

- (d) Bills receivable issued by banks are normally with maturity period of 90 to 180 days. (30 June 2015: 90 to 180 days).
- (e) As at 31 December 2015, the impairment provision for other receivables is RMB27,008,000 (30 June 2015: nil).

15. SHARE CAPITAL

	Number of ordinary shares <i>Shares in thousands</i>	Nominal value of ordinary shares <i>HKD'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 31 December 2015					
Balance as at 1 July 2015 and 31 December 2015	<u>4,666,221</u>	<u>466,622</u>	<u>478,272</u>	<u>8,730,315</u>	<u>9,208,587</u>
Six months ended 31 December 2014					
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>

16. BORROWINGS

	31 December 2015 <i>RMB'000</i>	30 June 2015 <i>RMB'000</i>
Non-current		
— Long-term bank and other borrowings	19,057,785	19,404,981
— Medium-term note	<u>398,000</u>	<u>397,400</u>
	<u>19,455,785</u>	<u>19,802,381</u>
Current		
— Short-term bank borrowings	9,622,598	9,260,988
— Current portion of long-term bank and other borrowings	1,582,289	1,529,065
— Current portion of medium-term note	1,099,125	1,098,075
— Short-term commercial paper	—	300,000
	<u>12,304,012</u>	<u>12,188,128</u>
	<u>31,759,797</u>	<u>31,990,509</u>

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

	31 December 2015		
	Bank and other borrowings <i>RMB'000</i>	Medium-term note <i>RMB'000</i>	Total <i>RMB'000</i>
Within 1 year	11,204,887	1,099,125	12,304,012
Between 1 and 2 years	8,176,012	398,000	8,574,012
Between 2 and 5 years	<u>10,881,773</u>	—	<u>10,881,773</u>
	<u>30,262,672</u>	<u>1,497,125</u>	<u>31,759,797</u>

	30 June 2015			
	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	10,790,053	300,000	1,098,075	12,188,128
Between 1 and 2 years	10,678,054	—	—	10,678,054
Between 2 and 5 years	8,708,833	—	397,400	9,106,233
Over 5 years	18,094	—	—	18,094
	<u>30,195,034</u>	<u>300,000</u>	<u>1,495,475</u>	<u>31,990,509</u>

17. TRADE AND BILLS PAYABLES

	31 December 2015 <i>RMB'000</i>	30 June 2015 <i>RMB'000</i>
Trade payables (<i>Note (a)</i>)	1,266,316	1,753,506
Bills payable	<u>2,809,769</u>	<u>2,210,143</u>
	<u>4,076,085</u>	<u>3,963,649</u>

(a) As at 31 December 2015, the ageing analysis of trade payables is as follows:

	31 December 2015 <i>RMB'000</i>	30 June 2015 <i>RMB'000</i>
0–90 days	1,230,603	1,711,432
91–180 days	14,840	14,516
181–365 days	14,063	4,983
Over 365 days	<u>6,810</u>	<u>22,575</u>
	<u>1,266,316</u>	<u>1,753,506</u>

18. COMMITMENTS

(a) Capital commitments

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

	31 December 2015 <i>RMB'000</i>	30 June 2015 <i>RMB'000</i>
Contracted but not provided for		
Not later than one year	1,072,357	799,529
Later than one year and not later than five years	123,264	81,162
	<u>1,195,621</u>	<u>880,691</u>
Authorised but not contracted for		
Not later than one year	700,000	300,000
Later than one year and not later than five years	970,000	1,450,000
	<u>1,670,000</u>	<u>1,750,000</u>
	<u>2,865,621</u>	<u>2,630,691</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:

	31 December 2015 <i>RMB'000</i>	30 June 2015 <i>RMB'000</i>
Not later than one year	3,243	473
Later than one year and not later than five years	6,121	1,894
Later than five years	15,885	15,194
	<u>25,249</u>	<u>17,561</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

As the largest containerboard manufacturer in Asia, ND Paper is primarily engaged in the production and sale of a broad variety of packaging 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 Period, while the recovery of the global economy remained slow, China's economy has entered a key stage of development under the "new normal" state. In the process of structural transformation, despite the slowing down of economic growth which has caused the manufacturing sector to maintain a prudent and conservative approach in general, the industry was still able to sustain steady development as the demand of packaging paper is closely related to people's livelihood and is further driven by the rapid growth of online shopping. Meanwhile, product prices were well supported by the continuous increase in quantity and scale of the closure of outdated production capacities in the packaging paper industry. In face of further consolidation of the industry, the Group's competitive advantages in various aspects including economies of scale, energy saving and environmental protection are becoming more prominent.

Although no new paper machine commenced production during the Period, the Group once again reached record highs in both sales volume and sales revenue, which attributed to its effective equipment upgrading efforts, with production efficiency of existing paper machines continuously enhanced and product quality further improved, coupled with effective sales strategies. As at the end of December 2015, the total design production capacity of the Group was 13.73 million tpa.

During the Period, benefited from the price of major raw materials remaining steadily low, the Group effectively captured and forecasted the price trend of raw materials and took the most flexible procurement strategy to optimize their costs through adjustment of proportions of raw materials procured from different regions based on price. On the other hand, production costs of compliant enterprises were further reduced following the introduction of the government's value-added tax refund policy for promoting uses of recycled paper resources, which has become effective from 1 July 2015. Against the backdrop of product prices being supported and costs standing at optimal levels, the interim profit of the Period (after excluding exchange losses) of the Group has increased significantly from the corresponding period last year.

In the aspect of environmental protection and emission reduction, the Group has consistently conducted comprehensive implementation of and strictly complied with the latest government standards regarding energy conservation and emission reduction, by adopting international state-of-the-art equipment and technology. The Group also actively explores the procurement of domestic recovered paper as the major raw material for production, working diligently to promote a sustainable and recyclable economy and adopting a sustainable production model. The Group's recovered paper procurement strategy is based on the selection and purchase of recovered paper offering the best cost-value relationship by closely monitoring the market price trends of different sources. During the Period, the purchase value of domestic recovered paper accounted for approximately 33.8% of the total value of the Group's purchase of recovered paper. Various bases also continued to obtain ISO14001 certification, demonstrating the Group's leading position as an environmentally friendly role model in the industry.

The Group continually drives innovation in the various aspects of management, technology, products, etc. To date, 223 patents have been obtained and another 69 patent applications or approvals are being processed.

Business Strategy and Development Plan

The Group has basically accomplished its strategic production roadmap for this stage. No new paper machine commenced production during the Period. According to the current production capacity plan, PM2 (VN) at the Vietnam base will be completed and commence production by the end of 2016, bringing the Group's total design production capacity to 14.08 million tpa. This plan represents a solid step forward in the Group's diversified market development and builds up the potentials for the Group's internationalization in the future. Moreover, PM39 at the Shenyang base is expected to commence production by the end of 2017.

The Group will continue to adhere firmly to the operation philosophy of "No environmental management, no paper-making" and bring the advantages of its leading position in the industry and economies of scale into full play by continually optimizing its production technology, enhancing procurement efficiency, making use of the extensive coverage of its nine bases to implement cross-base and cross-market sales strategies as well as strengthen the exchange and deployment of human resources. The Group will proactively drive 'automation, informatization and intelligentization' and constantly introduce highly effective new technology and equipment, in a bid to maintain its innovative and leading position in the industry.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB16,310.5 million for the Period, representing an increase of approximately 4.0% 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 93.6% of the revenue, with the remaining revenue of 6.4% generated from its recycled printing and writing paper and high value specialty paper products business.

The Group's annual design production capacity in packaging paperboard and recycled printing and writing paper as at 31 December 2015 was 13.7 million tpa, comprising 7.2 million tpa of linerboard, 3.4 million tpa of high performance corrugating medium, 2.6 million tpa of coated duplex board and 0.5 million tpa of recycled printing and writing paper. The Group's sales volume of packaging paperboard products and recycled printing and writing paper reached approximately 6.7 million tonnes, representing an increase of approximately 5.1% as compared with the corresponding period last year. The increase of sales volume of packaging paperboard and recycled printing and writing paper was supported by the contribution from the full period operation of PM38 at Leshan and PM37 at Shenyang.

The sales volume of linerboard, high performance corrugating medium, coated duplex board for the Period increased by approximately 9.9%, 2.7% and 1.3% 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 linerboard and high performance corrugating medium sectors. For the Period, revenue related to domestic consumption represented 93.0% of the Group's total revenue, while the remaining revenue of 7.0% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

During the Period, sales to the Group's top five customers in aggregate accounted for approximately 5.6% (2014: 5.2%) of the total revenue, with that to the single largest customer accounted for approximately 1.4% (2014: 1.6%).

Gross profit and Gross profit margin

The gross profit for the Period was approximately RMB2,827.9 million, an increase of RMB707.5 million or increased by 33.4% as compared with RMB2,120.4 million in the same period last year. The gross profit margin increased from 13.5% to approximately 17.3%, mainly contributed by the major raw material coal was dropped by approximately 18.4% for the Period.

Selling and marketing costs

Selling and marketing costs increased by approximately 30.0% from RMB291.3 million in the same period last year to approximately RMB378.7 million in the Period. The increase in the selling and marketing costs was due to larger sales volume and more geographical coverage due to two PMs operation commenced in Leshan and Shenyang in the Period. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 1.9% in the same period last year to approximately 2.3% in the Period.

Administrative expenses

Administrative expenses increased by 14.0% from RMB472.4 million in the period last year to approximately RMB538.3 million in the Period. As a percentage of Group revenue, the administrative expenses increased from 3.0% in the same period last year to approximately 3.3% 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 operating profit for the Period was approximately RMB2,113.3 million, representing a increase of RMB638.9 million or 43.3% over the RMB1,474.4 million of the same period last year.

Finance costs

The finance costs for the Period decreased by approximately 20.1% from RMB816.9 million in the same period last year to approximately RMB652.3 million in the Period. The decrease in finance cost was mainly due to the decrease in average interest rate from 4.5% in the corresponding period last year to approximately 3.7% in the Period.

Exchange losses/gains on operating and financing activities

During the Period, the middle exchange rate for RMB to US dollars and other currencies experienced significant changes as a result of the reform of the RMB middle exchange rate quotation regime, which affect the profit of the Company for the Period. The foreign exchange losses on operating and financing activities before tax were RMB116.8 million and RMB962.1 million respectively, in aggregate amounted to approximately RMB1,078.9 million for the Period.

Income tax expense

The Group's income tax expenses increased from RMB219.9 million in the same period last year to approximately RMB239.2 million. The Group's effective tax rate substantially increased from 23.9% in the corresponding period last year to approximately 42.2% in the period due to substantial portion of exchange losses (mainly offshore portion of exchange losses recorded) not deductible for tax purpose recorded in the period. The Group's effective tax rate for the Period, if excluding the impact of exchange losses arising from the reform of the RMB middle exchange rate quotation regime, were remained relatively stable as compared with the corresponding period last year.

Net profit

The profit attributable to the equity holders of the Company for the Period was approximately RMB312.0 million, representing a substantial decrease of approximately RMB367.3 million, or decreased by 54.1% over the corresponding period last year. If the exchange losses on operating and financing activities net of tax amounted to approximately RMB1,010.0 million in the Period and exchange gains on operating and financing activities net of tax amounted to RMB139.0 million in the corresponding period last year were excluded, the profit attributable to equity holders of the Company were approximately RMB1,322.0 million for the Period and RMB540.3 million in the corresponding period last year respectively, representing a substantial increase of approximately RMB781.7 million or 144.7% as compared with the corresponding period last year.

Working capital

The level of inventory as at 31 December 2015 decreased by 10.4% to approximately RMB3,182.4 million from RMB3,553.2 million as at 30 June 2015. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB2,255.9 million and finished goods of approximately RMB926.5 million.

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

The trade and bills receivables as at 31 December 2015 were approximately RMB5,158.4 million, decreased by 3.6% from approximately RMB5,351.5 million as at 30 June 2015. The turnover days of trade receivables were approximately 24 days, compare with 23 days in the same period last year. As at 31 December 2015, the trade receivables with age less than 60 days accounted for approximately 98.5% of the total trade receivables.

The trade and bills payables increased by approximately 2.8% to RMB4,076.1 million as at 31 December 2015 from approximately RMB3,963.6 million as at 30 June 2015. The turnover days of trade and bills payable were approximately 55 days, compare with 49 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 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 2015, the Groups had bank and cash balances, short-term bank deposits and restricted cash of approximately RMB8,994.4 million and total undrawn bank facilities of approximately RMB28,447.5 million.

As at 31 December 2015, the shareholders' funds were approximately RMB25,332.9 million, an increase of approximately RMB106.2 million from that as at 30 June 2015.

The Group had outstanding borrowings as at 31 December 2015 of approximately RMB31,759.8 million. The short-term and long-term borrowings amounted to approximately RMB12,304.0 million and approximately RMB19,455.8 million respectively, accounting for 38.7% and 61.3% of the total borrowings respectively. As at the end of Period, about 98.1% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio of the Group decreased from 94.4% as at 30 June 2015 to approximately 88.7% as at 31 December 2015, if the exchange losses net of tax of approximately RMB1,010.0 were excluded, the net borrowings to total equity ratio of the Group as at 31 December 2015 were further dropped to approximately 85.3%. The Board will closely monitor the Group's net debt 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 2015, total foreign currency borrowings amounted to the equivalent of approximately RMB22,815.6 million and loans denominated in RMB amounted to approximately RMB8,944.2 million, representing approximately 71.8% and 28.2% 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 RMB959.4 million. These capital expenditures were fully financed by internal resources and borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for machineries of approximately RMB2,865.6 million which were contracted but not provided for or authorised but not contracted 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 2015, the Group had no material contingent liabilities.

FUTURE OUTLOOK

Looking ahead, the global macro-economic environment will remain volatile, while the structural transformation of Chinese economy will present both opportunities and challenges. As governments at all levels require immediate actions to control environmental pollutions, strengthened efforts will be seen across the nation in the closure of outdated production capacities in the packaging paper industry and stricter approval of new production capacities than before. These actions gradually restore market order, thus supporting product prices and creating the momentum for further product price increases. The Group will seize such market opportunities by fully leveraging on its core strengths represented by its stable and robust production capabilities, a sales team trusted by customers, the best services, optimal quality and lowest costs, steadily providing the best price/value products to its customers in long-term. Meanwhile, as the traditional manufacturing industry migrates towards a new round of technologies and industrial reforms, the Group will strive for changes and take the lead towards diversified future development through innovation, thereby laying a solid foundation for becoming a leading international paper-making enterprise.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB2.0 cents (equivalent to approximately HK2.38 cents) per share for the Period, which is expected to be paid to the shareholders by post on or before Friday, 22 July 2016. The dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 8 July 2016. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.84057 as at 24 February 2016 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Wednesday, 6 July 2016 to Friday, 8 July 2016, 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, 5 July 2016.

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, 24 February 2016

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

* *For identification purposes only*