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 2013

FINANCIAL HIGHLIGHTS

- Sales of approximately RMB14,713.8 million at same level as in the period last year.
- Gross profit margin decreased from 16.0% to approximately 15.8%.
- Profit for the period increased by 45.1% to approximately RMB982.7 million.
- Basic earnings per share increased from RMB0.14 to RMB0.21.
- Interim dividend per share of RMB2.0 cents (equivalent to approximately HK2.54 cents).

FINANCIAL RESULTS

The Board of Directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the six months ended 31 December 2013 (the "Period"), together with the comparative figures for the corresponding period of last year.

* *For identification purposes only*

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 31 December **2013** ***RMB'000***	 2012 *RMB'000*
Sales	*5*	**14,713,844**	14,725,654
Cost of goods sold	*6*	**(12,394,239)**	(12,373,837)
Gross profit		**2,319,605**	2,351,817
Other income/(expenses) and other gains/(losses) – net		**121,531**	87,606
Selling and marketing costs	*6*	**(250,975)**	(363,375)
Administrative expenses	*6*	**(430,782)**	(428,326)
Operating profit		**1,759,379**	1,647,722
Finance income	*7*	**28,331**	23,467
Finance costs	*7*	**(588,423)**	(804,416)
Finance costs – net		**(560,092)**	(780,949)
Share of profit of an associate		**14,712**	–
Profit before income tax		**1,213,999**	866,773
Income tax expense	*8*	**(231,321)**	(189,622)
Profit for the Period		**982,678**	677,151
Profit attributable to:			
Equity holders of the Company		**972,602**	658,469
Non-controlling interests		**10,076**	18,682
		982,678	677,151
Earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*			
– basic	*9*	**0.21**	0.14
– diluted	*9*	**0.21**	0.14

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Profit for the Period	**982,678**	677,151
Other comprehensive income		
(items that may be reclassified subsequently to profit or loss)		
Currency translation differences	**(6,103)**	(1,259)
Total comprehensive income for the Period	**976,575**	675,892
Total comprehensive income attributable to:		
– Equity holders of the Company	**968,469**	657,688
– Non-controlling interests	**8,106**	18,204
	976,575	675,892

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	31 December 2013 (Unaudited) RMB'000	30 June 2013 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**45,370,940**	44,690,831
Land use rights	*11*	**1,504,560**	1,522,704
Intangible assets	*12*	**225,439**	225,747
Investment in an associate		**24,819**	10,107
Deferred income tax assets		**20,224**	40,155
Total non-current assets		**47,145,982**	46,489,544
Current assets			
Inventories	*13*	**3,139,052**	3,778,760
Trade and bills receivables	*14*	**5,922,270**	5,600,318
Other receivables and prepayments	*14*	**2,469,413**	2,493,514
Tax recoverable		**13,603**	1,291
Restricted cash		**65,467**	55,000
Cash and cash equivalents		**6,522,338**	6,015,451
Total current assets		**18,132,143**	17,944,334
Total assets		**65,278,125**	64,433,878
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*15*	**9,208,587**	9,204,981
Other reserves		**1,173,063**	1,177,866
Retained earnings			
– Proposed dividend		**93,324**	373,170
– Unappropriated retained earnings		**12,906,878**	12,027,600
		23,381,852	22,783,617
Non-controlling interests		**505,355**	497,249
Total equity		**23,887,207**	23,280,866

	Note	31 December 2013 (Unaudited) RMB'000	30 June 2013 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**23,410,389**	25,690,009
Deferred income tax liabilities		**1,489,225**	1,372,521
Other payables		**34,442**	43,557
Total non-current liabilities		**24,934,056**	27,106,087
Current liabilities			
Trade and bills payables	*17*	**2,708,757**	3,403,535
Other payables and deposits received	*17*	**2,143,104**	1,673,180
Current income tax liabilities		**405,502**	354,137
Borrowings	*16*	**11,199,499**	8,616,073
Total current liabilities		**16,456,862**	14,046,925
Total liabilities		**41,390,918**	41,153,012
Total equity and liabilities		**65,278,125**	64,433,878
Net current assets		**1,675,281**	3,897,409
Total assets less current liabilities		**48,821,263**	50,386,953

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 December **2013** ***RMB'000***	 2012 *RMB'000*
Cash flows from operating activities		
Cash generated from operations	**2,437,529**	2,795,530
Income tax paid	**(55,558)**	(20,932)
Interest paid	**(881,112)**	(1,008,952)
Net cash generated from operating activities	**1,500,859**	1,765,646
Cash flows from investing activities		
Payment for property, plant and equipment	**(1,456,766)**	(2,883,676)
Payment for intangible assets	**(1,940)**	–
Payment for acquisition of land use rights	**(45,748)**	(30,445)
Proceeds from disposal of property, plant and equipment	**7,788**	11,708
Proceeds from government grants for purchase of property, plant and equipment and land use rights	**–**	3,560
Interest received	**28,331**	23,467
Proceeds from disposal of subsidiaries	**–**	4,212
Net cash used in investing activities	**(1,468,335)**	(2,871,174)
Cash flows from financing activities		
Proceeds from borrowings	**11,262,737**	16,834,825
Repayments of borrowings	**(10,770,902)**	(12,431,025)
Exercise of share options	**2,445**	–
Net cash generated from financing activities	**494,280**	4,403,800
Net increase in cash and cash equivalents	**526,804**	3,298,272
Cash and cash equivalents at beginning of the Period	**6,015,451**	4,364,539
Exchange losses on cash and cash equivalents	**(19,917)**	(8,780)
Cash and cash equivalents at end of the Period	**6,522,338**	7,654,031

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited (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 24 February 2014.

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 2013, 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 2013, 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 2013, except for the adoption of new and revised HKFRS 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 2013. The adoption of the new HKFRS 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 review 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	
	2013	2012
	RMB'000	*RMB'000*
Sales of packaging paper	**13,552,827**	13,546,104
Sales of recycled printing and writing paper	**988,087**	1,003,666
Sales of high value specialty paper products	**115,030**	100,919
Sales of pulp	**57,900**	74,965
	14,713,844	14,725,654

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	
	2013	2012
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(note 11)*	**814,878**	814,565
Less: amount charged to other expenses	**(2,319)**	(4,847)
	812,559	809,718
Amortisation of land use rights *(note 11)*	**17,594**	17,252
Amortisation of intangible assets *(note 12)*	**2,248**	2,281
Employee benefit expenses	**569,380**	529,718
Changes in finished goods	**364,109**	307,172
Raw materials and consumables used (net of claims)	**10,971,849**	11,174,836

7. FINANCE INCOME AND FINANCE COSTS

	Six months ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Finance income:		
Interest income from bank deposits	**28,331**	23,467
Finance costs:		
Interest on borrowings	**(751,199)**	(797,869)
Other incidental borrowing costs	**(60,906)**	(24,846)
Less: interest and other incidental borrowing costs capitalised	**122,525**	178,780
	(689,580)	(643,935)
Bills discount charge	**(49,252)**	(147,527)
Exchange gains/(losses) on financing activities	**150,409**	(12,954)
	(588,423)	(804,416)

8. INCOME TAX EXPENSE

	Six months ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Current tax		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**94,611**	103,858
	94,611	103,858
Deferred income tax	**136,710**	85,764
	231,321	189,622

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided for as the Group did not have any estimated assessable profits during the Period (2012:nil).

(b) PRC corporate income tax

PRC corporate income tax has been calculated on the estimated assessable profit for the Period at the rates of taxation applicable to the respective subsidiaries.

9. EARNINGS PER SHARE

– Basic

	Six months ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**972,602**	658,469
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,665,516**	4,662,921
Basic earnings per share *(RMB per share)*	**0.21**	0.14

– Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the Period) based on the monetary value of the subscription rights attached to 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.

	Six months ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**972,602**	658,469
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,665,516**	4,662,921
Adjustments for share options *(shares in thousands)*	**–**	2,241
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,665,516**	4,665,162
Diluted earnings per share *(RMB per share)*	**0.21**	0.14

10. DIVIDEND

	Six months ended 31 December 2013 RMB'000	2012 RMB'000
Interim dividend *(note (b))*	**93,324**	93,258

(a) A 2013 final dividend of RMB8.0 cents (2012 final: RMB5.0 cents) per ordinary share, totalling approximately RMB373,170,000 (2012 final: RMB233,146,000) has been approved in the Company's Annual General Meeting on 9 December 2013 and paid in January 2014.

(b) The directors recommend the payment of an interim dividend of RMB2.0 cents (2012: RMB2.0 cents) per ordinary share, totalling approximately RMB93,324,000 for the Period (2012: RMB93,258,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 24 February 2014. The interim financial information does not reflect this interim dividend payable.

11. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment *RMB'000*	**Land use rights** *RMB'000*
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 *(note 6)*	**(814,878)**	**(17,594)**
Closing net book amount as at 31 December 2013	**45,370,940**	**1,504,560**
Six months ended 31 December 2012		
Opening net book amount as at 1 July 2012	42,360,533	1,557,628
Additions	3,573,082	1,066
Tax benefit	(3,560)	–
Disposals	(28,450)	–
Exchange difference	(394)	(144)
Depreciation/amortisation charges *(note 6)*	(814,565)	(17,252)
Closing net book amount as at 31 December 2012	45,086,646	1,541,298

12. INTANGIBLE ASSETS

	RMB'000
Six months ended 31 December 2013	
Opening net book amount as at 1 July 2013	**225,747**
Additions	**1,940**
Amortisation *(note 6)*	**(2,248)**
Closing net book amount as at 31 December 2013	**225,439**
Six months ended 31 December 2012	
Opening net book amount as at 1 July 2012	230,264
Amortisation *(note 6)*	(2,281)
Closing net book amount as at 31 December 2012	227,983

13. INVENTORIES

	31 December 2013 ***RMB'000***	30 June 2013 *RMB'000*
Raw materials	**2,268,593**	2,544,192
Finished goods	**870,459**	1,234,568
	3,139,052	3,778,760

14. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2013 ***RMB'000***	30 June 2013 *RMB'000*
Trade receivables *(notes (b)&(c))*	**2,113,444**	2,093,027
Bills receivable *(note (d))*	**3,808,826**	3,507,291
	5,922,270	5,600,318
Value-added tax receivables	**1,435,792**	1,555,926
Other receivables and prepayments	**1,033,621**	937,588
	2,469,413	2,493,514
	8,391,683	8,093,832

(a) As at 31 December 2013, the fair value of trade and bills receivables approximate their carrying amounts.

(b) The Group's sales to corporate customers are entered into on credit terms of around 30 to 60 days.

(c) As at 31 December 2013, the ageing analysis of trade receivables is as follows:

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
0-30 days	**1,560,738**	1,640,532
31-60 days	**473,471**	415,949
61-90 days	**70,110**	29,961
Over 90 days	**9,125**	6,585
	2,113,444	2,093,027

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 from third parties are normally with maturity period of 90 to 180 days.

15. SHARE CAPITAL

	Number of ordinary shares *Shares in thousands*	**Nominal value of ordinary shares** *HK$'000*	**Equivalent nominal value of ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
Issued and fully paid					
Six months ended 31 December 2013					
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	**4,666,221**	**466,622**	**478,272**	**8,730,315**	**9,208,587**
Six months ended 31 December 2012					
Balances as at 31 December 2012 and 1 July 2012	4,662,921	466,292	478,008	8,724,348	9,202,356

16. BORROWINGS

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
Non-current		
– Long-term bank and other borrowings	**22,315,864**	21,806,327
– Medium-term note	**1,094,525**	3,883,682
	23,410,389	25,690,009
Current		
– Short-term bank borrowings	**5,644,691**	5,133,883
– Current portion of long-term bank and other borrowings	**963,950**	1,387,823
– Current portion of Medium-term note	**2,793,358**	–
– Short-term commercial paper	**1,797,500**	2,094,367
	11,199,499	8,616,073
	34,609,888	34,306,082

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

	31 December 2013			
	Bank and other borrowings *RMB'000*	**Short-term commercial paper** *RMB'000*	**Medium-term note** *RMB'000*	**Total** *RMB'000*
Within 1 year	**6,608,641**	**1,797,500**	**2,793,358**	**11,199,499**
Between 1 and 2 years	**15,476,269**	**–**	**–**	**15,476,269**
Between 2 and 5 years	**5,898,441**	**–**	**1,094,525**	**6,992,966**
Over 5 years	**941,154**	**–**	**–**	**941,154**
	28,924,505	**1,797,500**	**3,887,883**	**34,609,888**

	30 June 2013			
	Bank and other borrowings *RMB'000*	Short-term commercial paper *RMB'000*	Medium-term note *RMB'000*	Total *RMB'000*
Within 1 year	6,521,706	2,094,367	–	8,616,073
Between 1 and 2 years	8,580,814	–	2,791,337	11,372,151
Between 2 and 5 years	12,076,305	–	1,092,345	13,168,650
Over 5 years	1,149,208	–	–	1,149,208
	28,328,033	2,094,367	3,883,682	34,306,082

(b) The carrying amounts of the Group's borrowings as at 31 December 2013 are denominated in the following currencies:

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
RMB	**15,533,191**	17,759,364
US$	**17,708,782**	14,088,280
HK$	**628,431**	1,714,015
Euro	**736,094**	744,423
Others	**3,390**	–
	34,609,888	34,306,082

17. TRADE, BILLS AND OTHER PAYABLES AND DEPOSITS RECEIVED

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
Trade payable *(note (a))*	**1,380,389**	1,855,636
Bills payable	**1,328,368**	1,547,899
	2,708,757	3,403,535
Deposits from customers	**313,702**	343,237
Dividends payable	**373,170**	–
Other payables	**1,423,791**	1,301,029
Staff welfare benefits payable	**66,883**	72,471
Less: other payables included in non-current liabilities	**(34,442)**	(43,557)
	2,143,104	1,673,180

(a) The ageing analysis of trade payables as at 31 December 2013 is as follows:

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
0 – 90 days	**1,333,297**	1,739,762
91 – 180 days	**12,490**	50,154
181 – 365 days	**14,368**	33,466
Over 365 days	**20,234**	32,254
	1,380,389	1,855,636

18. COMMITMENTS

(a) Capital commitments

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

	31 December 2013 *RMB'000*	30 June 2013 *RMB'000*
Contracted but not provided for		
Not later than one year	**554,269**	828,331
Later than one year and not later than five years	**161,676**	233,491
Later than five years	**–**	300
	715,945	1,062,122
Authorised but not contracted for		
Not later than one year	**800,000**	530,000
Later than one year and not later than five years	**1,400,000**	2,020,000
	2,200,000	2,550,000
	2,915,945	3,612,122

(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 2013 *RMB'000*	30 June 2013 *RMB'000*
Not later than one year	**2,251**	2,648
Later than one year and not later than five years	**1,889**	2,666
Later than five years	**15,860**	16,565
	20,000	21,879

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

Review of Operations

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

With the global macro-economic environment gradually stabilizing during the Period, economies such as the United States and Europe showed more perceivability of recovery. Meanwhile, China has entered into a period of transformations emphasizing balanced progresses with stability, while fast growing online shopping activities have brought changes to the market consumption model, which more visibly demonstrates the non-substitutable value of packaging paperboard in the supply chain and an ever enlarging market space for packaging paperboard products, thus enabling the packaging paper industry to realize a long-term and steady development on a well-built market base. Although the industry was impacted by a cyclical high in new capacities, which has led to significant pressure on selling prices and industry profitability over years, the supply and demand dynamics are to gradually improve as a result of the closures of small and inefficient paper plants under the government's stringent implementation of phasing out the outdated production facilities as well as an expected slowdown in new capacity expansion.

During the Period, although the industry has reached the highest stage in new capacities, the Group proactively operated its business by leveraging upon its sizable scale and its operation team's extensive experiences and diligent efforts, achieving considerable growth in sales volume and continuing to maintain a balance between production and sales with reasonable inventory at low levels. All paper machines were in sound operation state at nearly full capacity. Persisting in stringent control over costs and capital expenditures, with further reduction in finance costs, the Group refined its management and boosted product quality and effective utilization of human resources under well-established internal controls and a prudent operating strategy. All these contributed to further profit growth as well as sustainable long-term business development for the Group.

During the Period, the Group's production capacity has increased by 0.65 million tpa, which was derived from two paper machines in the new Quanzhou base, namely PM35 (kraftlinerboard) and PM36 (testlinerboard) with design production capacity of 350,000 tpa and 300,000 tpa respectively commencing production in August and October 2013 respectively. By further adding a new paper machine in Leshan base, namely PM38 (high performance corrugating medium) with design production capacity of 300,000 tpa, which has commenced production in January 2014, the Group's total design production capacity has now reached 13.50 million tpa. These new paper machines are currently in their ramp-up stage and are expected to effectively contribute to the Group's business performance in the near term, further driving its market share growth and regional advantages to secure reasonable long-term returns.

Newly constructed paper machines which commenced production since July 2013

Paper machine	Location	Product	Design production capacity	Completion Date
PM35	Quanzhou	Kraftlinerboard	350,000 tpa	August 2013
PM36	Quanzhou	Testlinerboard	300,000 tpa	October 2013
PM38	Leshan	High performance corrugating medium	300,000 tpa	January 2014

With proactive efforts in developing the domestic procurement of recovered paper, approximately 34% of the Group's total purchase amount of recovered paper was sourced in China during the Period.

On environmental management and emission reduction, the Group is committed to intensive implementation of government policies and regulations. It has not only implemented real-time monitoring on the operation of the environmental management facilities at all production bases, but also continued to outperform the standards required by the government in every key indicator.

During the Period, the Group was ranked No. 31 in "China's Top 500 Private Enterprises 2013" and No. 20 in "China's Top 500 Private Manufacturers 2013" by All-China Federation of Industry and Commerce.

Business Strategy and Development Plans

The Group has gone through a stage of fast capacity expansion in order to capture the opportunity of economic growth and secure market share. It has now successfully transitioned to a new stage of steady growth. The future goal will be proactive enhancement of the current platform, aiming at optimization and empowerment. In addition to seizing the opportunity arising from growing demand in the industry by continuing to leverage on the economies of scale and advantages already built from its nationwide production base network, reliable and powerful manufacturing capabilities and diversified product mix accomplished in its initial stage of strategic infrastructural construction, the Group will endeavor to refine its internal corporate administration and control, strengthen product quality management, enhance procurement processes and cost control, step up equipment automation and internal human resources training, so as to further improve on the economies of scale achieved by the capacity network hitherto built over a long period of time, targeting at the goal of profit maximization and bringing better long-term investment return to its shareholders.

As the Group has basically accomplished its strategic production roadmap at this stage, capital expenditure has been seen to decrease per year. While progressively completing the new capacity construction as planned, the Group strives to optimize its debt structure, scale down its borrowings and lower the debt gearing ratio, aiming to provide a stronger footing for its sustainable development in the future.

According to the Group's current stage-by-stage expansion plan, there will be three new paper machines located in China and overseas, which will be constructed and successively commence production in the future. They are expected to be all completed by the end of 2016. Such paper machines include PM37 for kraftlinerboard with a production capacity of 0.35 million tpa expected to commence production by the end of June 2014, PM39 for testlinerboard with a production capacity of 0.35 million tpa expected to commence production by the end of 2016, both located at the Shenyang base, and PM2(VN), a kraftlinerboard machine with a production capacity of 0.35 million tpa planned for production commencement by the end of June 2015 at the Vietnam base. The Group's aggregate design production capacity will then exceed 14 million tpa.

Newly constructed paper machines planned for completion of construction and production commencement in 2014

Paper machine	Location	Product	Design production capacity	Scheduled Completion date
PM37	Shenyang	Kraftlinerboard	350,000tpa	Before the end of June

Newly constructed paper machines planned for completion of construction and production commencement in 2015

Paper machine	Location	Product	Design production capacity	Scheduled Completion date
PM2(VN)	Vietnam	Kraftlinerboard	350,000tpa	Before the end of June

Newly constructed paper machines planned for completion of construction and production commencement in 2016

Paper machine	Location	Product	Design production capacity	Scheduled Completion date
PM39	Shenyang	Testlinerboard	350,000tpa	Before the end of December

Design production capacities of packaging paperboard and printing and writing paper in the Group's production bases (including Vietnam)

(Breakdown by product category)

(million tpa)	**February 2014**	**December 2014**	**December 2015**	**December 2016**
Linerboard	6.88	7.23	7.58	7.93
Corrugating medium	3.40	3.40	3.40	3.40
Coated duplex board	2.60	2.60	2.60	2.60
Recycled printing and writing paper	0.45	0.45	0.45	0.45
Total	13.33	13.68	14.03	14.38

(Distribution by product category)

	February 2014	December 2014	December 2015	December 2016
Linerboard	51.61%	52.85%	54.03%	55.15%
Corrugating medium	25.51%	24.85%	24.23%	23.64%
Coated duplex board	19.50%	19.00%	18.53%	18.08%
Recycled printing and writing paper	3.38%	3.30%	3.21%	3.13%
Total	100.0%	100.0%	100.0%	100.0%

(Distribution by location)

	February 2014	December 2014	December 2015	December 2016
Dongguan	39.38%	38.38%	37.42%	36.51%
Taicang	22.73%	22.15%	21.60%	21.07%
Chongqing	10.13%	9.87%	9.62%	9.39%
Tianjin	16.13%	15.72%	15.33%	14.95%
Quanzhou	4.88%	4.75%	4.63%	4.51%
Shenyang	–	2.56%	2.49%	4.87%
Hebei Yongxin	3.75%	3.65%	3.56%	3.48%
Leshan	2.25%	2.19%	2.14%	2.09%
Vietnam	0.75%	0.73%	3.21%	3.13%
Total	100.0%	100.0%	100.0%	100.0%

Number of paper machines for packaging paperboard and printing and writing paper in each of the Group's production bases (including Vietnam)

(Distribution by location)

(No. of machines)	**February 2014**	**December 2014**	**December 2015**	**December 2016**
Dongguan	15	15	15	15
Taicang	8	8	8	8
Chongqing	3	3	3	3
Tianjin	5	5	5	5
Quanzhou	2	2	2	2
Shenyang	–	1	1	2
Hebei Yongxin	2	2	2	2
Leshan	1	1	1	1
Vietnam	1	1	2	2
Total	37	38	39	40

Although the Group's new capacities being completed and commencing production have slowed down, it is still expected to see a considerable growth in sales volume in the 2nd half of FY2014 and FY2015, given a number of new paper machines commenced production and completed their ramp up during the past two years.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB14,713.8 million for the Period, at same level as in the period last year. The major contributor of the Group's revenue was still from its paper packaging business which accounted for approximately 92.1% of the total group revenue, with the remaining revenue generated from its recycled printing and writing paper, pulp and high value specialty paper products business.

The decrease of Group's sales is mainly driven by approximately 5.7% increase in sales volume, while drop in average selling price of its packaging paperboard products and recycled, printing and writing paper by approximately 5.8% as compared with the corresponding period last year.

The Group's annual design production capacity of packaging paperboard and recycled printing and writing paper, which have commenced their commercial operation as at 31 December 2013 was 12.4 million tpa, comprising 6.2 million tpa of linerboard, 3.1 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 increased by 5.7% to approximately 5.6 million tones in the Period from 5.3 million tones in the corresponding period last year. The increase of the sales volume of packaging paperboard and recycled printing and writing paper supported by the contribution from the newly introduced PM34 in Tianjin, which has commenced its commercial operation in January 2013.

The sales volume of linerboard and coated duplex board for the Period increased by approximately 1.5% and 36.7% respectively, while the sales volume of high performance corrugating medium and recycled printing and writing paper for the Period decreased by approximately 3.7% and 0.2% 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 months ended 31 December 2013 and 2012, sales related to domestic consumption represented approximately 90.2% and 91.1% 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 4.9% (2012: 4.7%) of the total revenue, out of which the single largest customer accounted for approximately 1.5% (2012: 1.4%).

Gross Profit

The gross profit for the Period was approximately RMB2,319.6 million, representing a decrease of approximately 1.4% as compared with RMB2,351.8 million in the same period last year. The gross profit margin for the Period decreased from 16.0% to approximately 15.8%. The decrease in gross profit margin was mainly due to more customers were to pick up the finished goods by themselves instead of delivery by the Group so as to have price discount and tax benefit in relation to transportation tax reform.

Selling and marketing costs

Selling and marketing costs decreased by approximately 30.9% from RMB363.4 million in the same period last year to approximately RMB251.0 million in the Period. As a percentage of the Group's revenue, the selling and marketing costs decreased from 2.5% in the same period last year to approximately 1.7% in the Period, which was mainly due to more customers were to pick up the finished goods by themselves instead of delivery by the Group to capture the price discount and tax benefit in relation to transportation tax reform and the cost efficiency with the increase in the Group's scale of operation.

Administrative expenses

Administrative expenses slightly increased from RMB428.3 million in the period last year to approximately RMB430.8 million in the Period. As a percentage of group revenue, the administrative expenses remained at 2.9% for the Period and the same period last year.

Operating Profit

The Group's operating profit for the Period was RMB1,759.4 million, representing an increase of RMB111.7 million or 6.8% over the RMB1,647.7 million of the same period last year.

Finance Costs

The finance costs for the period decreased by approximately 26.9% from RMB804.4 million in the same period last year to approximately RMB588.4 million in the Period. The decrease in finance costs was mainly due to the increase in net foreign exchange gains of approximately RMB163.4 million in financing activities derived by loans denominated in foreign currencies upon appreciation of RMB in the Period; and the decrease in interest expenses before capitalisation by RMB46.7 million through increase total foreign currency borrowings with a lower effective interest rate; and substantially decrease of bills discount charges of approximately RMB98.3 million in the Period; and offset by the increase of other incidental borrowing costs of approximately RMB36.1 million and the decrease of approximately RMB56.3 million for interest capitalised in property, plant and equipment in the Period.

Income Tax

The Group's income tax expenses increased from RMB189.6 million in the same period last year to approximately RMB231.3 million. The Group's average effective tax rate decreased from 21.9% in the corresponding period last year to approximately 19.1% in the Period.

Net Profit and Net Profit Margin

The profit attributable to the equity holders of the Company for the Period was approximately RMB972.6 million, representing an increase of approximately 47.7% over the corresponding period last year. Whilst the profit attributable to the equity holders of the Company margin increased from 4.5% in the corresponding period last year to approximately 6.6% in the Period.

Working Capital

The level of inventory as at 31 December 2013 decreased by 16.9% to approximately RMB3,139.1 million from RMB3,778.8 million as at 30 June 2013. Inventories mainly comprise raw materials (mainly recovered paper, spare parts and coal) of approximately RMB2,268.6 million and finished goods of approximately RMB870.5 million.

The turnover days for raw materials (excluding spare parts) and finished goods were approximately 21 days and 13 days respectively during the Period, compared to 20 days and 14 days in the corresponding period last year.

The trade and bills receivables as at 31 December 2013 were RMB5,922.3 million, increased by approximately 5.7% from RMB5,600.3 million as at 30 June 2013. The turnover days of trade receivables were 26 days, compared to 18 days in the corresponding period last year. As at 31 December 2013, the trade receivables with age less than 60 days accounted for approximately 96.3% of the total trade receivables.

The trade and bills payable decreased by approximately 20.4% to RMB2,708.8 million as at 31 December 2013 from RMB3,403.5 million as at 30 June 2013. The turnover days of trade and bills payable were 40 days, compared to 76 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 2013, the Group had bank and cash balances of approximately RMB6,587.8 million (including restricted cash of approximately RMB65.5 million) and total undrawn bank facilities of approximately RMB30,252.5 million.

As at 31 December 2013, the shareholders' funds were approximately RMB23,381.9 million, an increase of RMB598.2 million from that as at 30 June 2013.

The Group had outstanding borrowings as at 31 December 2013 of approximately RMB34,609.9 million. The short-term and long-term borrowings amounted to approximately RMB11,199.5 million and RMB23,410.4 million respectively, accounting for 32.4% and 67.6% of the total borrowings respectively. As at the end of the Period, about 98.1% of the Group's debts were on unsecured basis.

The net debt to total equity ratio for the Group as at 31 December 2013 decreased to approximately 117.3% from 121.3% as at 30 June 2013. 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, if any.

It is the policy of the Group not to enter into any derivative contracts purely 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 2013, total foreign currency borrowings amounted to the equivalent of RMB19,076.7 million and RMB loans amounted to RMB15,533.2 million, representing 55.1% and 44.9% of the Group's borrowings respectively.

Capital Expenditures

The Group's payments for the construction of factory buildings, purchase of plants and machineries, equipments and land use rights during the Period were approximately RMB1,502.5 million as compared to RMB2,910.6 million in the same period last year.

Capital Commitments and Contingencies

The Group made capital expenditure commitments mainly for machinery of approximately RMB2,915.9 million, which were contracted or authorised but not provided for in the financial statements as at 31 December 2013. These commitments were mainly related to the construction of PM37, PM39 and a new machine in Vietnam 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 2013, the Group had no material contingent liabilities.

OUTLOOK

Looking ahead, a Green Economy model will become the key direction for the country's development, as severe environmental and climatic issues have made the stringent enforcement of environmental standards critically urgent. It is believed that closure of outdated capacities will speed up, while new capacities arising from the industry will slow down, making the effect of consolidation on the paper manufacturing industry more visible. Stringent environmental approval requirements and execution are raising business costs and entry barriers for the industry, making it favorable for the Group which has already built an enormous production platform and sales network. Furthermore, the Group is set to benefit from the positive factors of increasing domestic consumption and buoyant online shopping activities, which drive the demand for packaging paper products, further leveraging on its advantages in recovered paper based environmentally friendly paper manufacturing, a diversified product range and economies of scale. All these may provide a broader market for the Group to expand product mix and nationwide production base network, thus enabling it to further enlarge its market share, enhance its negotiation power and strengthen profit performance, reinforcing its leading position in the industry and bringing higher potential return to its large amount of investments made in the initial stage of development.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB2.0 cents (equivalent to approximately HK2.54 cents) per share for the Period, which is expected to be payable to the shareholders by post on or before Friday, 18 July 2014. 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 Friday, 4 July 2014. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 to RMB0.78893 as at 24 February 2014 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, 2 July 2014 to Friday, 4 July 2014, 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, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 30 June 2014.

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, 24 February 2014

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*