玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Sales increased by 6.6% to approximately RMB32,092.8 million.
- Gross profit increased by 24.3% to approximately RMB5,861.3 million.
- Gross margin increased from 15.7% to 18.3%.
- Profit attributable to equity holders of the Company decreased by 20.5% to approximately RMB1,121.7 million. If the total exchange loss on operating and financing activities (net of tax) of approximately RMB1,618.0 million and the loss from derivative financial instruments (net of tax) of approximately RMB94.4 million were excluded, the adjusted profit attributable to equity holders of the Company increased by 106.6% to reach a record high of approximately RMB2,834.1 million.
- Basic earnings per share decreased by 20.5% to approximately RMB0.2404.
- Net debt to total equity ratio decreased from 94.4% to 81.4%.
- Proposed final dividend of RMB8.0 cents per share (equivalent to approximately HK9.3 cents).
- Proposed special dividend of RMB3.0 cents per share (equivalent to approximately HK3.5 cents) to celebrate its 10-year anniversary since listing in 2006.

FINANCIAL RESULTS

The board of directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the year ended 30 June 2016 ("FY2016" or the "Year"), together with the comparative figures for the last financial year ("FY2015").

* *for identification purpose only*

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June **2016** *RMB'000*	 2015 *RMB'000*
Sales	*2*	**32,092,770**	30,092,546
Cost of goods sold	*3*	**(26,231,444)**	(25,376,141)
Gross profit		**5,861,326**	4,716,405
Other income/(expenses) and other losses, net		**590,954**	154,644
Exchange losses on operating activities, net		**(337,597)**	(7,130)
Loss arising from disposal of a subsidiary		**—**	(26,640)
Selling and marketing costs	*3*	**(736,018)**	(679,147)
Administrative expenses	*3*	**(1,047,598)**	(917,743)
Operating profit		**4,331,067**	3,240,389
Finance income	*4*	**138,740**	130,164
Finance costs	*4*	**(1,410,310)**	(1,521,802)
Finance costs, net		**(1,271,570)**	(1,391,638)
Exchange (losses)/gains on financing activities, net		**(1,434,494)**	67,235
Share of profit of an associate and a joint venture, net		**42,430**	39,487
Profit before income tax		**1,667,433**	1,955,473
Income tax expense	*5*	**(518,054)**	(499,184)
Profit for the year		**1,149,379**	1,456,289
Profit attributable to:			
— Equity holders of the Company		**1,121,742**	1,411,520
— Non-controlling interests		**27,637**	44,769
		1,149,379	1,456,289
Basic earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*6*	**0.2404**	0.3025
Diluted earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*	*6*	**0.2403**	0.3025

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**1,149,379**	1,456,289
Other comprehensive income:		
(items that may be reclassified subsequently to profit or loss)		
Currency translation differences	**32,852**	(9,372)
Cash flow hedges	**—**	(294)
Other comprehensive income for the year	**32,852**	(9,666)
Total comprehensive income for the year	**1,182,231**	1,446,623
Attributable to:		
— Equity holders of the Company	**1,142,280**	1,405,441
— Non-controlling interests	**39,951**	41,182
	1,182,231	1,446,623

CONSOLIDATED BALANCE SHEET

	Note	**30 June 2016** *RMB'000*	30 June 2015 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**44,860,821**	45,010,861
Land use rights	*8*	**1,521,765**	1,472,399
Intangible assets	*9*	**245,275**	251,528
Investments in an associate and a joint venture		**65,759**	64,240
Other receivables	*11*	**47,500**	—
Deferred income tax assets		**15,884**	6,750
		46,757,004	46,805,778
Current assets			
Inventories	*10*	**3,605,520**	3,553,245
Trade and bills receivables	*11*	**4,597,675**	5,351,488
Other receivables and prepayments	*11*	**954,649**	1,397,598
Tax recoverable		**46,665**	28,007
Restricted cash		**53,634**	23,100
Short-term bank deposits		**274,008**	563,617
Cash and cash equivalents		**11,002,470**	7,310,840
		20,534,621	18,227,895
Total assets		**67,291,625**	65,033,673
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium	*12*	**9,208,587**	9,208,587
Other reserves		**1,323,109**	1,240,359
Retained earnings		**15,542,523**	14,777,793
		26,074,219	25,226,739
Non-controlling interests		**346,642**	298,790
Total equity		**26,420,861**	25,525,529

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	30 June 2016 RMB'000	30 June 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**20,852,384**	19,802,381
Deferred income tax liabilities		**2,176,336**	1,912,311
Other payables		—	34,529
		23,028,720	21,749,221
Current liabilities			
Trade and bills payables	*14*	**4,097,964**	3,963,649
Other payables and deposits received		**1,315,229**	1,181,424
Current income tax liabilities		**434,853**	423,195
Borrowings	*13*	**11,992,892**	12,188,128
Derivative financial instruments		**1,106**	2,527
		17,842,044	17,758,923
Total liabilities		**40,870,764**	39,508,144
Total equity and liabilities		**67,291,625**	65,033,673

CASH FLOWS INFORMATION

	For the year ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**1,149,379**	1,456,289
Adjustments for non-cash items/income tax/finance costs	**5,531,676**	3,685,895
Changes in working capital	**1,389,177**	2,059,472
Cash generated from operations	**8,070,232**	7,201,656
Income tax paid	**(270,313)**	(149,876)
Interest paid	**(1,339,445)**	(1,445,407)
Net cash generated from operating activities	**6,460,474**	5,606,373
Net cash used in investing activities	**(1,360,566)**	(2,187,911)
Net cash used in financing activities	**(1,497,460)**	(4,007,403)
Net increase/(decrease) in cash and cash equivalents	**3,602,448**	(588,941)
Cash and cash equivalents at beginning of the year	**7,310,840**	7,901,644
Exchange gains/(losses) on cash and cash equivalents	**89,182**	(1,863)
Cash and cash equivalents at end of the year	**11,002,470**	7,310,840

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements are presented in Renminbi, unless otherwise stated. These financial statements have been approved for issue by the Board on 21 September 2016.

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

(a) Effect of adopting amendments to standards

The following amendments to standards are mandatory for the Group's financial year beginning on 1 July 2015. The adoption of these amended standards do not have any significant impact to the results and financial position of the Group.

HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions
HKFRSs (Amendment)	Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle

(b) New Hong Kong Companies Ordinance (Cap.622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during this financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and amendments to standards that have been issued but are not effective

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 July 2015 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Disclosure Initiative [1]
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations [1]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation [1]
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements [1]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception [1]
HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle [1]
HKAS 7 (Amendment)	Changes in Liabilities Arising from Financial Activities [2]
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealized Losses [2]
HKFRS 2 (Amendment)	Classifications and Measurement of Share-based Payment [3]
HKFRS 9 (2014)	Financial Instruments [3]
HKFRS 15	Revenue from Contracts with Customers [3]
HKFRS 16	Leases [4]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [5]

1. Effective for annual period beginning on 1 July 2016.
2. Effective for annual period beginning on 1 July 2017.
3. Effective for annual period beginning on 1 July 2018.
4. Effective for annual period beginning on 1 July 2019.
5. Effective date to be determined.

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

2. SALES AND SEGMENT INFORMATION

Sales recognised during the Year are as follows:

	For the year ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Sales of packaging paper	**30,006,173**	27,877,646
Sales of recycled printing and writing paper	**1,851,945**	1,970,147
Sales of high value specialty paper products	**234,652**	222,577
Sales of pulp	**—**	22,176
	32,092,770	30,092,546

Segment information

The Group is principally engaged in the manufacture and sale of packaging paper, recycled printing and writing paper and high value specialty paper products in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the directors of the Company regard that there is only one segment which is used to make strategic decisions.

3. OPERATING PROFIT

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

	For the year ended 30 June 2016 RMB'000	2015 RMB'000
Depreciation *(Note 8)*	**1,923,889**	1,799,316
Less: amount charged to other expenses	**(3,740)**	(3,654)
	1,920,149	1,795,662
Amortisation of intangible assets *(Note 9)*	**4,952**	5,078
Employee benefit expenses	**1,347,452**	1,231,937
Changes in finished goods	**(19,074)**	698,926
Raw materials and consumables used (net of claims)	**23,251,542**	22,089,574
Operating leases		
— Land use rights *(Note 8)*	**36,045**	33,771
— Buildings	**2,476**	1,315

4. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June 2016 RMB'000	2015 RMB'000
Finance income:		
Interest income from bank deposits	**138,740**	130,164
Finance costs:		
Interest on borrowings	**(986,079)**	(1,234,975)
Other incidental borrowing costs	**(212,149)**	(201,916)
Less: interest capitalised	**18,622**	48,612
	(1,179,606)	(1,388,279)
Bills discount charge	**(127,940)**	(121,543)
Loss on currency and interest rate swap contracts and foreign exchange option contracts	**(102,764)**	(5,987)
Cash flow hedge reserve released	**—**	(5,993)
	(1,410,310)	(1,521,802)

5. INCOME TAX EXPENSE

	For the year ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax and withholding income tax *(Note (a) and (b))*	**263,313**	197,637
— Hong Kong profits tax *(Note (c))*	**—**	—
	263,313	197,637
Deferred income tax	**254,741**	301,547
	518,054	499,184

(a) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rate of 15% for the Group's financial year ended 30 June 2016 (2015: 15%).

(b) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The applicable withholding income tax rate of the intermediate holding company of the Company's PRC subsidiaries for the year ended 30 June 2016 was 5% (2015: 10%).

(c) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the Year (2015: Nil).

6. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**1,121,742**	1,411,520
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,666,221**	4,666,221
Basic earnings per share *(RMB per share)*	**0.2404**	0.3025

— Diluted

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

For the year ended 30 June 2016, a calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the total proceeds receivable upon exercising the outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of shares issued for no consideration.

	For the year ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**1,121,742**	1,411,520
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,666,221**	4,666,221
Adjustment for share options *(shares in thousands)*	**1,185**	—
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,667,406**	4,666,221
Diluted earnings per share *(RMB per share)*	**0.2403**	0.3025

7. DIVIDENDS

	For the year ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Interim dividend, paid, of RMB2.0 cents (2015: RMB2.0 cents) per ordinary share	**93,324**	93,324
Final dividend, proposed, of RMB8.0 cents (2015: RMB5.0 cents) per ordinary share	**373,298**	233,311
Special dividend, proposed, of RMB3.0 cents (2015: nil) per ordinary share	**139,987**	—
	606,609	326,635

At a meeting held on 21 September 2016, the Board proposed a final dividend of RMB8.0 cents and a special dividend of RMB3.0 cents per ordinary share, totaling approximately of RMB11.0 cents per ordinary share. These proposed dividends are not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2017.

8. LAND USE RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

	Land use rights	**Property, plant and equipment**
	RMB'000	*RMB'000*
Year ended 30 June 2015		
Opening net book amount	1,479,774	45,599,196
Additions	69,298	1,525,178
Disposals	—	(63,252)
Disposal of a subsidiary	(41,918)	(245,905)
Amortisation/depreciation *(Note 3)*	(33,771)	(1,799,316)
Exchange differences	(984)	(5,040)
Closing net book amount as at 30 June 2015	1,472,399	45,010,861
Year ended 30 June 2016		
Opening net book amount	**1,472,399**	**45,010,861**
Additions	**83,989**	**1,813,998**
Disposals	**—**	**(46,147)**
Amortisation/depreciation *(Note 3)*	**(36,045)**	**(1,923,889)**
Exchange differences	**1,422**	**5,998**
Closing net book amount as at 30 June 2016	**1,521,765**	**44,860,821**

9. INTANGIBLE ASSETS

	RMB'000
Year ended 30 June 2015	
Opening net book amount as at 1 July 2014	223,245
Addition	33,728
Amortisation *(Note 3)*	(5,445)
Closing net book amount as at 30 June 2015	251,528
Year ended 30 June 2016	
Opening net book amount as at 1 July 2015	**251,528**
Amortisation *(Note 3)*	**(6,253)**
Closing net book amount as at 30 June 2016	**245,275**

Amortisation of RMB4,952,000 and RMB1,301,000 (2015: RMB5,078,000 and RMB367,000) are charged to the "administrative expense" and capitalised in "property, plant and equipment", respectively.

10. INVENTORIES

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
At cost:		
Raw materials	**2,592,540**	2,559,339
Finished goods	**1,012,980**	993,906
	3,605,520	3,553,245

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB26,231,444,000 for the Year (2015: RMB25,376,141,000).

11. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**2,025,246**	2,094,915
Bills receivable *(Note (b))*	**2,572,429**	3,256,573
	4,597,675	5,351,488
Value-added tax recoverable	**412,422**	776,620
Other receivables and prepayments	**589,727**	620,978
Less: other receivables included in non-current assets	**(47,500)**	—
	954,649	1,397,598
	5,552,324	6,749,086

(a) As at 30 June 2016, the ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
0–30 days	**1,669,939**	1,615,272
31–60 days	**338,020**	453,508
61–90 days	**14,244**	11,195
Over 90 days	**3,043**	14,940
	2,025,246	2,094,915

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

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

(b) Bills receivable issued by banks are mainly with maturity period of 90 to 180 days.

12. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
		HK$'000	*RMB'000*	*RMB'000*	*RMB'000*
Issued and fully paid					
Year ended 30 June 2015					
At 1 July 2014 and 30 June 2015	4,666,220,811	466,622	478,272	8,730,315	9,208,587
Year ended 30 June 2016					
At 1 July 2015 and 30 June 2016	**4,666,220,811**	**466,622**	**478,272**	**8,730,315**	**9,208,587**

13. BORROWINGS

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
Non-current		
— Long-term bank and other borrowings	**20,453,784**	19,404,981
— Medium-term notes	**398,600**	397,400
	20,852,384	19,802,381
Current		
— Short-term bank borrowings	**10,674,355**	9,260,988
— Current portion of long-term bank and other borrowings	**1,318,537**	1,529,065
— Current portion of medium-term notes	**—**	1,098,075
— Short-term commercial papers	**—**	300,000
	11,992,892	12,188,128
Total borrowings	**32,845,276**	31,990,509

The maturity of the borrowings is as follows:

	30 June 2016		
	Bank and other borrowings	**Medium-term notes**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Within 1 year	**11,992,892**	**—**	**11,992,892**
Between 1 and 2 years	**7,340,269**	**398,600**	**7,738,869**
Between 2 and 5 years	**13,113,515**	**—**	**13,113,515**
	32,446,676	**398,600**	**32,845,276**

	30 June 2015			
	Bank and other borrowings	Short-term commercial paper	Medium-term notes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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
	30,195,034	300,000	1,495,475	31,990,509

14. TRADE AND BILLS PAYABLES

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**1,030,229**	1,753,506
Bills payable	**3,067,735**	2,210,143
	4,097,964	3,963,649

(a) As at 30 June 2016, the ageing analysis of trade payables based on invoice date is as follows:

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
0–90 days	**1,010,871**	1,711,432
91–180 days	**7,070**	14,516
181–365 days	**7,001**	4,983
Over 365 days	**5,287**	22,575
	1,030,229	1,753,506

15. COMMITMENTS

(a) Capital commitments

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

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
Not later than one year	**1,871,060**	799,529
Later than one year and not later than five years	**85,022**	81,162
	1,956,082	880,691

(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:

	30 June 2016	30 June 2015
	RMB'000	*RMB'000*
Not later than one year	**3,560**	473
Later than one year and not later than five years	**5,102**	1,894
Later than five years	**15,965**	15,194
	24,627	17,561

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.

The containerboard industry in China continued to show improvements, with product prices maintaining a strengthening trend during the Year and keeping firm even at the relatively low season. This mainly attributed to continuous improvements in supply side discipline due to serious government environmental efforts to close down the less efficient and outdated capacities across all key manufacturing regions, and the escalating approval barriers on new capacities. Meanwhile, the Group also continued its diligent efforts in enhancing its internal management in all aspects — equipment upgrade, product quality, sales and product strategy, customer service, procurement efficiency, production skills, cost control, debt restructuring, etc. As a result, remarkable business performance improvements were achieved in the Year, with sales volume and sales both achieving historical high and earning trend reflecting record breaking high levels.

Although there was no new paper machine commencing production during the Year, the Group achieved 13.1 million tonnes in total sales volume, up by 7.0% from the previous financial year. This is the result of the Group's continuous equipment upgrade and improvement on production skills, as well as customer-oriented product offers and one-stop services driven by the Group's highly effective sales team. For example, the "Express Services" system seamlessly integrates the Group's interactions with customers, from order placing to receipt of products delivery, with a real-time enquiry platform for customer convenience. Backed by initial success before the Year showing remarkable results, this is made available to more and more customers, enabling ND Paper to become the preferred containerboard supplier to these customers.

The Group adopts a procurement strategy that is based on the selection and purchase of raw materials offering the best cost-value relationship by closely monitoring the market price trends of different sources. As a large buyer of recovered paper in the market, the Group is able to leverage effectively on various overseas and domestic channels of recovered paper supply, thus allowing optimization of its raw material costs at all times, including periods of price fluctuations. During the Year, the purchase value of domestic recovered paper accounted for approximately 32.2% of the total value of the Group's purchase of recovered paper.

The Group's total design production capacity remained the same at 13.73 million tpa during the Year. However, with continuous efforts in equipment upgrade as well as production skills and quality control enhancements, the Group's production output and efficiency further improved during the Year. Profit attributable to equity holders of the Company (excluding the exchange losses on operating and financing activities and the loss from derivative financial instruments (net of tax)) reached a record high level of approximately RMB2,834.1 million, reflecting that the significant investments made the Group in the past years on both new equipment and upgrades were beginning to show their contribution to return growth in an unambiguous manner.

The Group continued its exemplary position in the industry in environmental governance and compliance. As all levels of government are becoming more stringent in environmental enforcement and recognize the long term importance of environmental efforts in ensuring economic sustainability, the discipline demonstrated by ND Paper in its environmental management provides confidence to the government, customers, suppliers, investors, banks and other stakeholders, making it a favored business partner even at times of economic and credit adversities. The Group's production bases have been named "Environmental Credible Enterprise" by local environmental authorities for consecutive years. The Group's bases also continued to obtain ISO14001 certification for environmental management systems and certification for clean production.

The Group puts great emphasis on technological innovation in all aspects of its operations. To date, 240 patents have been obtained and another 49 patent applications or approvals are being processed.

As at June 30, 2016, the Group employed a total of approximately 16,300 full-time staff and continued to obtain OHSAS 18001 certification for its occupational health and safety management system.

Business Strategy and Development Plan

The Group has basically accomplished its network of production bases covering the major manufacturing hubs in China. This enormous production and sales platform provides various competitive advantages to the Group — unparalleled economies of scale, comprehensive product range, adequate ancillary production facilities and reliable logistics support, as well as efficient sharing of resources and experiences. Based on the specific characteristics of the regional market, each of the production bases develops knockout products that can become the prime choices for its local customers, while all these production bases share the same umbrella corporate brand "Nine Dragons" that is highly endorsed by customers for its quality and dependability.

In light of the current market demand situation, production of PM2(VN) at the Vietnam base is planned to be commenced by the end of June, 2017. With a design production capacity of 350,000 tpa (linerboard), the commencement of this new paper machine will bring the Group's total design production capacity to over 14 million tpa. PM39 at the Shenyang base is scheduled to commence production by June 2018, with a design production capacity of 350,000 tpa (linerboard). The successive commencement of operation of the two new paper machines enables the Group to reinforce its leading position in each region, while optimizing costs and enhancing efficiency.

Debt financing has been used as the major funding source for building the abovementioned platform. During this building period the Group has used offshore foreign currency debts extensively in order to benefit from the substantial financing cost savings arising from the interest rate gaps between RMB and foreign currency borrowings. With the current stage of development plan basically completed and the interest gap significantly narrowed, the Group has already started its debt reduction process and lowered its debt gearing to a substantial extent, while proactively switching from offshore foreign currency debts to onshore RMB debts. Considerable results have already been accomplished in the Year, and this process will continue, targeting at further lower debt gearing in future, with most of the foreign currency exchange rate risk exposure expected to be effectively removed before the end of December 2016.

As the Group's debt level becomes lower progressively, it may consider further development potential available in the market as well as enhancing its dividend payout. A balance between these two objectives and continuous debt reduction will be made with sound management judgment and governance. When market conditions improve to justify further growth, the Group will be in an advantageous position against its competitors, as it has already mastered an efficient infrastructure and the necessary resources, including adequate land reserves to accommodate future business expansion. As at 30 June 2016, the Group had secured land use rights for sites with an aggregate area of 12.79 million sq. m.

The Group's new headquarters complex is being built in Songshan Lake area, Dongguan. In addition to being the global headquarters of the Group, the complex will also house research centers, staff activity venues, a conference center and a museum of paper industry. It is planned to be completed before the end of 2017.

To pave the way for further development amidst industrial transformation in China, the Group has implemented its "Six Transformations" of "systems standardization, process streamlining, datamation, informatization, automation and intelligentization", with Industry 4.0 as the goal. The will not just improve overall management effectiveness, but also enhance customer satisfaction and staff working environment, thus strengthening the long term sustainability of the Group.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB32,092.8 million for FY2016, representing an increase of approximately 6.6% as compared with FY2015. The major contributor of the Group's revenue was still its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 93.5% of the revenue, with the remaining revenue of approximately 6.5% generated from its recycled printing and writing paper and high value specialty paper products business.

The Group's revenue for FY2016 increased by approximately 6.6% as compared with FY2015, mainly driven by the increase in sales volume of approximately 7.0%. Revenue of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for FY2016 accounted for 47.2%, 22.6%, 23.7% and 5.8% respectively of the total revenue, compared to 45.7%, 23.2%, 23.8% and 6.5% respectively in FY2015.

The Group's annual design production capacity in packaging paperboard and recycled printing and writing paper as at 30 June 2016 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. In FY2016, the Group's total sales volume of packaging paperboard products and recycled printing and writing paper reached approximately 13.0 million tonnes, representing an increase of approximately 7.1% as compared with FY2015. The increase of sales volume of packaging paperboard and recycled printing and writing paper was supported by the contribution from the full year operation of PM38 at Leshan and PM37 at Shenyang.

The sales volume of linerboard, high performance corrugating medium and coated duplex board for FY2016 increased by approximately 10.4%, 3.0% and 6.7% respectively, while the recycled printing and writing paper for FY2016 decreased by approximately 1.8%, as compared with FY2015.

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 FY2016, revenue related to domestic consumption represented 93.0% of the Group's total revenue, while the remaining revenue of 7.0% were sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2016, sales to the Group's top five customers in aggregate accounted for approximately 5.3% (FY2015: 5.1%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.3% (FY2015: 1.5%).

Gross profit

The gross profit for FY2016 was approximately RMB5,861.3 million, an increase of approximately RMB1,144.9 million or 24.3% as compared with RMB4,716.4 million in FY2015. The gross profit margin increased from 15.7% in FY2015 to approximately 18.3% in FY2016, mainly contributed by the drop in the cost of the major raw materials, including chemicals and coal.

Other income/expenses and other losses — net

Other income/expenses and other losses increased by approximately 282.1%, from RMB154.6 million in FY2015 to approximately RMB591.0 million in FY2016. The increase was due primarily to other income derived from the value added tax refund of approximately RMB424.0 million pursuant to the preferential value added tax ("VAT") policies collectively issued by the Ministry of Finance and the PRC State Administration of Taxation. The Group's VAT paid in relation to the production and sales of paper products using the recovered paper as raw materials were eligible for fifty percent of refund.

Selling and marketing costs

Selling and marketing costs were approximately RMB736.0 million in FY2016, increased by approximately 8.4% as compared with RMB679.1 million in FY2015. The increase in the selling and marketing costs was in line with the increase in sales. The total amount of selling and distribution costs as a percentage of the Group's revenue remained very stable at 2.3%.

Administrative expenses

Administrative expenses increased by approximately 14.2% from RMB917.7 million in FY2015 to approximately RMB1,047.6 million in FY2016. The increase in administrative expenses was mainly as a result of additional management and administrative costs incurred to support the full year operation of paper machine in Shenyang. The amount of administrative expenses as a percentage of group revenue increased from 3.0% in FY2015 to 3.3% in FY2016.

Operating profit

The operating profit for FY2016 was approximately RMB4,331.1 million, representing an increase of approximately RMB1,090.7 million or 33.7% over FY2015. The operating profit margin increased from 10.8% in FY2015 to approximately 13.5% in FY2016.

Finance costs

Finance costs decreased by approximately 7.3% to approximately RMB1,410.3 million in FY2016 from RMB1,521.8 million in FY2015. The decrease in finance cost was mainly due to the decrease in average interest rate from 4.4% in FY2015 to approximately 3.7% in FY2016. The finance costs for FY2016 if excluding the loss from derivative financial instruments, of which mainly related to the reform of the central parity rate for RMB to USD and EURO dollars initiated by the Peoples' Bank of China ("PBOC") was approximately RMB1,307.5 million, representing a decrease of approximately 13.4% or RMB202.3 million over FY2015.

Exchange losses/gains on operating and financing activities

During FY2016, the central parity rate for RMB to US dollars and other currencies experienced significant changes as a result of the reform initiated by PBOC, which adversely affected the profit of the Group for the Year. The foreign exchange losses on operating and financing activities before tax were approximately RMB337.6 million and RMB1,434.5 million respectively, in aggregate amounted to approximately RMB1,772.1 million for the Year.

Income tax expense

Income tax charged for the FY2016 amounted to approximately RMB518.1 million and increased by approximately 3.8% or RMB18.9 million as compared with FY2015.

The Group's effective tax rate (income tax expense divided by profit before income tax for the Year) increased to approximately 31.1% in FY2016 from 25.5% in FY2015 due to certain portion of exchange losses (mainly offshore portion of exchange losses recorded) not deductible for the tax purpose recorded in FY2016.

Net profit

The profit attributable to equity holders of the Company in FY2016 was approximately RMB1,121.7 million, representing a decrease of approximately RMB289.8 million, or 20.5% over FY2015. Whilst the profit margin attributable to equity holders of the Company decreased from 4.7% in FY2015 to approximately 3.5% in FY2016. The decrease was mainly contributed by the significant exchange losses on operating and financing activities resulting from the reform of the central parity rate for RMB initiated by PBOC. If the exchange losses on operating and financing activities and the one off loss from derivative financial instruments (including loss on currency and interest rate swap contracts and foreign currency option contracts and cash flow hedge reserve released) (net of tax) were excluded, the profit attributable to equity holders of the Company was approximately RMB2,834.1 million in FY2016, representing an increase of approximately RMB1,462.5 million or 106.6% over FY2015 and the net profit margin attributable to equity holders of the Company was increased from 4.6% in FY2015 to approximately 8.8% in FY2016.

Dividend

In FY2016, the Group paid an interim dividend of RMB2.0 cents per share, which amounted to RMB93.3 million. The directors have proposed a final dividend of RMB8.0 cents per share, the total dividend for the FY2016 amounted to RMB10.0 cents per share, representing an increase of RMB3.0 cents per share as compared with FY2015. The pay out ratio was increased from 23.1% in FY2015 to 41.6% in FY2016.

The directors have also proposed a special dividend of RMB3.0 cents per share for celebrating its 10-year anniversary since its listing in 2006.

Working capital

The inventories increased by approximately 1.5% to approximately RMB3,605.5 million in FY2016 from RMB3,553.2 million in FY2015. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB2,592.5 million and finished goods of approximately RMB1,013.0 million.

The raw materials increased by approximately 1.3% to approximately RMB2,592.5 million in FY2016 from RMB2,559.3 million in FY2015. The increase in raw materials balance was mainly due to the full year operation of PM in Shenyang during FY2016.

The finished goods increased by approximately 1.9% to approximately RMB1,013.0 million in FY2016 from RMB993.9 million in FY2015.

The raw material (excluding spare parts) and finished goods turnover days remained stable at approximately 24 days and 14 days respectively in FY2016.

Trade and bills receivables were approximately RMB4,597.7 million in FY2016, decreased by approximately 14.1% from RMB5,351.5 million in FY2015. During FY2016, the turnover days of trade receivables were approximately 23 days which was within the credit terms granted by the Group to its customers.

Trade and bills payables were approximately RMB4,098.0 million in FY2016, increased by approximately 3.4% from RMB3,963.6 million in FY2015. The turnover days of trade and bills payable were approximately 57 days for FY2016 which was within the credit period granted by most suppliers.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2016 primarily comes from its operating cash flows and borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's cash generated from operations increased from RMB7,201.7 million in FY2015 to approximately RMB8,070.2 million in FY2016, representing an increase of approximately 12.1%. The increase was primarily attributable to the improvement of the operating result in FY2016. In terms of available financial resources as at 30 June 2016, the Group had total undrawn banking facilities of approximately RMB31,468.4 million and cash and cash equivalents, short-term bank deposits and restricted cash of approximately RMB11,330.1 million.

As at 30 June 2016, the shareholders' funds were approximately RMB26,074.2 million, an increase of approximately RMB847.5 million from that of FY2015. The shareholders' fund per share increased from RMB5.4 in FY2015 to approximately RMB5.6 in FY2016.

Debts Management

The Group's outstanding borrowings increased by approximately RMB854.8 million from RMB31,990.5 million as at 30 June 2015 to approximately RMB32,845.3 million as at 30 June 2016. The short-term and long-term borrowings amounted to approximately RMB11,992.9 million and RMB20,852.4 million respectively, accounting for 36.5% and 63.5% of the total borrowings respectively. As at 30 June 2016, about 97.6% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 94.4% as at 30 June 2015 to approximately 81.4% as at 30 June 2016. If the exchange losses and the loss from derivative financial instruments (net of tax) in aggregation amounted to approximately RMB1,712.4 million, of which mainly arising from the reform of the central parity rate for RMB initiated by PBOC were excluded, the net debt to total equity ratio was further dropped to 76.5% as at 30 June 2016. The Board will closely monitor the Group's net debt to total equity ratio and reduce the borrowing gradually.

Treasury policies

The Group has established a treasury policy with the objective of achieving better control of treasury operations and lowering cost of funds. Therefore, funding for all its operations and foreign exchange exposure have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments will be used to hedge material exposure.

It is the policy of the Group not to enter into any derivative products for speculative activities.

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

This is accomplished by loan re-financing and negotiation. The Board will continue to closely monitor the Group's loan portfolio and compare the loan margin spread under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

(b) Minimise currency risk

In view of the potential Renminbi exchange rate fluctuation, the Board closely monitors the Group's foreign currency borrowings and will consider arranging for monetary and interest rate hedge at appropriate time to mitigate the corresponding risk. As at 30 June 2016, total foreign currency borrowings amounted to the equivalent of approximately RMB13,544.4 million and loans denominated in RMB amounted to approximately RMB19,300.9 million, representing approximately 41.2% and 58.8% of the Group's borrowings respectively.

Cost of borrowing

The effective interest rates of long-term borrowings and short-term borrowings were 3.4% and 2.8% per annum as at 30 June 2016 and 3.3% and 2.9% per annum as at 30 June 2015. The gross interest and finance charges (including interest capitalised but before interest income, exchange losses on financing activities and impact from all the derivative financial instruments) decreased to approximately RMB1,326.2 million in FY2016 from RMB1,558.4 million in FY2015.

Capital expenditures

The Group's payments for the construction of factory buildings, purchase of plants, machineries and equipments and land use rights during FY2016 were approximately RMB1,838.1 million. These capital expenditures were fully financed by internal resources and borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for machineries and equipments of approximately RMB1,956.1 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the expansion of the Group's production capacity and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

Contingencies

As at FY2016, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The need for China to maintain a rigorous long term environmental strategy and more stringent anti-pollution enforcement has become so critical that all levels of government would allow no compromise in driving a clean paper industry now and into the future. As the industry becomes more orderly, a market leader like ND Paper with the largest geographical coverage, established infrastructure, best economies of scale and quality management will be able to excel and stand out from its competitors. While containerboard demand is now amply supported by consumption of everyday necessities and the fast growth in online shopping activities, as China's consumption market resumes a more rapid growth rate when the market adapts to the current economic changes, past investments made by ND Paper are expected to deliver impressive returns readily and for a sustainable period of time. This positive trend is already getting into shape now, and is expected to continue in more obvious ways in the near future.

DIVIDEND

An interim dividend of RMB2.0 cents (equivalent to approximately HK2.38 cents) per share for the six months ended 31 December 2015 (six months ended 31 December 2014: RMB2.0 cents) was paid to shareholders on 22 July 2016.

The Board has resolved to recommend the payment of a final dividend of RMB8.0 cents (equivalent to approximately HK9.3 cents) per share and a special dividend of RMB3.0 cents (equivalent to approximately HK3.5 cents) per share for FY2016, which are expected to be paid on Thursday, 12 January 2017 subject to the approval of the forthcoming annual general meeting ("2016 AGM"). The final dividend and special dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 28 December 2016. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.86035 as at 21 September 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

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

(i) from Monday, 5 December 2016 to Wednesday, 7 December 2016, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2016 AGM. In order to be eligible to attend and vote at the 2016 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 2 December 2016; and

(ii) from Thursday, 22 December 2016 to Wednesday, 28 December 2016, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend and special dividend. In order to establish entitlements to the proposed final dividend and special dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 21 December 2016.

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

ANNUAL GENERAL MEETING

The 2016 AGM will be held on Wednesday, 7 December 2016 and the notice of 2016 AGM will be published and despatched in the manner as required by the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2016.

AUDIT COMMITTEE REVIEW

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

The consolidated financial statements of the Group for FY2016 has been reviewed by the audit committee, with the directors and the Company's auditor, PricewaterhouseCoopers.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During FY2016, the Group has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during FY2016, they were in compliance with provisions of the Model Code.

APPRECIATION

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

By Order of the Board
Cheung Yan
Chairlady

Hong Kong, 21 September 2016

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 and Mr. Lam Yiu Kin.

* *For identification purposes only*