玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

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RECYCLED PAPER

Annual Report 2010/2011

* For identification purposes only

Contents

2 Corporate Information
3 Financial Highlights
4 Main Products
6 Chairlady's Statement
11 Chief Executive Officer's Operation Review and Outlook

Management Discussion and Analysis
15 Business Review
22 Financial Review
26 The Group in the Last Five Years

Corporate Governance
28 Corporate Governance
32 Remuneration Committee
38 Audit Committee
40 Internal Control and Risk Management
42 Connected Transactions
45 Corporate and Social Responsibility

Directors and Senior Management
49 Profile of Directors and Senior Management

Directors' Report and Financial Statements
54 Directors' Report
61 Independent Auditor's Report
63 Balance Sheets
65 Consolidated Income Statement
66 Consolidated Statement of Comprehensive Income
67 Consolidated Statement of Changes in Equity
69 Consolidated Statement of Cash Flows
70 Notes to the Consolidated Financial Statements

Stakeholders Information
129 Investor Relations and Communications with Shareholders
131 Definition

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung *(Deputy Chairman and Chief Executive Officer)*
Mr. Zhang Cheng Fei *(Deputy Chief Executive Officer)*
Mr. Zhang Yuanfu *(Chief Financial Officer)*
Mr. Lau Chun Shun
Ms. Gao Jing

Independent Non-Executive Directors

Ms. Tam Wai Chu, Maria *GBS, JP*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Dr. Cheng Chi Pang
Mr. Wang Hong Bo

EXECUTIVE COMMITTEE

Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

AUDIT COMMITTEE

Dr. Cheng Chi Pang *(Chairman)*
Ms. Tam Wai Chu, Maria *GBS, JP*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Mr. Wang Hong Bo

REMUNERATION COMMITTEE

Ms. Tam Wai Chu, Maria *GBS, JP (Chairlady)*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Dr. Cheng Chi Pang
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

AUTHORISED REPRESENTATIVES

Mr. Zhang Cheng Fei
Ms. Cheng Wai Chu, Judy *ACS, ACIS*

COMPANY SECRETARY

Ms. Cheng Wai Chu, Judy *ACS, ACIS*

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

HONG KONG OFFICE

Room 3129, 31/F.,
Sun Hung Kai Centre,
30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

Conyers Dill & Pearman (Bermuda)
Jun He Law Offices (PRC)
Sidley Austin (Hong Kong)

PRINCIPAL BANKERS

Bank of China Limited
Bank of China (Hong Kong) Limited
Agricultural Bank of China
Bank of Communications
China Merchants Bank
China Development Bank

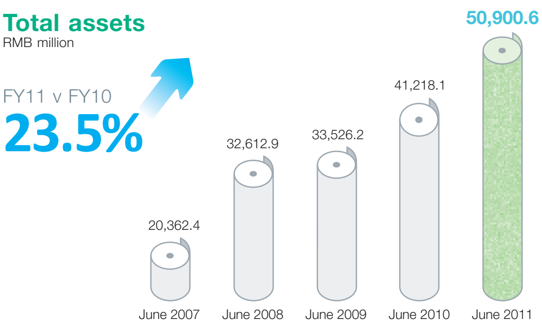
Financial Highlights

For the year ended 30 June	2011	2010	Change
Operating results (RMB million)			
Sales	24,386.9	17,946.0	35.9%
Gross profit	4,226.8	3,912.6	8.0%
Operating profit	3,179.0	3,120.0	1.9%
Profit before taxation	2,403.7	2,578.9	(6.8%)
Profit attributable to Company's equity holders	1,967.8	2,166.5	(9.2%)
Financial position (RMB million)			
Cash generated/(used in) from operations	2,854.3	(81.1)	3,619.5%
Net debt	21,476.4	14,318.7	50.0%
Shareholders' funds	20,599.7	19,130.2	7.7%
Per share data (RMB cents)			
Earnings per share — basic	42.27	47.92	(11.8%)
Earnings per share — diluted	42.17	47.46	(11.1%)
Dividend per share			
— Interim	2.00	2.00	–
— Final	8.00	10.00	(20.0%)
Other data (RMB million)			
Capital expenditures	8,510.7	4,359.5	95.2%
Key ratios (%)			
Gross profit margin	17.3	21.8	(4.5 pts)
Operating profit margin	13.0	17.4	(4.4 pts)
Net profit margin	8.1	12.1	(4.0 pts)
EBITDA/ratio	17.4	22.3	(4.9 pts)
Return on capital employed	6.0	7.5	(1.5 pts)

- Group revenue increased by 35.9% to RMB24,386.9 million
- Profit for the year decreased by 9.2% to RMB2,015.1 million
- Net profit margin less 4.0 percentage points to 8.1%

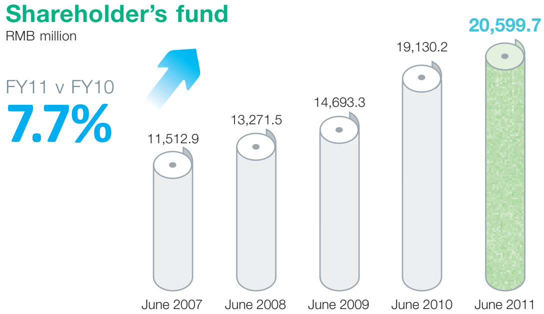
Total assets

RMB million



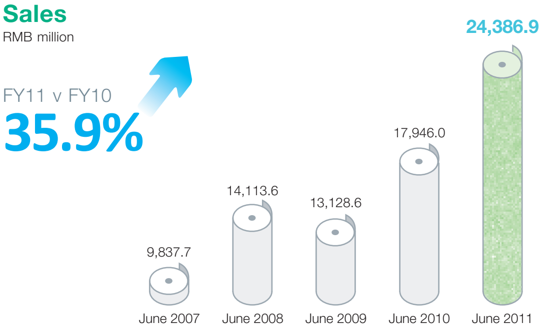
Shareholder's fund

RMB million



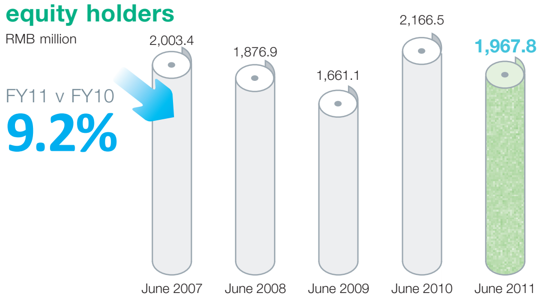
Sales

RMB million



Profit attributable to Company's equity holders

RMB million



Main Products

1. LINERBOARD CATEGORY

1) Kraftlinerboard

Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

2) Testlinerboard

Testlinerboard is made of 100% recovered paper. It meets certain customers' requirements for lower cost and environmental-friendly purposes. The Group classifies different classes of products into Land Dragon kraftlinerboard, Sea Dragon testlinerboard and Land Dragon testlinerboard so as to cater to the different needs of the customers.

3) White Top Linerboard

White top linerboard is a three-ply sheet of which the surface layer is bleached, and caters to customers that require a white surface for appearance or superior printability. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

4) Coated Linerboard

Coated linerboard is a four-ply sheet of which the surface layer is coated on bleached kraft pulp. It possesses the characteristics of high performance (as that of kraftlinerboard) and high printability (as that of coated duplex board), which can replace the traditional coated duplex board.

2. HIGH PERFORMANCE CORRUGATING MEDIUM

Compared to standard corrugating medium, high performance corrugating medium, which undergoes surface sizing, achieves superior strength and physical properties for the same basis weight, which reduces packaging weight, bulk and the amount of material used, allowing customers to save on shipping costs. The Group offers high performance corrugating medium ranging from 50-180g/m^2, of which light weight high performance corrugating medium of 50, 60 and 70g/m^2 are at a leading position in the industry. High performance corrugating medium satisfies the needs of the customers for different classes and weights. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

3. COATED DUPLEX BOARD

Coated duplex board is a type of boxboard with a glossy coated surface on one side for superior printability. This product is typically used as packaging material for small boxes that require high quality printability, such as consumer electronic products, cosmetics or other consumer merchandise. It can also be used in combination with high performance corrugating medium and linerboard for the outer layer of corrugated board. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

4. WHITE BOARD

White board is a type of boxboard with a glossy coated surface layer and a bottom layer in bleached kraft pulp. This product is widely used in cigarettes, packages of food products, medicines, cosmetics and carrying bags.

Main Products

5. PRINTING AND WRITING PAPER CATEGORY

1) Uncoated Woodfree Paper

Uncoated woodfree paper is suitable for printing books, teaching materials, magazines, notebooks and colour pictures. The Group offers high quality uncoated woodfree paper of 55-140g/m^2. This product has passed FSC certification. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

2) Office Paper

Office paper is suitable for colour printing and copying, colour inkjet and digital printing, high-speed black and white printing and copying for office uses. The surface of this product is processed with special technologies, minimizing the wear of office equipments. It has passed FSC certification. The 100% recycled fiber multi-function office paper under the Nine Dragons brand is made of 100% recovered paper and is more environmental-friendly.

Chairlady's Statement

2011 is a landmark year for ND Paper, in which it has reached its peak in development pace since its foundation. Starting from 2012, the Group will migrate to the next stage of steady growth.

Dear Shareholders,

On behalf of Nine Dragons Paper (Holdings) Limited, I hereby present the results for the year of 2010/2011.

Chairlady's Statement

During the Year, slow recovery of the global economy, together with the European debt crisis and the quantitative easing policy of the U.S., have resulted in continuous volatility in the external market. Furthermore, inflation concerns have caused China to strengthen its austerity measures, which to a certain extent exerted pressure on the business operations of all industries. As market sentiment became conservative but operating costs remained high, during the Year, the Group operated in a cautious manner, with costs and risks under strict control, while the best efforts were made to ensure the development projects which were planned to be completed this year to commence production as scheduled.

BOTH PRODUCTION CAPACITY AND SALES HIT RECORDS

During the Year, the Group's production capacity scale and sales both hit records. PM29 and PM30 in Taicang base commenced production at the end of 2010, bringing the Group's total design production capacity to 9.52 million tpa. By the end of June this year, the Group had another four new paper machines and three upgraded paper machines commenced production, namely PM3, PM27 and PM28 in Dongguan, PM20 and PM21 in Taicang, and PM31 and PM32 in Tianjin. Currently, the Group's total design production capacity has reached 11.45 million tpa, nearly 24% of which being high-margin products including coated duplex board, food grade and pharmaceutical grade white board, coated linerboard and recycled printing and writing paper (uncoated woodfree paper, copy paper, etc.), representing a substantial increase as compared with around 11% in the last financial year, creating rooms for the Group to elevate its profit in the future.

The Group's sales for the Year reached approximately RMB24.4 billion, representing a growth of approximately 36% as compared with the corresponding period last year and another record high. Gross profit amounted to approximately RMB4.2 billion, representing a growth of approximately 8% as compared with the corresponding period last year. Net profit attributable to equity holders amounted to approximately RMB1.97 billion, with basic earnings per share at approximately RMB0.42. The Board has resolved to recommend the payment of a final dividend of RMB8 cents per share.

YEARS OF PLANNING AND IMPLEMENTATION EFFORTS REACHING A PEAK IN DEVELOPMENT

We believe the current environment of unfavourable market and tight liquidity is an inevitable stage in any economic cycle. Notwithstanding the market volatility faced by the Group during the Year, with years of planning and accumulated resources in management, production and marketing, the Group was able to maintain normal operations while expanding proactively. Compared with other economic systems, China's strong economic foundation will enable it to sustain steady and long-term growth. Furthermore, the PRC Government's "12th 5-Year Program" will benefit those paper manufacturing enterprises which possess economies of scale and emphasize environmental protection. In the past few years, the Group formulated its long-term strategic development plans according to the market situations, and invested billions of RMB every year to materialize these plans, so as to successfully capture valuable market development opportunities.

With the commencement of production of six new paper machines and three upgraded paper machines, 2011 is a landmark year for ND Paper, in which it has reached its peak in development pace since its foundation. Starting from 2012, the Group will migrate to the next stage of steady growth. The Group will further expand its business and raise its profitability return based on the local market supply and demand environment for each production base and the Group's financial conditions.

BALANCE BETWEEN CONTINUOUS LONG-TERM DEVELOPMENT AND FINANCIAL CONDITIONS

The Group's development plan will carry on with a total of 6 new paper machines planned for completion and commencing production successively in the period from 2012 to 2013, bringing the Group's total design production capacity to possibly over 14 million tpa, representing an increase of over 21% as compared with the current production capacity scale. For Tianjin and Chongqing bases, each of them will have a new paper machine of 0.55 million tpa in design production capacity, for the production of coated duplex board, food grade and pharmaceutical grade white board. The new PM35 and PM36 in Quanzhou base and the new PM37 and PM38 in Shenyang base will be used for producing kraftlinerboard and testlinerboard with a total design production capacity of 1.35 million tpa. These 6 new paper machines will not only satisfy demands of customers in those regions in terms of product types and address the problem of insufficient supply in the local markets, they are also in line with the strategic goal of the Group in terms of geographical network, achieving a wider coverage.

After phase 1 construction is completed in the new paper manufacturing bases in Quanzhou and Shenyang, the Group will have a complete network of production bases in China, and there is no more new production base development plan at this stage. In the future, the Group will continue to position Chongqing, Shenyang and Tianjin as the key markets for development, continuously strengthening the Group's coverage in the markets in the Bohai Economic Rim, mid-western regions of China and northeastern China.

Apart from relying on the strong cash flow from operations, the Group's development is also backed by the wholehearted support from the banks. As at the end of June 2011, the Group had cash and cash equivalents of approximately RMB2.5 billion and total undrawn banking facilities of over RMB15.2 billion. In August 2011, the Group had also fully redeemed the senior notes due 2013. In the past few years, rapid development has brought relatively high debt gearing to the Group. In the future, the Group will proactively monitor its debt situation, striking a balance between development and the Group's financial conditions.

STAY FIRM ON SOCIAL OBLIGATIONS IN ACCORDANCE WITH THE GREEN POLICIES OF THE "12TH 5-YEAR PROGRAM"

The PRC Government announced the "12th 5-Year Program" and imposed more stringent requirements for corporate environmental protection, energy conservation and emission reduction. Since its establishment, ND Paper has always been proactively strengthening environmental protection, energy conservation and emission reduction, with its various environmental management parameters outperforming state requirements, and made the best use of every resource during the production and operation processes. Under the "12th 5-Year Program", the Group will cooperate fully with China's related development policies and be continuously devoted to environmental protection. The Group actively expands domestic recovered paper purchase. During the Year, domestic recovered paper purchase accounted for 27.8% of the Group's total recovered paper purchase. It is expected that this percentage will further increase to over 30% in the future. In addition, the Group also actively participates in social services. The "Special Funds for Community Welfare" set up across the bases operated well and a total of RMB12 million was donated for charitable purpose in the Year. The Group was also honoured the title of "National Workers' Pioneer" ("全國工人先鋒號") by All China Federation of Trade Unions during the Year.

Chairlady's Statement

OUTLOOK AND ACKNOWLEDGEMENT

Although we maintain a bearish view on the current market and for the coming year, and the Group will keep operating in a conservative and cautious manner, it is our conviction that successful capture of market opportunities and improvement in the areas such as sales, customer base, corporate operations, etc. have to be achieved by the expansion of economies of scale and continual optimization of its resources, and further fueled by improving market conditions and accelerating market consolidation. Little efforts accumulate and help. In the future, the Group can certainly leverage on its long-established advantages. As the most resourceful paper manufacturing enterprise in the PRC, the Group will, by employing its existing strengths in management and finance, make steady development in order to strive for better investment return for its Shareholders in the foreseeable future. On behalf of all members of the Board, I would like to take this opportunity to express my heartfelt gratitude to the management and all the staff for their dedication to and the trust they have bestowed on ND Paper, as well as my appreciation for governments at all levels, investors, banks and business partners who have been supporting the Group all along.

Cheung Yan
Chairlady

Hong Kong, 20 September 2011

During the Year, the Group's production capacity scale and sales both hit records, with finished goods inventory maintained at a relatively low level.

Chief Executive Officer's Operation Review and Outlook

Adding paper machines is not simply for increasing the production capacity, but for producing high-value new products so as to enlarge the room for profits in the future.

Dear Shareholders,

I hereby present the results of Nine Dragons Paper (Holdings) Limited for the Year.

REVIEW OF OPERATIONS

Despite the unfavourable general economic and market environments, the Group was able to maintain a good balance between its operations and development during the Year. Revenue amounted to approximately RMB24.4 billion, representing an increase of approximately 36% as compared with the same period of last year. Revenue related to domestic consumption had been growing steadily, representing approximately 86% of the total revenue. During the Year, the total sales volume of packaging paperboard products reached approximately 7.6 million tonnes, including approximately 4.2 million tonnes of linerboard, approximately 2.5 million tonnes of high performance corrugating medium and approximately 0.9 million tonnes of coated duplex board, generating a revenue of approximately RMB24 billion to the Group. Production of high-margin new products including coated linerboard, recycled printing and writing paper, etc. has commenced and they have been launched in the market. The Group's finished goods inventory is now at a relatively low level. Apart from the four major production bases (Dongguan, Taicang, Chongqing and Tianjin) in China, the Group acquired 78.13% controlling equity interest of Hebei Yongxin in the Year so as to enlarge the Group's market share in northern China, as well as create synergies for the Group's bases in Tianjin and Shenyang, further strengthening the Group's competitiveness in the future and consolidating its leading position within the industry.

Currently, the Group's total design production capacity has reached 11.45 million tpa. The six new paper machines, the construction of which was planned to complete in the Year, have all commenced production before the end of June 2011. Among them, the new PM29 and PM30 in Taicang base with a design production capacity of 0.4 million tpa in kraftlinerboard and 0.3 million tpa in light weight high performance corrugating medium respectively commenced production at the end of 2010. Regarding the two new paper machines in Dongguan base, PM27 produces coated duplex board, food grade and pharmaceutical grade white board with a design production capacity of 0.55 million tpa, and PM28 produces recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) with a design production capacity of 0.25 million tpa. The construction of PM31 and PM32 in Tianjin base has also completed, producing testlinerboard and kraftlinerboard respectively with a design production capacity of 0.4 million tpa each. As for upgrade of paper machine, PM3 in Dongguan that produces coated linerboard, PM20 and PM21 in Taicang base that produce coated linerboard and recycled printing and writing paper respectively have all completed their upgrading now, with a design production capacity of 0.4 million tpa, 0.43 million tpa and 0.2 million tpa respectively. These nine paper machines are currently under optimization process.

Following the implementation of the ERP management system in the four major bases, the second phase of the installation work of ERP management system commenced at the end of April 2011. To a fast growing enterprise like ND Paper, the continual improvements on management systems can lay a profound foundation for ND Paper's future business expansion and risk control.

During the Year, the Group continued to maintain positive cooperative relationships with the banks, which have supported us in various ways and offered adequate credit facilities for our operating and development needs, including further support received from the China Development Bank when a total loan facility of RMB3.1 billion was granted. Apart from the new paper manufacturing bases at Shenyang and Quanzhou, the Group currently does not have any plan for new large-scale paper manufacturing bases. Together with the existing four major paper manufacturing bases, the Group has roughly completed its strategic geographical network for the Chinese packaging paperboard market, marking the Group's migration from its peak period of investment in the past few years towards a future stage of steady growth.

In terms of energy conservation, emission reduction and waste utilization, the wastewater treatment sludge dewatering technology which the Group pioneered to research and develop not only resulted in savings on the Group's resources in daily operations and achieved greater environmental benefits, but also won the "First Class Prize in the 2nd Innovative Achievement in the Outstanding Techniques of Energy Conservation and Emission Reduction in the PRC Paper Industry" (第二屆全國造紙行業節能減排優秀技術創新成果一等獎), allowing the Group to maintain its leadership position in terms of environmental protection. The patent application for this technology was filed in November 2010.

Apart from the Group's four major paper manufacturing bases in China, the operations of the projects in Hebei Yongxin, Leshan of Sichuan, Inner Mongolia and Vietnam were all delivering satisfactory performance.

DEVELOPMENT PLANS

With a business goal of building an enterprise that would thrive for a century, the Group focuses on development within its industry. In the period from 2012 to 2013, there will be a new PM34 in Tianjin base which produces coated duplex board, food grade and pharmaceutical grade white board with a design production capacity of 0.55 million tpa. The paper machine is planned to commence production before the end of July 2012. There will also be a PM33 in Chongqing base which produces coated duplex board, food grade and pharmaceutical grade white board with a design production capacity of 0.55 million tpa. The paper machine is planned to commence production before the end of December 2012. At the Group's medium-sized paper manufacturing base in Quanzhou, Fujian, PM35 and PM36 with a design production capacity of 0.35 million tpa and 0.3 million tpa respectively for producing kraftlinerboard and testlinerboard respectively will commence production before the end of June 2013. At Shenyang base, two new paper machines in first phase, being PM37 and PM38 for producing kraftlinerboard and testlinerboard respectively with a design production capacity of 0.35 million tpa each, are expected to commence production before the end of December 2013. After the production commencement in Shenyang and Quanzhou bases, the Group will have a foothold in each of the Bohai Economic Rim, the mid-western market, Yangtze River Delta, Pearl River Delta, northeastern region and the west coast of the Taiwan Strait, completing the network coverage in the Chinese market to a large extent.

The Group strived to optimize its product mix. Adding paper machines is not simply for increasing the production capacity, but for producing high-value new products so as to enlarge the room for profits in the future. Upon the completion of the above plans, the Group's total design production capacity of high-margin products in the coated duplex board, food grade and pharmaceutical grade white board category will reach 2.6 million tpa, accounting for approximately 21% of the Group's total production capacity. Meanwhile, the design production capacity of 0.83 million tpa of coated linerboard and the design production capacity of 0.45 million tpa of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) had both been completed or upgraded. The products had been launched in the market and gained customer recognition. By the end of 2012, the total design production capacity of the above high-margin products will reach 3.88 million tpa, which will be four times the total production capacity of these products in 2010. By then, the synergistic effects generated by the high-margin products and the strategic network comprising six major bases across the country will emerge. By sustaining stable and trusted customer relationship and continually optimizing its cost structure, the Group is poised to significantly enhance its room for further profit increases, thus laying a more solid foundation for ND Paper as an "enterprise that would strive for a century".

OUTLOOK

In the coming three years, the Group will endeavor to control its debts within a prudent level, and focus on lowering the costs of large volume raw materials and refining management. The Group will fulfill its responsibility as a corporate citizen to contribute to environmental protection and energy conservation, proactively working in line with the state's "Energy saving environmental protection industry development plan of the 12th 5-Year Program". The Group expects that the packaging paperboard market in China will experience continual growth in the long term, when the current low cycle is over. The market of recycled printing and writing paper is also just starting to emerge and demand is ever increasing. In the next few years, the Group will, as usual, make full use of the unique advantages of its four major market bases and resources, steering its path forward building a strategic network comprising six bases and a diverse product mix. In so doing, the Group hopes to maximize returns from its investments earlier and requite the stern support and trust that its Shareholders, customers, suppliers and people from various communities have long bestowed on the Group.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 20 September 2011

The Group must have adequate land reserves in order to capture market opportunities arising from economic recovery and industrial consolidation.

Management Discussion and Analysis

BUSINESS REVIEW

Being the largest containerboard manufacturer in Asia, ND Paper primarily produces and sells 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 produces and sells pulp and specialty paper. The Group's new products such as recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) and coated linerboard have successfully commenced production and launched sales, enabling the Group to further offer its customers a diverse product portfolio for various needs.

During the Year, the Group's production capacity scale and sales both hit records, with finished goods inventory maintained at a relatively low level. The six new paper machines, the construction of which were planned to complete in the Year, have all commenced production before the end of June 2011. Among them, the new PM29 and PM30 in Taicang base with a design production capacity of 0.4 million tpa in kraftlinerboard and 0.3 million tpa in light weight high performance corrugating medium respectively commenced production at the end of 2010. Regarding the two new paper machines in Dongguan base, PM27 produces coated duplex board, food grade and pharmaceutical grade white board with a design production capacity of 0.55 million tpa, and PM28 produces recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) with a design production capacity of 0.25 million tpa. The construction of PM31 and PM32 in Tianjin base has also completed, producing testlinerboard and kraftlinerboard respectively with a design production capacity of 0.4 million tpa each. As for upgrade of paper machines, PM3 in Dongguan that produces coated linerboard, PM20 and PM21 in Taicang base that produce coated linerboard and recycled printing and writing paper respectively have all completed their upgrading now, with a design production capacity of 0.4 million tpa, 0.43 million tpa and 0.2 million tpa respectively.

Apart from the four major production bases (Dongguan, Taicang, Chongqing and Tianjin) in China, the Group acquired 78.13% controlling equity interest of Hebei Yongxin Paper Co., Ltd. ("Hebei Yongxin") in the Year so as to enlarge the Group's market share in northern China, as well as create synergies for the Group's bases in Tianjin and Shenyang, further strengthening the Group's competitiveness in the future and consolidating its leading position within the industry. In addition, the operations of the projects in Leshan of Sichuan, Inner Mongolia and Vietnam were all delivering satisfactory performance.

Currently, the Group's total design production capacity has reached 11.45 million tpa, over 24% of which being high-margin products including coated duplex board, food grade and pharmaceutical grade white board, coated linerboard and recycled printing and writing paper (uncoated woodfree paper, copy paper, etc.), representing a substantial increase as compared with around 11% in the last financial year, creating rooms for the Group to elevate its profit in the future.

Management Discussion and Analysis

With the commencement of production of six new paper machines and three upgraded paper machines, 2011 is a landmark year for ND Paper, in which it has reached its peak in development pace since its foundation. Starting from 2012, the Group will migrate to the next stage of steady growth. The Group will further expand its business and raise its profitability return based on the local market supply and demand environment for each production base and the Group's financial conditions.

Business Strategy

We believe the current environment of unfavourable market and tight liquidity is an inevitable stage in any economic cycle. With the volatility in global economy and the inflation issue in China which might not be resolved immediately, the Group will remain conservative in its daily operations in the coming year. However, compared with other economic systems, China's strong economic foundation will enable it to sustain steady and long-term growth. The consumption demand in China is ever increasing in both urban and rural markets. Furthermore, the PRC Government's "12th 5-Year Program" will also offer immense growth potential for the Group. In the past few years, the Group formulated its long-term strategic development plans according to the market situations, and invested billions of RMB every year to materialize these plans. Combined with years of planning and accumulated resources in management, production and marketing, the Group will be able to successfully capture valuable development opportunities in the future.

Geographically, as a result of the Group's insightful planning, its coverage spans the whole country and forms a strategic competitive advantage comprising six major production bases. The future new paper manufacturing bases in Shenyang and Quanzhou, together with the four major paper manufacturing bases currently in operation in Dongguan, Taicang, Chongqing and Tianjin, allow the Group to set foot across China's main manufacturing hubs in Bohai Economic Rim, mid-western region of China and northeastern China, the west coast of the Taiwan Strait, Yangtze River Delta and Pearl River Delta. These have completed the Group's network coverage in the Chinese market to a large extent, which further strengthens the competitiveness of the Group in the future and its leading position in the industry, and enables the Group to provide better products and more comprehensive services to its customers. Apart from these two new bases, the Group currently does not have any plans of adding large-scale paper manufacturing bases.

Proactively expanding production capacity and optimizing product portfolio

Apart from the traditional packaging paperboard products, the Group continuously consolidates its resources and optimizes its products by using new and upgraded paper machines to produce and manufacture high-margin products. As for the production of coated duplex board and food grade and pharmaceutical grade white board products, PM27 in Dongguan base has commenced production before the end of June 2011 while PM34 in Tianjin base and PM33 in Chongqing base are expected to complete construction before the end of July 2012 and the end of December 2012 respectively, each with a design production capacity of 0.55 million tpa. As for the production of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.), the new PM28 in Dongguan base and the upgraded PM21 in Taicang base have completed construction and upgrading respectively before the end of June 2011. As for coated linerboard, both PM3 in Dongguan base and PM20 in Taicang base have completed upgrading before the end of June 2011. Upon completion and commencement of production of all these paper machines, the total design production capacity of high-margin products will quadruple that of the last year to 3.88 million tpa.

Management Discussion and Analysis

At the Group's medium-sized paper manufacturing base in Quanzhou, Fujian, PM35 and PM36 with a design production capacity of 0.35 million tpa and 0.3 million tpa respectively for producing kraftlinerboard and testlinerboard respectively will commence production before the end of June 2013. At Shenyang base, two new paper machines in the first phase, being PM37 and PM38 for producing kraftlinerboard and testlinerboard respectively with a design production capacity of 0.35 million tpa each, are expected to commence production before the end of December 2013.

Production commencement dates of the above 6 new paper machines have been postponed from their original target dates by short periods. This enables the Group to more effectively deploy its resources in the currently weak market climate. These new paper machines are located in different bases and will satisfy demands of customers in those regions in terms of product types and address the problem of insufficient supply in the local markets. Upon commencement of production of all these new paper machines, the aggregate design production capacity of the Group will increase to 13.9 million tpa.

Paper machines completed construction and commenced production in 2010

Paper machine	Location	Product	Design production capacity	Date of production commencement
PM29 (new)	Taicang	Kraftlinerboard	400,000 tpa	End of Dec
PM30 (new)	Taicang	Light weight high performance corrugating medium	300,000 tpa	End of Dec

Paper machines completed construction and commenced production in 2011

Paper machine	Location	Product	Design production capacity	Date of production commencement
PM3 (upgrade)	Dongguan	Coated linerboard	400,000 tpa	Before end of Jun
PM20 (upgrade)	Taicang	Coated linerboard	430,000 tpa	Before end of Jun
PM21 (upgrade)	Taicang	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	200,000 tpa	Before end of Jun
PM27 (new)	Dongguan	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Jun
PM28 (new)	Dongguan	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	250,000 tpa	Before end of Jun
PM31 (new)	Tianjin	Testlinerboard	400,000 tpa	Before end of Jun
PM32 (new)	Tianjin	Kraftlinerboard	400,000 tpa	Before end of Jun

Management Discussion and Analysis

Paper machines planned for completion of construction and production commencement in 2012

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM34 (new)	Tianjin	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Jul
PM33 (new)	Chongqing	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Dec

Paper machines planned for completion of construction and production commencement in 2013

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM35 (new)	Quanzhou	Kraftlinerboard	350,000 tpa	Before end of Jun
PM36 (new)	Quanzhou	Testlinerboard	300,000 tpa	Before end of Jun
PM37 (new)	Shenyang	Kraftlinerboard	350,000 tpa	Before end of Dec
PM38 (new)	Shenyang	Testlinerboard	350,000 tpa	Before end of Dec

Design production capacities of the Group's six major bases in China (inclusive of Hebei Yongxin)

(Breakdown by product category)

(million tpa)	June 2011	December 2012	December 2013
Linerboard	5.30	5.30	6.65
Corrugating medium	3.10	3.10	3.10
Coated linerboard*	0.83	0.83	0.83
Coated duplex board*	1.50	2.60	2.60
Recycled printing and writing paper*	0.45	0.45	0.45
*High-margin products sub-total	2.78	3.88	3.88
Total	11.18	12.28	13.63

Management Discussion and Analysis

(Capacity mix by product category)

	June 2011	December 2012	December 2013
Linerboard	47.4%	43.1%	48.8%
Corrugating medium	27.7%	25.2%	22.7%
Coated linerboard*	7.5%	6.8%	6.1%
Coated duplex board*	13.4%	21.2%	19.1%
Recycled printing and writing paper*	4.0%	3.7%	3.3%
*High-margin products sub-total	24.9%	31.7%	28.5%
Total	100.0%	100.0%	100.0%

(Distribution by location)

	June 2011	December 2012	December 2013
Dongguan	47.0%	42.7%	38.5%
Taicang	27.1%	24.7%	22.2%
Chongqing	7.1%	11.0%	9.9%
Tianjin	14.3%	17.5%	15.8%
Quanzhou	–	–	4.8%
Shenyang	–	–	5.1%
Hebei Yongxin	4.5%	4.1%	3.7%
Total	100.0%	100.0%	100.0%

Number of paper machines in the Group's six major bases in China

(By location)

(No. of machines)	June 2011	December 2012	December 2013
Dongguan	15	15	15
Taicang	8	8	8
Chongqing	2	3	3
Tianjin	4	5	5
Quanzhou	–	–	2
Shenyang	–	–	2
Total	29	31	35

Management Discussion and Analysis

Capitalizing on the advantages of ERP systems and standardizing the Group's management systems

ND Paper has always emphasized optimization of its management systems, and will further capitalize on the advantages of ERP systems in management to keep its inventory and costs under strict control. The Group has engaged SAP to establish an advanced and comprehensive management system platform. Following the implementation of the ERP management system in the four major bases, the second phase of the installation work of ERP management system commenced at the end of April 2011. To a fast growing enterprise like ND Paper, the continual improvements on management systems can effectively coordinate and standardize operations of each base and department and lay a profound foundation for ND Paper's future business expansion and risk control.

Invest in infrastructure facilities to achieve economies of scale

(1) Power resources

To support large-scale and stable paper manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. Accordingly, the Group has set up its own central coal-fired cogeneration power plants. Its Dongguan, Taicang, Chongqing and Tianjin bases have an aggregate installed capacity of 1,113 MW, providing adequate and stable electricity power for the Group. Simultaneously, these plants can provide steam for use in the drying process in production. Ancillary facilities of the paper machines for cogeneration of steam and electricity help to save on energy costs and valuable land resources. Given its high thermal efficiency and low coal consumption, using electric power produced from the Group's own power plants can effectively reduce costs as compared to purchasing power from third parties.

The Group emphasized the purchase of coal as coal is one of the Group's major raw materials and the purchase of coal is crucial in determining our profits. The Group maintains cost control at satisfactory levels by purchasing coal from reliable suppliers at the lowest price. In the meantime, the Group actively endeavours to lower its coal costs by purchasing the required coal directly from coal distributors and arranging for its own transportation of coal using larger vessels. In Taicang and Chongqing bases, the Group receives the coal shipments directly at its self-owned piers. It has also invested in the construction of fully automated and enclosed coal storage domes across its bases, which help increase efficiency, reduce wastage as well as greatly enhance the environmental protection standards of the Group.

(2) Land resources

Along with the increase in the number of bases and production scale expansion of the Group, the Group must have adequate land reserves in order to capture market opportunities arising from economic recovery and industrial consolidation and accommodate the Group's existing operations and prepare for future business development. As of 30 June 2011, the Group has secured land use rights for land plots aggregating 9.94 million sq.m.

(3) Transportation infrastructure

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group has constructed a self-owned pier at each of Taicang and Chongqing. Currently, the pier in Taicang base is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits for the operation of the self-owned pier and providing loading and unloading services to third parties. Currently, Taicang pier is mainly used for receiving coal deliveries, with an annual loading/unloading capacity of 2.7 million tonnes. The Chongqing base has a container pier and a bulk cargo wharf with an annual throughput capacity of 4 million tonnes, ensuring logistics support for the production base. There is also a railway spur connected to the production base, which helps enhance the operating efficiency of the base and provide more flexibility to its transportation services.

Continuous participation in environmental protection and demonstration of corporate responsibilities through charity

With the philosophy of "no environmental protection, no paper manufacturing", sustainable development has always been an important operating concept of the Group. The "12th 5-Year Program" will impose more stringent requirements for corporate environmental protection, energy conservation and emission reduction. The Group constantly adheres to environmental protection and energy conservation, which have been actively implemented since its establishment. The Group maintains its devotion in environmental protection in line with the related development policies of the Government by adhering to energy conservation and emission reduction in the course of production. Through environmental protection projects including the control of chemical oxygen demand (COD), wastewater treatment, sludge dewatering for use as a fuel and power generation by the combustion of desulfurized methane, the Group's environmental management and production efficiency are seamlessly integrated to achieve complementary synergies. The Group has been granted ISO14001 environmental management certificates consecutively during the Year.

The wastewater treatment sludge dewatering technology which the Group pioneered to research and develop not only resulted in savings on the Group's resources in daily operations and achieved greater environmental benefits, but also won the "First Class Prize in the 2nd Innovative Achievement in the Outstanding Techniques of Energy Conservation and Emission Reduction in the PRC Paper Industry" (第二屆全國造紙行業節能減排優秀技術創新成果一等獎), allowing the Group to maintain its leadership position in terms of environmental protection. The patent application for this technology was filed in November 2010.

As for recovered paper purchase in China, domestic recovered paper purchase accounted for approximately 27.8% of the Group's total recovered paper purchase during the Year. The Group plans to raise the proportion of domestic recovered paper purchase to over 30% of its total recovered paper purchase in the future. This can balance the impact of the fluctuation of the international recovered paper market on our operations, and also demonstrate the Group's social responsibilities as a corporate citizen as well as our mission for environmental protection and market leadership as Asia's largest packaging paperboard product manufacturer.

In addition, ND Paper actively participates in social services by setting up "Special Funds for Community Welfare" and donated a total of RMB12.0 million to charity during the Year. In order to help out-of-school teenagers in poor regions, every year the Group fully subsidises about 100 high school students in poor regions across the country, who cannot afford further studies, to study at academic institutions in China and employ them to relevant positions upon graduation. During the Year, the Group was honoured the title of "National Workers' Pioneer" ("全國工人先鋒號") by All China Federation of Trade Unions.

Achieving win-win situation through personnel training

The Group adheres to the corporate philosophy of "people-oriented, fair and just", with the belief that only human resources of excellence can enhance the overall competitiveness and cohesive spirit of the Group. Currently the Group has approximately 17,800 full-time staff. Expenses related to employees (including directors' emoluments) for the Year amounted to approximately RMB715.9 million. The Group places emphasis on personnel training and strives to implement continuous staff development programs. It provides occupational training and promotion opportunities, building a larger platform for the staff to develop their career whilst reserving future talents for the Group for meeting the personnel requirement arising from the Group's product diversification, increase in the number of bases and an increasingly extensive customer network, thus achieving a mutually beneficial win-win model for the Group and its staff. The Group continued to have OHSAS18001 certification for its occupational health and safety management system.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB24,386.9 million for FY2011, representing an increase of approximately 35.9% as compared with the last financial year. The major contributor of the Group's revenue was still its paper packaging business which accounted for approximately 98.5% of the revenue, with the remaining revenue of approximately 1.5% generated from its pulp and high value special paper products business.

The Group's revenue for FY2011 increased by approximately 35.9% as compared with the last financial year, is mainly a result of substantial increase in sales volume of its packaging paperboard products. Revenue of linerboard, high performance corrugating medium and coated duplex board for FY2011 accounted for approximately 54.9%, 29.1% and 14.5% respectively of the total revenue, compared to 54.5%, 27.0% and 15.8% respectively in the last financial year.

The Group's annual design production capacity in packaging paperboard as at 30 June 2011 was 10.7 million tpa, comprising 6.1 million tpa of linerboard, 3.1 million tpa of high performance corrugating medium and 1.5 million tpa of coated duplex board. In FY2011, the Group's total sales volume of packaging paperboard products reached approximately 7.6 million tonnes, representing an increase of approximately 18.3% as compared to the last financial year. The increase of sales volume of packaging paperboard was supported by the contribution from the newly introduced PM25 and PM26 in Tianjin, and PM29 and PM30 in Taicang, which commenced their commercial operation in January 2010 and May 2011 respectively, and the substantial enhancement in production efficiency of the existing paper production lines.

The sales volume of linerboard, high performance corrugating medium and the coated duplex board for FY2011 increased by approximately 16.9%, 23.3% and 12.4% respectively.

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 FY2011, revenue related to domestic consumption represented approximately 86.3% of the Group's total revenue, while the remaining revenue of approximately 13.7% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2011, sales to the Group's top five customers in aggregate accounted for approximately 4.3% (FY2010: 5.1%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.3% (FY2010: 1.8%).

Gross profit

The gross profit for FY2011 was approximately RMB4,226.8 million, an increase of approximately RMB314.2 million or increased by approximately 8.0% as compared with the RMB3,912.6 million in the last financial year. The gross margin decreased from 21.8% in FY2010 to approximately 17.3% in FY2011. The decrease in gross profit margin was mainly due to the major raw materials consumed such as OCC and coal prices maintained at relatively high level in FY2011 and the Group was not able to pass on all the rising costs to our customers as in FY2010.

Other gains – net

Other gains (net) of the Group increased to approximately RMB106.0 million in FY2011 from RMB42.4 million in the last financial year. The increase was mainly due to the net foreign exchange gain arisen from RMB appreciation and the substantial increase in subsidies received from government in FY2011.

Selling expenses and marketing costs

Selling and marketing costs were approximately RMB526.4 million in FY2011, increased by approximately 48.2% as compared with RMB355.1 million in FY2010. The total amount of selling and distribution costs as a percentage of the Group's revenue increased slightly from 2.0% in the last financial year to approximately 2.2% in FY2011. The increase in the selling and marketing costs was due to larger sales volume and more geographical coverage in FY2011.

Management Discussion and Analysis

Administrative expenses

Administrative expenses increased by approximately 30.8% from RMB479.8 million in the last financial year to approximately RMB627.5 million in FY2011. The amount of administrative expenses as a percentage of group revenue remained relatively stable at 2.6% in FY2011 and 2.7% in FY2010. The increase during FY2011 under review was mainly a result of additional management and administrative costs incurred to support the commencement of new paper machines and new production bases.

Operating profit

The operating profit for FY2011 was approximately RMB3,179.0 million, an increase by approximately 1.9% over the last financial year. The operating profit margin decreased from 17.4% in FY2010 to approximately 13.0% in FY2011 due to the gross profit margin decreased from 21.8% in FY2010 to approximately 17.3% in FY2011.

Finance costs – net

Finance costs (net) increased by approximately 43.3% to approximately RMB775.2 million in FY2011 from RMB541.1 million in the last financial year. The increase was mainly due to bank borrowings increased from RMB16,659.6 million as at 30 June 2010 to approximately RMB23,976.7 million as at 30 June 2011 to fund the expansion of production capacity and bills discount charges substantially increased from RMB86.1 million in FY2010 to approximately RMB244.0 million in FY2011 to finance its working capital.

Income Taxation

Income tax charged for FY2011 amounted to approximately RMB388.7 million and increased slightly by approximately RMB29.4 million as compared with the last financial year.

The Group's average effective tax rate increased from 13.9% in FY2010 to approximately 16.2% in FY2011 due to certain subsidiaries of the Group which were previously exempted from corporate income tax in FY2010 were under preferential rate in FY2011.

Net profit

The profit attributable to the equity holders of the Company in FY2011 was approximately RMB1,967.8 million, representing a decrease of approximately RMB198.7 million or decreased by approximately 9.2% over the last financial year. If the premium charged to redeem all outstanding senior notes of approximately RMB47.8 million, the provision for the loss from fire accident of approximately RMB27.8 million and net loss on disposal of property, plant and equipment of approximately RMB38.8 million were excluded, the profit attributable to the equity holders of the Company in FY2011 would be approximately RMB2,082.2 million or decreased by approximately 3.9% over FY2010.

Dividend

In FY2011, the Group paid an interim dividend of RMB2.0 cents per share, which amounted RMB93.2 million. The directors have proposed a final dividend of RMB8.0 cents per share, which will aggregate approximately RMB373.0 million. The total dividend for the FY2011 amounted to RMB10.0 cents per share, representing a decrease of RMB2.0 cents per share as compared with the last financial year. The pay out ratio has also decreased from 25.6% in the last financial year to 23.7% in FY2011.

Material acquisition

In January 2011, the Group entered into a sale and purchase agreement with a third party to acquire 78.13% equity interest in the Hebei Yongxin Paper Co., Ltd. at a consideration of RMB564,000,000. Hebei Yongxin is principally engaged in the manufacture and sale of containerboard products.

Working capital

The inventories decreased by approximately RMB1,207.4 million for FY2011 and amounted to approximately RMB2,557.6 million as at 30 June 2011, representing a decrease of approximately 32.1% from that of last financial year. Inventories mainly comprise raw materials (mainly recovered paper, pulp and spare parts) of approximately RMB1,194.0 million and finished goods of approximately RMB1,363.6 million.

Management Discussion and Analysis

The raw materials decreased by approximately 30.9% to approximately RMB1,194.0 million in FY2011 from RMB1,727.5 million in the last financial year.

The finished goods decreased by approximately 33.1% to approximately RMB1,363.6 million in FY2011 from RMB2,037.5 million in the last financial year.

As a result, during FY2011, raw material turnover days decreased to approximately 22 days as compared to 45 days for FY2010 while the finished goods turnover days decreased to approximately 24 days as compared to 53 days for FY2010.

Trade receivables and bills receivable increased by approximately RMB953.4 million for FY2011 and amounted to approximately RMB3,502.5 million, representing an increase of approximately 37.4% from that of last financial year. The increase in trade receivables and bills receivable was due to substantial increase in sales revenue in FY2011. During FY2011, the turnover days of trade receivables and bills receivable were approximately 52 days, which is the same with FY2010. This is in line with credit terms of 30 days to 60 days granted by the Group to its customers.

Trade payables and bills payable decreased by approximately RMB141.5 million for FY2011 and amounted to approximately RMB2,311.2 million, representing a decrease of approximately 5.8% from that of last financial year. Trade payables and bills payable turnover days were approximately 42 days for FY2011 and was in line with the credit period granted by most suppliers.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2011 primarily comes from its operating cash flows and bank borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's net cash inflow generated from operations increased from RMB789.9 million in FY2010 to approximately RMB4,309.7 million in FY2011, representing an increase of approximately 445.6%. The increase was attributable primarily to the changes in working capital and in particular substantial decrease of inventories to a relatively low level. In terms of available financial resources as at 30 June 2011, the Group had total undrawn banking facilities of approximately RMB15,200.6 million and cash and cash equivalents and restricted cash of approximately RMB2,597.7 million.

As at 30 June 2011, the shareholders' funds were approximately RMB20,599.7 million, an increase of approximately RMB1,469.5 million from that of last financial year. The shareholders' fund per share increased by approximately 7.0% from RMB4.13 to approximately RMB4.42.

Debts Management

The Group's outstanding bank borrowings increased by approximately RMB7,317.1 million from RMB16,659.6 million as at 30 June 2010 to approximately RMB23,976.7 million as at 30 June 2011. The short-term and long-term borrowings amounted to approximately RMB3,003.2 million and approximately RMB20,973.5 million respectively, accounting for approximately 12.5% and approximately 87.5% of the total borrowings respectively. As at 30 June 2011, about 99.0% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group increase from 73.9% as at 30 June 2010 to approximately 101.7% as at 30 June 2011. The Board will closely monitors the Group's net debt to total equity ratio and reduce the bank borrowings gradually.

Treasury policies

The Group has established a treasury policy with the objective of achieving better control of treasury operations and lowering cost of funds. Therefore, funding for all its operations and foreign exchange exposure have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments were used to hedge material exposure. It is the policy of the Group not to enter into any derivative products for speculative activities.

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

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

(b) Minimise currency risk

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings. As at 30 June 2011, total foreign currency borrowings amounted to the equivalent of approximately RMB6,452.2 million and loans denominated in RMB amounted to approximately RMB17,524.5 million, representing approximately 26.9% and 73.1% of the Group's borrowings respectively.

Cost of borrowing

Average borrowing cost in FY2011 were approximately 5.2% and 4.2% per annum as compared to 4.4% and 4.7% per annum in FY2010 for long-term bank borrowings and short-term bank borrowings respectively. The gross interest and finance charges (including interest capitalised but before interest income and impact from derivative financial instruments) increased to approximately RMB1,238.9 million in FY2011 from RMB755.7 million in FY2010.

Capital expenditures

For FY2011, the Group invested approximately RMB8,510.7 million for the construction of factory buildings, purchase of plants and machineries, equipments and land use rights. These capital expenditures were fully financed by internal resources and bank borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for building, plant and machineries of approximately RMB3,035.6 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the construction of PM33-36 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.

Contingencies

As at FY2011, the Group had no material contingent liabilities.

Event occurring after the balance sheet date

On 16 August 2011, the Company has redeemed all outstanding senior notes in full at a redemption price equal to 100% of the principal amount of approximately USD47.6 million (equivalent to approximately RMB305.9 million), plus the applicable premium of approximately USD7.4 million (equivalent to approximately RMB47.8 million), and accrued and unpaid interest of approximately USD1.4 million (equivalent to approximately RMB8.9 million) to 16 August 2011. The redemption price paid by the Company on 16 August 2011 amounted to approximately USD56.4 million (equivalent to approximately RMB360.2 million).

Management Discussion and Analysis

THE GROUP IN THE LAST FIVE YEARS

In millions of RMB

Consolidated Income Statement	For the year ended 30 June 2011	2010	2009	2008	2007
Sales	24,386.9	17,946.0	13,128.6	14,113.6	9,837.7
Cost of goods sold	(20,160.1)	(14,033.4)	(10,687.1)	(11,241.3)	(7,308.8)
Gross profit	4,226.8	3,912.6	2,441.5	2,872.3	2,528.9
Other gains — net	106.0	42.4	7.0	228.8	311.2
Selling and marketing costs	(526.4)	(355.1)	(382.7)	(335.5)	(195.4)
Administrative expenses	(627.4)	(479.9)	(320.9)	(499.7)	(351.3)
Operating profit	3,179.0	3,120.0	1,744.9	2,265.9	2,293.4
Gain on repurchase of senior notes	–	–	594.0	–	–
Finance costs	(775.2)	(541.1)	(502.1)	(101.9)	(131.4)
Profit before income tax	2,403.8	2,578.9	1,836.8	2,164.0	2,162.0
Income tax expense	(388.7)	(359.3)	(175.5)	(263.2)	(101.7)
Profit for the year	2,015.1	2,219.6	1,661.3	1,900.8	2,060.3
Profit attributable to:					
Equity holders of the Company	1,967.8	2,166.5	1,661.1	1,876.9	2,003.4
Non-controlling interests	47.3	53.1	0.2	23.9	56.9

Consolidated Cash Flow Statement	For the year ended 30 June 2011	2010	2009	2008	2007
Net cash generated from/(used in) operating activities	2,854.3	(81.1)	3,929.3	1,395.8	756.1
Net cash used in investing activities	(8,934.2)	(4,320.2)	(3,739.3)	(9,809.4)	(5,524.0)
Net cash generated from/(used in) financing activities	6,275.0	5,253.1	(236.4)	8,270.2	3,727.0
Net increase/(decrease) in cash and cash equivalents	195.1	851.8	(46.4)	(143.4)	(1,040.9)

Management Discussion and Analysis

In millions of RMB

			As at 30 June		
Consolidated Balance Sheet	**2011**	**2010**	**2009**	**2008**	**2007**
Total assets	50,900.6	41,218.1	33,526.2	32,612.9	20,362.4
Inventories	2,557.6	3,765.0	1,500.9	2,818.5	1,502.5
Trade receivables and bills receivable	3,502.5	2,549.1	1,378.0	1,940.9	1,770.4
Prepayments and other receivables	1,847.6	866.4	662.3	911.3	417.7
Derivative financial instruments	–	–	0.4	–	24.9
Cash and cash equivalents	2,597.7	2,341.0	1,552.7	1,956.0	1,748.2
Total current assets	10,505.4	9,521.5	5,094.3	7,626.7	5,463.7
Property, plant and equipment	38,628.2	30,157.5	27,011.4	23,536.6	13,802.7
Land use rights	1,515.5	1,299.6	1,185.8	1,185.4	949.3
Intangible assets	234.8	239.5	234.7	238.3	146.7
Derivative financial instruments	–	–	–	25.9	–
Deferred income tax assets	16.7	–	–	–	–
Total non-current assets	40,395.2	31,696.6	28,431.9	24,986.2	14,898.7
Total liabilities	29,880.0	21,841.4	18,633.9	19,067.8	8,726.4
Trade payables and bills payable	2,311.2	2,452.7	1,924.0	2,286.5	1,068.5
Other payables	2,492.6	1,835.9	1,750.4	1,552.3	698.1
Current income tax liabilities	194.2	173.1	161.3	72.4	21.4
Derivative financial instruments	–	1.9	–	1.7	7.4
Short-term borrowings	3,003.2	2,055.6	1,103.2	2,295.5	2,543.1
Total current liabilities	8,001.2	6,519.2	4,938.9	6,208.4	4,338.5
Long-term borrowings	20,973.5	14,604.1	12,724.5	12,389.9	4,088.9
Deferred income tax liabilities	905.3	710.9	558.7	452.4	281.8
Other payables	–	–	397.9	–	–
Deferred government grants	–	7.2	13.9	17.1	17.2
Total non-current liabilities	21,878.8	15,322.2	13,695.0	12,859.4	4,387.9
Net current assets	2,504.2	3,002.3	155.4	1,418.3	1,125.2
Total assets less current liabilities	42,899.4	34,698.9	28,587.3	26,404.5	16,023.9
Capital and reserves attributable to equity holders of the Company	20,599.7	19,130.2	14,693.3	13,271.5	11,512.9
Non-controlling interests	420.9	246.5	199.0	273.6	123.1

Corporate Governance

The Company strives to attain and maintain the highest standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safe guarding interests of shareholders and other stakeholders. The Company has accordingly adopted sound corporate governance principles that emphasis a quality Board, effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

The Company has complied with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the FY2011. The Company continued to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted 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 Year, they were in compliance with provisions of the Model Code.

BOARD

As the date of this Annual Report, the Board comprised ten Directors, including six executive Directors and four INEDs. Ms. Cheung is the spouse of Mr. Liu while Mr. Zhang is a brother of Ms. Cheung. Mr. Lau Chun Shun is the son of Ms. Cheung and Mr. Liu and a nephew of Mr. Zhang. Save as disclosed above, the Board members have no financial, business, family or other material/relevant relationship with each other.

The Board is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are:

- formulating the long-term strategies of the Group and supervising their implementation;
- reviewing and approving, if thought fit, the business plans and financial budgets of the Group;
- approving, if thought fit, the annual and interim results of the Group;
- reviewing and supervising the risk management and internal control of the Group;
- ensuring a high standard of corporate governance and compliance; and
- overseeing the performance of the management.

A Director who considers a need for independent professional advice in order to perform his/her duties as a Director may convene, or request the Company Secretary to convene a meeting of the Board to approve the seeking or independent legal or other professional advice.

All Directors are appointed for a specific term. According to the Bye-laws of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement once every three years and any Director who has been appointed by the Board to fill a casual vacancy or as an addition to the Board and re-elected at an annual general meeting shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation at the same annual general meeting.

The Board held six meetings in FY2011 and meetings attended by each of the Directors were as follows:

Name of Directors	**Number of Meetings attended/eligible to attend**
Executive Directors	
Ms. Cheung *(Chairlady)*	5/6
Mr. Liu *(Deputy Chairman and Chief Executive Officer)*	5/6
Mr. Zhang *(Deputy Chief Executive Officer)*	5/6
Mr. Zhang Yuanfu *(Chief Financial Officer)*	6/6
Mr. Lau Chun Shun	6/6
Ms. Gao Jing	6/6
Independent Non-Executive Directors	
Ms. Tam Wai Chu, Maria	6/6
Mr. Chung Shui Ming, Timpson	4/6
Dr. Cheng Chi Pang	6/6
Mr. Wang Hong Bo	6/6

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

To avoid concentration of power and control, the position of the Chairlady and the Deputy Chairman cum Chief Executive Officer are segregated and each plays a distinctive role but complementing each other. The Chairlady is responsible for supervising the functions and performance of the Board, while the Deputy Chairman cum Chief Executive Officer is responsible for the management of the businesses of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the FY2011, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of four INEDs and that two Directors with appropriate professional qualifications or accounting or related financial management expertise. The Company has received, from each of the INEDs, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, profitability and cash flows of the Group in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In preparing the financial statements of the Group for the FY2011, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movements of the Group at any time. The statement of reporting responsibilities of the Company's external auditor in connection with the financial statements of the Company are set out in the Independent Auditor's Report on pages 61 and 62.

EXECUTIVE COMMITTEE

The Board has established the Executive Committee, which is responsible for the management and administration of the business of the Company and any matters which are within the ordinary course of the Company's business under the control and supervision of the Board and in accordance with the provisions of the Bye-laws.

The members of the Executive Committee shall be executive Directors, but the Executive Committee shall not at any time consist of more than four members. No change shall be made to the composition of the Executive Committee except with the approval of all the Directors in writing. The Chairlady of the Board shall be the Chairlady of the Executive Committee.

Currently, the members of the Executive Committee include Ms. Cheung (Chairlady), Mr. Liu and Mr. Zhang.

REMUNERATION COMMITTEE

The Board has set up a Remuneration Committee with a majority of the members being INEDs. It comprises three INEDs and two executive Directors, namely, Ms. Tam Wai Chu, Maria (Chairlady), Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang, Mr. Liu and Mr. Zhang.

A separate report prepared by the Remuneration Committee which summarized its works performed during the FY2011, and also set out details of the share options to the Directors and the employees on pages 32 to 37 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

During the FY2011, two meetings were held and the attendance of each member is set out below:

Name of Directors	Number of Meetings attended/eligible to attend
Ms. Tam Wai Chu, Maria *(Chairlady)*	2/2
Mr. Chung Shui Ming, Timpson	1/2
Dr. Cheng Chi Pang	2/2
Mr. Liu	2/2
Mr. Zhang	2/2

AUDIT COMMITTEE

Currently, the Audit Committee of the Company consists of four INEDs, namely, Dr. Cheng Chi Pang (Chairman), Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Mr. Wang Hong Bo. Dr. Cheng and Mr. Chung are qualified accountants with extensive experience in financial reporting and controls. Ms. Tam is a barrister and practicing in Hong Kong. Mr. Wang has rich experience and expertise in the paper industry in China.

A separate report prepared by the Audit Committee which summarized its works performed during the FY2011, set out on pages 38 to 39 of this Annual Report.

During the FY2011, five meetings were held by Audit Committee, with details as follows:

Name of Directors	Number of Meetings attended/eligible to attend
Dr. Cheng Chi Pang *(Chairman)*	5/5
Ms. Tam Wai Chu, Maria	5/5
Mr. Chung Shui Ming, Timpson	4/5
Mr. Wang Hong Bo	5/5

RISK CONTROL COMMITTEE

The Risk Control Committee is formed by the Supervision Department and Finance Department. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analysing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for minimising and eliminating risks; reviewing and reporting to the Board in respect of the effectiveness of internal control; and maintaining contact with external auditor for maintaining the quality of the Group's internal control system.

INVESTOR RELATIONS AND SHAREHOLDERS' INTERESTS

The Board is committed to provide shareholders with a clear and complete picture of the financial information of the Group by way of publication of interim and annual reports. Apart from receiving circulars, notices and financial reports, shareholders may also choose to log onto our website (www.ndpaper.com) to access more information.

The Company encourages participation of its Shareholders at every annual general meeting to stay informed of the Group's strategy and goals. Each Shareholder is legally entitled to demand that a special general meeting be convened and propose an agenda of such a meeting to be considered by other Shareholders. In this circumstance, such Shareholder is only required to notify in writing the Company Secretary at our registered office in Hong Kong in respect of the demand for convening a general meeting and the agenda for matters to be transacted at such meeting.

The Board endeavours to maintain an on-going dialogue with Shareholders. The Chairlady herself takes the chair in annual general meetings to ensure that Shareholders' views are communicated to the Board. The annual general meetings provide a useful forum to exchange views with the Board. Matters resolved at the 2010 annual general meeting and the percentage of votes cast in favour of such resolutions are set out below:

- Approval of the audited financial statements for the FY2010 (99.99%).
- Approval of a final dividend for the FY2010 (99.99%).
- All Directors were re-elected and elected as Directors (97.94% to 98.83% in respect of each individual resolution).
- Fix the remuneration of the Directors (99.99%).
- Re-appointment of PricewaterhouseCoopers as the external auditor of the Company (99.99%).
- Grant of a general mandate to Directors to issue additional shares in the Company (89.44%), repurchase by the Company of its own Shares (99.99%), extension of the general mandate regarding issue of additional Shares (89.96%).

The poll results are posted on the Company's website (www.ndpaper.com) after the general meetings. The Company actively develops investors' relations and communicates with the investment community throughout the Year, particularly after announcement of its interim and annual results. It also addresses the enquiries of investors (including institutional Shareholders, analysts and the media) by way of regular corporate presentations, telephone conferences and forums.

Remuneration Committee

The Remuneration Committee was established in March 2006. The functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and practices and establishing recruitment policies that enable the Company to recruit, retain and motivate high-calibre staff to reinforce the success of the Company and create value for the Shareholders.

In addition, the Remuneration Committee supervises and enforces the Pre-Listing Share Option Scheme and 2006 Share Option Scheme of the Company in an effective manner. Currently, the Remuneration Committee consists of Ms. Tam Wai Chu, Maria (Chairlady), Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang, Mr. Liu and Mr. Zhang.

SUMMARY OF MAJOR WORK DONE IN FY2011

During the FY2011, the Remuneration Committee held two meetings. The following is a summary of the major tasks completed by the Remuneration Committee during the Year.

- reviewed the remuneration level for Directors;
- recommended the Board to approve the fee of the Directors and senior management;
- reviewed and approved the remuneration packages and service contracts of Directors; and
- approved the grant of the share options under the 2006 Share Option Scheme.

SHARE OPTION SCHEMES

The Company maintains two share option schemes, the Pre-Listing Share Option Scheme and the 2006 Share Option Scheme for the purpose of recognizing the contributions of certain employees of the Group and retaining them for the continual operation and development of the Group. Each grantee is required to pay a non-refundable consideration of HK$1.00 upon each acceptance of options. All the share options granted under the Pre-Listing Share Option Scheme were expired on 31 December 2010.

The principal terms of the two schemes are as follows:

Pre-listing share option scheme

The purpose of the Pre-Listing Share Option Scheme is to recognise the contribution of certain employees, executives and officers of the Group made or may have made to the growth of the Group and/or the listing of the Shares on the Stock Exchange. The principal terms of the Pre-Listing Share Option Scheme, which were ratified, confirmed and approved by resolutions in writing of all the Shareholders passed on 12 February 2006 with effect from 1 January 2006, are substantially the same as the terms of the 2006 Share Option Scheme except that:

(i) the exercise price per Share is a price representing a 10% discount on the offer price of HK$3.40 upon listing;

(ii) the total number of Shares subject to the Pre-Listing Share Option Scheme is 100,000,000 Shares; and

(iii) save for the options which have been granted under the Pre-Listing Share Option Scheme, no further options will be offered or granted under the Pre-Listing Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange.

Remuneration Committee

Details of the options under the Pre-Listing Share Option Scheme during the Year are as follows:

Grantees		Number of share options Balance as at 1 July 2010	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Balance as at 30 June 2011
i)	**Directors**					
	Ms. Cheung (Note 3)	6,769,326	(6,769,326)	–	–	–
	Mr. Liu (Note 3)	6,765,674	(6,765,674)	–	–	–
	Mr. Zhang	4,725,930	(4,725,930)	–	–	–
	Ms. Gao Jing	200,000	(200,000)	–	–	–
	Ms. Tam Wai Chu, Maria	466,668	(466,668)	–	–	–
	Mr. Chung Shui Ming, Timpson	470,002	(470,002)	–	–	–
	Dr. Cheng Chi Pang	700,002	(700,002)	–	–	–
	Sub-total:	20,097,602	(20,097,602)	–	–	–
ii)	**Employees and others**	11,200,868	(10,872,468)	–	(328,400)	–
	Total:	**31,298,470**	**(30,970,070)**	**–**	**(328,400)**	**–**

Notes:

(1) All options under the Pre-Listing Share Option Scheme were granted on 1 January 2006 at an exercise price of HK$3.06 per Share.

(2) All the share options granted under the Pre-Listing Share Option Scheme were expired on 31 December 2010.

(3) Mr. Liu is the spouse of Ms. Cheung. Therefore, Ms. Cheung is deemed to be interested in the Shares subject to the share options granted to Mr. Liu and Mr. Liu is deemed to be interested in the Shares subject to the share options granted to Ms. Cheung.

(4) The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$11.23.

Save as disclosed above, no option was granted, cancelled or lapsed under the Pre-Listing Share Option Scheme during the Year.

2006 Share Option Scheme

The Company adopted the 2006 Share Option Scheme on 12 February 2006. It is a share incentive scheme and is established to recognise and acknowledge the contribution that the eligible participants have or may have made to the Group. Pursuant to 2006 Share Option Scheme, the Board may, at its discretion, offer to grant an option to any director or employee, or any adviser, consultant, supplier, customer or agent of the Group.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the 2006 Share Option Scheme to eligible participants in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of Shareholders in a general meeting.

Remuneration Committee

The subscription price of a Share in respect of any particular option granted under the 2006 Share Option Scheme shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.

Details of options granted and outstanding under the 2006 Share Option Scheme during the Year:

		Number of share options					
Grantees		**Balance as at 1 July 2010**	**Granted during the Year**	**Exercised during the Year**	**Cancelled/ Lapsed during the Year**	**Balance as at 30 June 2011**	**Approximate percentage of shareholding***
i)	**Directors**						
	Ms. Cheung (Notes 1 & 2)	33,200,000	–	–	–	33,200,000	0.71%
	Mr. Liu (Notes 1 & 2)	33,200,000	–	–	–	33,200,000	0.71%
	Mr. Zhang (Notes 1 & 2)	33,200,000	–	–	–	33,200,000	0.71%
	Mr. Zhang Yuanfu (Notes 3 & 5)	3,200,000	–	(800,000)	–	2,400,000	0.05%
	Mr. Lau Chun Shun (Note 3 & 5)	450,000	–	–	–	450,000	0.01%
	Sub-total:	103,250,000	–	(800,000)	–	102,450,000	2.19%
ii)	**Employees and others** (Notes 4)	7,412,958	300,000	(1,268,383)	(1,900,000)	4,544,575	0.10%
	Total:	**110,662,958**	**300,000**	**(2,068,383)**	**(1,900,000)**	**106,994,575**	**2.29%**

* Calculation based on the number of the issued shares of the Company (4,662,592,620 Shares) as at 30 June 2011

Notes:

(1) Ms. Cheung, Mr. Liu and Mr. Zhang each was granted 41,500,000 share options under the 2006 Share Option Scheme. The exercise price is HK$9.8365 per Share, being about 3% premium to the higher of the closing price of the Shares on 26 October 2006, the date of the meeting of the Board to consider and propose the grant of the share options, and the average closing price of the Shares for the five trading days immediately preceding 26 October 2006. The exercise period is from 1 January 2008 to 31 December 2011.

(2) The exercisable of the share options is subject to the achievement of the performance targets of profit. The each of the five financial years during from 1 July 2007 to 30 June 2011 has different performance targets of profit. The performance target of profit is calculated based on the net profit of the Group for FY2006 which excludes the interest income of the Company derived from the over-subscription of the Shares during the Pre-Listing Initial Public Offering in March 2006. The performance targets of profit are calculated based on the 35% growth of the Net Profit FY2006 on the annual basis. The Remuneration Committee will be responsible for monitoring the performance targets of the profit of the Group and whether or not that the Group has been met the targets for each of the relevant years.

Remuneration Committee

(3) Details of the options granted to directors are as follow:

Name of Director	Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2010	Granted during the Year	Exercised during the Year	Cancelled/ Lapsed during the Year	Balance as at 30 June 2011	Closing price immediately before Grant Date HK$
Mr. Zhang Yuanfu	25 August 2008	4.310	25 August 2009 to 24 August 2013	800,000	–	(200,000)	–	600,000	4.20
	28 October 2008	0.894	28 October 2009 to 27 October 2013	1,600,000	–	(400,000)	–	1,200,000	0.72
	10 November 2008	1.590	11 November 2009 to 10 November 2013	800,000	–	(200,000)	–	600,000	1.44
Total:				**3,200,000**	**-**	**(800,000)**	**-**	**2,400,000**	
Mr. Lau Chun Shun	1 June 2010	11.052	1 June 2011 to 30 May 2015	450,000	–	–	–	450,000	11.58
Total:				**450,000**	**-**	**-**	**-**	**450,000**	

(4) Details of the options granted to Employees and others is as follow:

Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2010	Granted during the Year	Exercised During the Year	Cancelled/ Lapsed during the Year	Balance as at 30 June 2011	Closing price Immediately Before Grant Date HK$
28 October 2008 (Note 5)	0.894	29 October 2009 to 28 October 2013	2,712,958	–	(728,383)	–	1,984,575	0.72
28 October 2008	0.894	29 October 2008 to 28 October 2013	200,000	–	(200,000)	–	–	0.72
7 April 2009 (Note 5)	3.320	8 April 2010 to 7 April 2014	1,300,000	–	(340,000)	(900,000)	60,000	3.40
19 November 2009 (Note 5)	13.520	19 November 2010 to 18 November 2014	800,000	–	–	(300,000)	500,000	13.66
26 November 2009 (Note 5)	13.980	26 November 2010 to 25 November 2014	300,000	–	–	–	300,000	14.00
14 December 2009 (Note 5)	13.060	14 December 2010 to 13 December 2014	300,000	–	–	(300,000)	–	12.90
7 January 2010 (Note 5)	13.600	7 January 2011 to 6 January 2015	400,000	–	–	(400,000)	–	13.64
8 April 2010 (Note 6)	14.220	8 April 2010 to 7 April 2015	1,100,000	–	–	–	1,100,000	14.28
24 May 2010 (Note 5)	11.488	24 May 2011 to 23 May 2015	300,000	–	–	–	300,000	10.52
13 July 2010 (Note 5)	10.800	13 July 2011 to 12 July 2015	–	300,000	–	–	300,000	11.16
Total:			**7,412,958**	**300,000**	**(1,268,383)**	**(1,900,000)**	**4,544,575**	

(5) Each of the grantees has been conditionally granted under the 2006 Share Option Scheme will be entitled to exercise:

(i) up to 20% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the first anniversary of the date on which the relevant option was so granted to him on Grant Date and ending on the second anniversary of the Grant Date;

(ii) up to 40% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the second anniversary of the Grant Date and ending on the third anniversary of the Grant Date;

(iii) up to 60% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the third anniversary of the Grant Date and ending on the 54th month from the Grant Date; and

(iv) such number of Shares subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised at any time commencing from the expiry of the 54th month from the Grant Date and ending on the expiration of 60 months from the date upon which such option is deemed to be granted and accepted in accordance with the rules of the 2006 Share Option Scheme.

(6) Each of the grantees has been conditionally granted under the 2006 Share Option Scheme will be entitled to exercise:

(i) up to 20% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the Grant Date and ending on the first anniversary of the Grant Date;

(ii) up to 40% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the first anniversary of the Grant Date and ending on the second anniversary of the Grant Date;

(iii) up to 60% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the second anniversary of the Grant Date and ending on the third anniversary of the Grant Date; and

(iv) such number of Shares subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised at any time commencing from the expiry of the third anniversary of the Grant Date and ending on the expiration of 60 months from the date upon which such option is deemed to be granted and accepted in accordance with the rules of the 2006 Share Option Scheme.

(7) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(8) The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$11.62.

Save as disclosed above, no any other options were granted, cancelled or lapsed under the 2006 Share Option Scheme during the Year.

VALUE OF SHARE OPTIONS

The fair value of options are determined used "Binominal Valuation model" and "Black-Scholes model" (the "Models"). Key assumptions of the Models are:

(i) Pre-Listing Share Option Scheme

Date of Grant	Model	Risk-free rate	Expected dividend yield	Expected volatility of the market price of the Shares	Fair value (approximately) HK$
1 January 2006	Binominal Valuation	Yield of 5-year Exchange Fund Notes	5%	25%	70,000,000

Remuneration Committee

(ii) 2006 Share Option Scheme

Date of Grant	Model	Risk-free rate	Expected dividend yield	Expected volatility of the market price of the Shares	Fair value (approximately) HK$
17 November 2006	Black-Scholes	3.75%-3.81%	per annum 1.00%-4.50%	28%	364,000,000
21 July 2008	Binominal Valuation	3.354%	per annum 1.013%	60%	4,000,000
25 August 2008	Binominal Valuation	2.897%	per annum 1.373%	61%	8,000,000
28 October 2008	Binominal Valuation	2.154%	per annum 7.356%	62%	3,000,000
10 November 2008	Binominal Valuation	1.798%	per annum 3.706%	62%	1,000,000
7 April 2009	Binominal Valuation	1.733%	per annum 1.800%	82%	3,000,000
22 July 2009	Binominal Valuation	1.692%	per annum 1.000%	72%	1,000,000
18 September 2009	Binominal Valuation	1.731%	per annum 1.000%	70%	3,000,000
19 November 2009	Binominal Valuation	1.542%	per annum 1.000%	71%	6,000,000
26 November 2009	Binominal Valuation	1.525%	per annum 1.000%	70%	2,000,000
14 December 2009	Binominal Valuation	1.551%	per annum 1.000%	70%	2,000,000
7 January 2010	Binominal Valuation	1.975%	per annum 1.000%	81%	3,000,000
8 April 2010	Binominal Valuation	1.997%	per annum 1.000%	78%	9,000,000
24 May 2010	Binominal Valuation	1.535%	per annum 1.000%	78%	2,000,000
1 June 2010	Binominal Valuation	1.581%	per annum 1.000%	79%	3,000,000
13 July 2010	Binominal Valuation	1.500%	per annual 1.000%	80%	2,000,000

The Models requires the input of subjective assumptions, including the volatility of Share price. As changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing models do not necessarily provide a reliable single measure of the fair value of shares options.

DIRECTORS' SERVICES CONTRACTS

None of the Directors who are proposed for re-election at the 2011 AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT DETAILS

Details of the emoluments of the Directors and the senior management are set out in note 22 to the financial statements.

Audit Committee

MEMBERS

All the members of the Audit Committee are appointed from the INEDs, namely, Dr. Cheng Chi Pang (Chairman), Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Mr. Wang Hong Bo. Dr. Cheng and Mr. Chung are qualified accountants with extensive experience in financial reporting and controls. Ms. Tam is a barrister and practicing in Hong Kong. Mr. Wang has rich experience and expertise in the paper industry in China.

TERMS AND REFERENCE

Based on the terms of reference of the Audit Committee, members of the committee shall, among other things, oversee the Group's relationship with its external auditor, monitor the external auditor's independence and objectively, develop and implement policy on the engagement of an external auditor to supply non audit services, review the preliminary results, interim results and annual financial statements, monitor the compliance with statutory requirements and Listing Rules, review the scope, extent and effectiveness of the Group's internal audit functions, and, where necessary, commission independent investigations by legal advisers or other professionals.

SUMMARY OF MAJOR WORK DONE IN FY2011

The Audit Committee holds regular meetings, at least four times a year, and organizes additional meetings if and when necessary. During FY2011, the committee held five meetings. The following is a summary of the tasks completed by the Audit Committee during FY2011:

- reviewed the financial statements for the FY2010 and for the six months ended 31 December 2010 before submission to the Board focusing particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from the audit;

  (iv) the going concern assumption;

  (v) compliance with accounting standards; and

  (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

- reviewed the external auditor's audit plan, audit's management letter and audit engagement letter;

- considered and approved the FY2010 external audit fees;

- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor;

- reviewed the "Continuing Connected Transactions" set forth on pages 42 to 44 of this Annual Report;

- reviewed the purchase terms and the fairness of the Group's basis of selecting its recovered paper suppliers quarterly;

- reviewed the reports issued by the auditor of the Company on all the transactions conducted between the Group and ACN; and

- reviewed the Company's financial reporting system and internal control system.

FINANCIAL REPORTS

The Audit Committee reviewed and considered the reports and statements of the management to ensure that the consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in Hong Kong and Appendix 16 to the Listing Rules. The Committee also met with the external auditor of the Group, PricewaterhouseCoopers, to consider the scope and results of their independent audit of the consolidated financial statements.

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Audit Committee assisted the Board to perform its duties to maintain an effective internal control system for the Group. The Audit Committee reviewed the Group's procedure and workflow for environmental and risk assessment and its initiatives for business risks management and control.

REVIEW OF THE GROUP'S ACCOUNTING AND FINANCIAL REPORTING FUNCTION

In compliance with the Corporate Governance Code, the Audit Committee reviewed the resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget, and was satisfied with their adequacy and effectiveness.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee recommended to the Board that, subject to Shareholders' approval at the 2011 AGM, PricewaterhouseCoopers be re-appointed as the Company's external auditor for FY2012.

For the FY2011, the external auditor of the Company received approximately RMB6.9 million for audit services and RMB0.07 million for tax services.

Internal Control and Risk Management

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management system. The internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives.

The Risk Control Committee is formed by the Supervision Department and Finance Department. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analysing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for minimising and eliminating risks; reviewing and reporting to the Board in respect of the effectiveness of internal control; and maintaining contact with external auditor for maintaining the quality of the Group's internal control system.

BUSINESS RISK

According to the Group's policies, business risks including, in particular, slow response to customer's need, insufficient competitiveness of price, unreliable customer credit profile, possible business secret leaking and unstable product quality etc., are reviewed and analysed from time to time. Control activities are conducted to eliminate, transfer or alleviate business uncertainty.

FINANCIAL RISK

The Group's financial risk management policies governs the Group's cost control, asset management, treasury management, logistics supervision, financial reporting promptness management, investment return assurance, interest risk management, currency risk management to credit risk management, and ensures overall financial risks are well under supervision and control. The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies.

COMPLIANCE RISK

Clear systems and procedures are established to ensure compliance with the relevant legislation and regulations. Besides, we engage the professional firms and consulting companies to keep us abreast of the latest developments in different fields including legal, financial, environment, operation and business.

Internal Control and Risk Management

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company:

1. included in its Code of Conduct a strict prohibition on the unauthorized use of confidential or insider information; and

2. has established and implemented procedures for responding to external enquiries about the Group's affairs. Only the senior management of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

OPERATIONAL RISK

A full set of procedures has been established to prevent operational problems. These operational problems can be insufficient management effectiveness and efficiency, inefficient procurement, operational accident, unusual damage to key equipment or its components, information system failure, inability to retain high caliber staff or inadequate equipment utilisation. Once deemed necessary, risk control activities would be carried out to address risks in order to achieve management target.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems covering all material business, financial, compliance, operational, and is satisfied that such systems are effective and adequate.

Connected Transactions

During FY2011 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

(1) EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are each of sizes that exceed 0.1% but less than 5% of each of the percentage ratios (other than the profits ratio) on an annual basis under Chapter 14 of the Listing Rules, and constitute continuing connected transactions exempt from the independent shareholders' approval requirement but subject to the annual review requirements as set out in Rules 14A.37 to 14A.40 and the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

(a) Come Sure Raw Paper Materials Supply Agreement

On 29 July 2010, Mass Winner Holdings Limited, a company wholly owned by Come Sure Group (Holdings) Limited ("Come Sure") and Crown Gold Limited, a company wholly owned by Mr. Zhang, entered into a joint venture agreement to establish the joint venture to engage in the manufacturing and sale of corrugated paperboard and paper-based packaging products. The joint venture was owned as to 60% by Mass Winner Holdings Limited and as to 40% by Crown Gold Limited and became an associate of Mr. Zhang. The supply of raw paper materials to Come Sure and its subsidiaries included supplies to the joint venture, the transactions under the master purchase agreement constituted continuing connected transactions for the Company.

The annual aggregate transactions amount granted by the Stock Exchange for each of the periods from 22 October 2010 to 31 March 2011 and the two financial years ending on 31 March 2012 and 31 March 2013 shall be capped at and not exceed RMB200 million, RMB400 million and RMB500 million respectively.

(b) Forestry Wood Logs and Clips Supply Agreement

ND Xing An is owned as to 55% by the Company and 45% owned by China Inner Mongolia Forestry. On 16 May 2011, ND Xing An and China Inner Mongolia Forestry, which is a substantial shareholder of ND Xing An, entered into a new supply agreement whereby China Inner Mongolia Forestry agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group from 1 July 2011 to 30 June 2014.

During the FY2011, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB51 million and RMB156 million respectively.

(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are each of sizes that exceed 5% on an annual basis pursuant to Rule 14.07 of the Listing Rules which constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the approval of the independent shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the INEDs and the auditor of the Company under Rules 14A.37 to 14A.38 of the Listing Rules.

(a) Longteng Packaging Paperboard Purchase Agreement

Dongguan Longteng is a company which is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung. On 16 May 2011, Dongguan Longteng and the Company entered into a new purchase agreement, pursuant to which Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2011 to 30 June 2014.

During the FY2011, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB310 million and RMB316 million respectively.

(b) Longteng Packaging Materials and Chemicals Supply Agreement

On 16 May 2011, Dongguan Longteng and the Company entered into a new supply agreement, pursuant to which Dongguan Longteng agreed to supply packaging materials and chemicals for the production of paperboard products to members of the Group from 1 July 2011 to 30 June 2014.

During the FY2011, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB241 million and RMB271 million respectively.

(c) ACN Recovered Paper Supply Agreement

ACN is indirectly wholly owned by Ms. Cheung. On 16 May 2011, ACN and the Company entered into a new supply agreement, pursuant to which ACN agreed to supply recovered paper to members of the Group from 1 July 2011 to 30 June 2014.

During the FY2011, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB8,278 million and RMB16,000 million respectively.

(d) Taicang Packaging Paperboard Purchase Agreements

On 16 May 2011 and 23 May 2011, the Company and Taicang Packaging entered into new purchase agreements, pursuant to which Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2011 to 30 June 2014.

During the FY2011, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB92 million and RMB390 million respectively.

Connected Transactions

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions mentioned above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(iii) in accordance with the relevant agreements governing such transactions; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(v) did not exceed the respective annual caps for the relevant continuing connected transactions disclosed in the announcements dated 26 June 2008, 30 June 2008, 29 July 2010, 9 May 2011 and the circular of the Company dated 14 July 2008.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Corporate and Social Responsibility

"NO ENVIRONMENT, NO PAPER"

Adhering to the belief of "no environment, no paper", the Group has persistently applied concepts of environmental protection and recycling on various aspects including production technologies and ancillary facilities, in order to embed the concept of environmental protection in the minds of its employees as well as its products.

WIN-WIN ENVIRONMENT FRIENDLY POLICY

Through the execution of its environmental protection systems, the Group has not only saved precious resources and achieved higher operational efficiency, but also significantly reduced the operational risk of non-compliance with environmental laws and regulations, which indeed fosters a win-win situation for the Group and the environment.

ENVIRONMENTAL AWARDS AND CERTIFICATIONS

The Group has obtained relevant permits for the disposal of solid waste and the discharge of wastewater and gaseous emission. In recent years, to tighten the monitoring on enterprises, the Environmental Protection Bureau has conducted impromptu inspections in addition to regular visits to ensure that paper manufacturers are in compliance with relevant requirements. The Group has always followed all the environmental laws or regulations.

During the Year, the Group has successfully passed the energy saving assessment by the Economic and Trade Commission of Guangdong Province and attained a series of energy saving targets. The Taicang base has also passed the annual inspection by the State Ministry of Environmental Protection and has been granted an award under the environmental project fund of the Jiangsu provincial government. Furthermore, the Group's production bases have been continued to be granted the honours of Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau respectively. The Group's production bases continued to obtain ISO14001 environmental management certification.

"ENERGY CONSERVATION AND CONSUMPTION REDUCTION" PRODUCTION PROCESS

The Group has strived to reduce water and electricity consumption and exercised control over the sources of pollutants. As such, we have persisted in the principle of energy conservation from the procurement of paper machines to the choice of lighting facilities for the production plant. Currently, the wastewater produced during the operation of the paper machines can be fully recycled after treatment.

Corporate and Social Responsibility

ADVANCED WASTEWATER TREATMENT FACILITIES

The Group has introduced the anaerobic aerobic two-stage biological treatment, currently the world's most advanced wastewater treatment technology, resulting in water discharge performance exceeding relevant national and local standards. We have also adopted the state-of-the-art automatic programmable logic controller (PLC) systems with an online monitoring system to monitor our wastewater discharge for centralised management. In order to reduce the discharge pollutants, our wastewater treatment plant has adopted additional advanced treatment facilities which will further reduce the water pollutants through the addition of water purification agents.

	Unit	PRC government approved level	ND Paper standard	Parameter before treatment					Average parameter after treatment					
				2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2011
COD_{CR}	mg/L	≦100	80	2500	2500	3000	3000	3000	<100	80	80	80	80	80
BOD_5	mg/L	≦20	20	1000	1000	1300	1300	1300	<20	10	10	10	10	10
SS	mg/L	≦70	30	2000	2000	2800	2800	2800	<70	28	28	28	28	28
PH		6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9	6-9

EMISSION CONTROL

Use of low-grade fuels

The Group has a circulation fluidised bed solid waste incinerator which can effectively use a wide range of low grade fuels, including waste paper pulp, light slag and sewage from the wastewater treatment station. The system is effective and environment friendly with its low emission. The use of low-grade fuels not only greatly reduces waste discharge but also reduces coal consumption and the emission of carbon dioxide.

Methane collection and treatment system

Since 2008, the Group has conducted the technology upgrade for its methane collection and treatment system featuring the addition of a methane desulphurisation unit. With this unit, processed methane will be transmitted to the heat and electricity boiler system as fuel for power generation and an annual reduction of 30,000 tonnes in coal consumption can be achieved after commissioning. The use of methane (mainly methane gas) as resources will contribute to the reduction of greenhouse effect. In addition, the coal-fired power plants in all of our production bases are equipped with particle removal and desulphurisation equipment, and their emission levels are far better than the approved level under the applicable PRC regulatory requirements.

Environment friendly coal storage dome

The Group, being the first among its peers, introduced a fully-automatic and enclosed coal storage dome in its Dongguan, Chongqing and Tianjin production bases. The unique environment friendly design can reduce the amount of dust produced during loading, transportation and storage of coal and improve the working environment.

	Unit	PRC government approved level	ND Paper standard	Parameter before treatment					Average parameter after treatment					
				2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2011
SO_2	mg/m^3	≦400	100	2,360	2,520	2,800	2,700	2,700	<55	60	80	88	88	88
Dust	mg/m^3	≦50	50	24,600	25,400	25,400	25,400	25,400	<29	30	30	30	30	30
NO_X	mg/m^3	≦450	450	–	–	–	–	–	<356	339	333	330	330	330

SOLID WASTES DISPOSAL

The Group processes all wastes from paper making with its proprietary environment friendly incinerators. The incinerators apply advanced emission control devices, fabric-bag filters for dust removal and half-dry desulphurization facilities. Monitoring devices are installed for real-time monitoring.

In addition, to enhance our overall utilisation of solid waste, we also incinerate all solid waste for steam production and thereby reduce coal consumption utilising the frame membrane filter drying treatment technique on the sludge produced in sewage treatment after a year's research and development.

NOISE CONTROL

All of our paper machines comply with the strict international standards currently enforced in America and Europe for noise control. We have installed noise-insulating enclosures and mufflers to equipment that produces heavy noises, such as double-disc refiners and air compressors. Noise-insulated control rooms are set up in the paper-making plants to prevent staff from working long hours under high noise levels.

Personal noise protection devices are provided. Staff are required to wear personal noise protection devices like earplugs during inspection around the plant.

HUMAN RESOURCE MANAGEMENT

ND Paper is committed to the "people-oriented" management philosophy for its human resource development strategy, providing suitable career development prospects according to the job duties and working experiences of the staff.

TRAINING AND DEVELOPMENT FOR STAFF

In order to attract and develop potential postgraduates and undergraduates, the Group implements a "management trainee" programme, which aims at enhancing the professional and management skills of selected management trainees through job placements and hands-on professional trainings in various positions and production bases.

In addition, the Group has established an effective mentorship system for new staff which covers corporate culture, job-specific skills and operational safety rules.

The Group formulates career development plans and provides ongoing training opportunities for staff with potentials. MBA and EMBA courses for senior management have been launched in association with the renowned Zhongshan University. Outstanding technicians are chosen to receive advanced technical training abroad.

In respect of continuing training, we have in place both management and technical trainings for our staff. These programmes provide strong support and assistance for staff's career development.

FAIR ASSESSMENT SYSTEM

The Group has set up a comprehensive promotion and performance assessment system to provide sustainable development opportunities for its staff.

Corporate and Social Responsibility

CARING OUR STAFF'S PHYSICAL AND MENTAL HEALTH

The Group seeks to enhance staff's satisfaction and loyalty to ND Paper through continual improvement to the working environment and living conditions and providing more interactive communications channels. With continuous effort in improving the staff residences, the Group has introduced numerous welfare facilities and organized a variety of cultural and recreational activities so as to provide its staff with some refreshing and relaxing moments after work. The Group attaches great importance to staff communications and interaction. Through regular meetings with new staff and setting up the staff hotline, the Group has established effective channels to interact with staff.

In addition, the Company provides regular body checks to its staff to ensure their health.

The Group has also published our corporate newsletter "The Nine Dragon Community" (《玖龍員工》) which disseminates corporate information regularly and enhance staff's loyalty to ND Paper. Besides, staff communication sessions are being conducted by the staff union on a regular basis to allow staff to voice their opinions and allow the Group to devise effective solutions and improvements, maintaining harmonious relations with its staff.

REMUNERATION AND BENEFITS

The Company offers competitive remuneration packages and performance-based discretionary bonuses, which are determined by performances at the corporate, team and individual levels, as well as the job duties of individual employees. The Group conducts regular review and revision on staff remuneration in accordance with its remuneration policy to maintain ND Paper's competitiveness in the recruitment market.

CONTRIBUTIONS TO SOCIETY AND FULFILMENT OF SOCIAL RESPONSIBILITIES

Besides actively developing its business, ND Paper also devotes to different kinds of community activities. In 2010, the Group made donation of RMB0.6 million for the construction of "Heart Resettling Houses" in Magui Town, Gaozhou City, which was severely hit by the catastrophic flood on 21 September; In 2011, the Group participated "fundraising day for the underprivileged" in Guangdong once again and donated RMB10.0 million. In addition, the Group also provided "Nine Dragons Caring Lunches" for 400 children and students from poor families staying in poverty-stricken mountain areas of Pengshui County, Chongqing City and has planned to double the scale by the end of 2011. ND Paper will persistently promote various community welfare undertakings by making contributions to the society.

In order to help the out-of-school teenagers in poor regions, the Group fully subsidises about 100 high school dropped-out students in poor regions across the country every year to study at the prestigious academic institutions in China and hires them to relevant positions upon graduation. Such scheme can help to improve the living conditions of those out-of-school teenagers in the long run and also train up talents for ND Paper. The scheme has been organised for over 7 years and over 400 participants have joined ND Paper.

Directors and Senior Management

PROFILE OF EXECUTIVE DIRECTORS

Ms. Cheung Yan, 54, has been the Chairlady of the Company since 2006. She is also the chairlady of the Executive Committee and a director of several subsidiaries of the Company. She is one of the founders of the Group and is in charge of the Company's overall corporate development and the Group's strategic planning. Ms. Cheung has over 15 years of experience in paper manufacturing and over 25 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference, executive vice chairman of the China Overseas Chinese Entrepreneurs Association, vice president of China Paper Association, vice president of China Paper Industry Chamber of Commerce, executive vice president of the Guangdong Overseas Chinese Enterprises Associations and vice chairman of Chamber of Commerce of Guangdong province. Ms. Cheung is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2007, Ms. Cheung was awarded the "Entrepreneur of the Year in China 2007" by Ernst & Young and in 2008, she was accredited as a "Leader Figure" ("領袖人物獎") in "China Cailun Award" ("中華蔡倫獎") by China Paper Industry Chamber of Commerce and was awarded "China Charity Award 2008" ("2008年中華慈善獎") by the Ministry of Civil Affairs of the PRC. In May 2009, Ms. Cheung was awarded "Outstanding Entrepreneur in Pulp and Paper Manufacturing Industry in China" ("全國製漿造紙行業優秀企業家") by China Paper Association. She was awarded "Chinese Chamber of Commerce Contributions Award" ("華商貢獻獎") in the city of Chongqing in January 2010, the title of "Outstanding Person on Energy Saving and Emission Reduction in China 2009" ("2009中國節能減排功勳人物") by All-China Environment Federation in May 2010 and "Outstanding Contribution Award on Poverty Alleviation and Benefiting the Community by a Businessman in the Private Sector in Guangdong Province" ("廣東省非公有制經濟人士扶貧濟困回報社會突出貢獻獎") in July 2010. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 49, has been the Deputy Chairman and Chief Executive Officer of the Company since 2006. He is a member of the Executive Committee, the Remuneration Committee and a director of various subsidiaries of the Company. He is one of the founders of the Group and is responsible for the overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment and human resources management of the Group. Mr. Liu has over 20 years of experience in international trade and over 12 years of experience in corporate management. Mr. Liu graduated with a bachelor degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2000, Mr. Liu was appointed as a member of the Ninth Committee of the Chinese People's Political Consultative Conference of Guangzhou of Guangdong province and a consultant of the Committee for Affairs of Hong Kong, Macao, Taiwan Compatriots and Overseas Chinese. In 2001, Mr. Liu was awarded a member of All-China Youth Federation. Mr. Liu is the husband of Ms. Cheung, the brother-in-law of Mr. Zhang and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 43, has been the Executive Director and Deputy Chief Executive Officer of the Company since 2006. He is a member of the Executive Committee, Remuneration Committee and a director of various subsidiaries of the Company. He is one of the founders and is responsible for the overall management of the operations and business of the Group including marketing, finance, procurement, sales and IT departments. Mr. Zhang has over 17 years of experience in procurement, marketing and distribution and is a member of the Third Committee of the Chinese People's Political Consultative Conference of Chongqing. Mr. Zhang is the younger brother of Ms. Cheung, Mr. Liu's brother-in-law and the uncle of Mr. Lau Chun Shun.

Directors and Senior Management

Mr. Zhang Yuanfu, 48, has been an Executive Director of the Company since 2008. He is also a director of various subsidiaries of the Company. He also serves as the Group's Chief Financial Officer in charge of financial matters and investor relations. Prior to joining the Group, Mr. Zhang served as the chief financial officer, qualified accountant and company secretary of Weichai Power Co., Ltd. for more than 5 years and also worked in a number of Hong Kong listed companies in charge of accounting and financial management. He has more than 25 years of experience in auditing, accounting and corporate finance. Mr. Zhang holds a bachelor degree in Economics. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Lau Chun Shun, 30, joined the Company as a Non-executive Director in 2006 and was re-designated as an Executive Director of the Company in August 2009. He is responsible for the management and operation of the Group including marketing and distribution, procurement and sales departments. Mr. Lau holds a bachelor degree in Economics from the University of California, Davis and a master degree in Industrial Engineering from Columbia University. He is the son of Ms. Cheung and Mr. Liu and the nephew of Mr. Zhang.

Ms. Gao Jing, 48, has been an Executive Director of the Company since 2006. She is a director of various subsidiaries of the Company. She joined the Group in June 1996 and has 15 years of experience in cost auditing of raw materials and the purchasing of recovered paper. She served as the Group's Financial Manager and was promoted as the Head of the Group's Import Purchasing Department in July 2006. Ms. Gao graduated from Liaoning Broadcasting Television University with a diploma in Electrical Engineering. The spouse of Ms. Gao, Mr. Huang Tie Min, is a senior management of the Group who serves as the general manager of the Group in charge of new project expansion and engineering management.

PROFILE OF INDENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, GBS, JP, 65, has been an Independent Non-Executive Director of the Company since 2006. She is also the chairlady of the Remuneration Committee and a member of the Audit Committee of the Company. She serves as an independent non-executive director of Guangnan (Holdings) Limited, Minmetals Land Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Titan Petrochemicals Group Limited, Tong Ren Tang Technologies, Co., Ltd. and Wing On Company International Limited. Ms. Tam is a Deputy of the National People's Congress P.R.C. from H.K.S.A.R. and a member of the Hong Kong Basic Law Committee under the Standing Committee of the National People's Congress. She is qualified as a barrister-at-law at Gray's Inn, London and has practice experience in Hong Kong.

Mr. Chung Shui Ming, Timpson, GBS, JP, 59, has been an Independent Non-Executive Director of the Company since 2006. He is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited and China Overseas Grand Oceans Group Ltd. (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an independent director of China State Construction Engineering Corporation Limited and China Everbright Bank Corporation Limited (listed on the Shanghai Stock Exchange). He holds a bachelor of science degree from the University of Hong Kong and a master's degree of business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Besides, he is currently a member of the National Committee of the 11th Chinese People's Political Consultative Conference.

From October 2004 to November 2008, Mr. Chung served as an independent non-executive director of China Netcom Group Corporation (Hong Kong) Limited. Formerly, he was a director of Hantec Investment Holdings Limited, the chairman of China Business of Jardine Fleming Holdings Limited, the deputy chief executive officer of BOC International Limited, the independent non-executive director of Tai Shing International (Holdings) Limited, and the chairman of the Council of the City University of Hong Kong. He was also the chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the vice chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee and a vice-chairman, director & deputy general manager of Nanyang Commercial Bank Limited and the chief executive officer of the Hong Kong Special Administrative Region Government Land Fund Trust.

Dr. Cheng Chi Pang, 54, has been an Independent Non-Executive Director of the Company since 2006. He is also the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He holds a bachelor degree in Business, a master degree in Business Administration and a master degree of Laws as well as and a doctorate degree of philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has approximately 30 years of experience in auditing, business advisory and financial management.

Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of Price Waterhouse, now PricewaterhouseCoopers. Dr. Cheng is currently the senior partner of Leslie Cheng & Co. Certified Public Accountants, the chairman of L & E Consultants Limited, a non-executive director of Wai Kee Holdings Limited and Build King Holdings Limited and an independent non-executive director and chairman of the audit committee of China Ting Group (Holdings) Limited, Tianjin Port Development Holdings Limited and Fortune Sun (China) Holdings Limited.

Mr. Wang Hong Bo, 57, has been an Independent Non-Executive Director of the Company since 2006. He is also a member of the Audit Committee of the Company. Mr. Wang has extensive experience and expertise in the paper industry in China and was appointed as the Deputy Head of Yantai Packaging Decoration Factory in 1990.

PROFILE OF SENIOR MANAGEMENT

Mr. Lin Xin Yang, 41, joined the Group in 2003 and has served as the General Manager of Dongguan Nine Dragons Paper Industries Co., Ltd. in charge of operations and management since December 2010. Prior to joining the Group, he worked for Shandong Huazhong Paper Co., Ltd.. Mr. Lin has over 18 years of experience in pulp and paper manufacturing, equipment and production management. Mr. Lin graduated from Northwest Institute of Light Industry Pulp and Paper Engineering (currently Shaanxi University of Science and Technology) and is a senior engineer in the paper manufacturing industry.

Mr. Meng Feng, 39, has served as the General Manager of Nine Dragons Paper Industries (Taicang) Co., Ltd. in charge of supervision and management since December 2010. Mr. Meng has over 18-year production management experience in the large-scale paper manufacturing industry. Prior to joining the Group, he worked in Shandong Chenming Paper Industries Co., Ltd as a senior management and also acted as the general manager of a subsidiary. He graduated from Shandong Weifang Radio & Television Institute (major in Economic Information & Management Professional).

Directors and Senior Management

Mr. Zhou Chuan Hong, 50, joined the Group in July 2002. He has served as the General Manager of Nine Dragons Paper Industries (Tianjin) Co. Ltd. in charge of supervision and management since September 2007. Mr. Zhou has over 23 years of experience in equipment, project management and business management in the paper manufacturing industry. Prior to joining the Group, he worked in Shandong Huazhong Paper Co., Ltd.. He graduated from South China Institute of Technology (currently South China University of Technology) and is an engineer.

Mr. Li Jian Bo, 45, joined the Group in 2008 and has served as the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. in charge of supervision and management since 2009. Prior to joining the Group, he worked as the General Manager of Sichuan Rui Song Paper Co. Ltd.. Mr. Li has over 24 years of experience in production, technology and management in the domestic specialty paper manufacturing industry. He graduated from the Southwestern University of Finance and Economics and holds a master degree of Business Administration of Fudan University.

Mr. Guo Feng, 42, has served as the Deputy General Manager of Nine Dragons Pulp and Paper (Leshan) Co., Ltd. since May 2008 and has been promoted to General Manager since November 2009. He has 22 years of working experience in specialty paper manufacturing enterprises. Prior to joining the Group, he worked as a senior management of Sichuan Rui Song Paper Co. Ltd.. He graduated from East China Institute of Technology with a bachelor degree in Engineering. He also completed the EMBA program at Guanghua School of Management, Peking University in 2009 and obtained a master degree in Business Management.

Mr. Xin Gang, 37, has served as the Deputy General Manager of Nine Dragons Paper Industries (Quanzhou) Co., Ltd. in charge of supervision and management since June 2010. Mr. Xin joined the Group in 1998 and has over 15 years of manufacturing, technology and management experience in the paper manufacturing industry. He graduated from Shandong Institute of Light Industry in 1996 with a bachelor degree in Pulp and Paper Manufacturing.

Mr. Zhang Yongchun, 44, joined the Group in June 1999. He has served as the General Manager of Nine Dragons Paper Industries (Shenyang) Co. Ltd. in charge of supervision and management since June 2011. Mr. Zhang has over 21 years of experience in equipment installment and maintenance, and production management in the paper manufacturing industry. Prior to joining the Group, he worked in Jilin Paper Co., Ltd.. He graduated from Jilin University with a bachelor degree in Science.

Mr. Zhang Du Ling, 41, joined as the Group's General Manager of the Sales Department in charge of sales management. He joined the Group in July 1998. Prior to joining the Group, he worked as the Manager of the sales department of Dongguan Chung Nam Paper Manufacturing Co., Ltd.. He has approximately 15 years of experience in sales and marketing in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Huang Tie Min, 48, joined as the Group's General Manager of the Development Engineering Department in charge of the Group's new project expansion and engineering management. Mr. Huang joined the Group in 1996 and has approximately 26 years of construction and administrative management experience in the paper manufacturing industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor degree in Engineering. Ms. Gao Jing, Mr. Huang's spouse, is an Executive Director of the Company.

Mr. Ng Kwok Fan, Benjamin, 55, has served as the Group's Deputy General Manager and Assistant to Chairlady in charge of corporate administration and investor relations since February 2006. Prior to joining the Group, Mr. Ng worked in several international marketing communications enterprises and public companies listed in Hong Kong and overseas. He has extensive experience in advertising, marketing and corporate finance. He graduated from the University of Hong Kong and is a member of both Certified General Accountants Association of Canada and the CFA Institute.

Directors and Senior Management

Mr. Chu Yiu Kuen, Ricky, 40, has served as the Group's Deputy Chief Financial Officer in charge of financial operation since October 2008. Mr. Chu has more than 17 years of experience in auditing, accounting and finance. Prior to joining the Group, Mr. Chu had worked in a major international accounting firm for over 8 years and the Listing Division of the Stock Exchange for over 2 years where he accumulated extensive experience in floatation and business advisory of a wide variety of business. Mr. Chu obtained a bachelor degree in Economics and is a member of both Certified Public Accountants of Australia and Hong Kong Institute of Certified Public Accountants.

Mr. Zhang Chuang, 44, has served as Chief Information Officer of the Group in charge of the planning and construction of corporate information system since September 2008. Prior to joining the Group, Mr. Zhang worked at Lenovo Group as an IT director responsible for global application system operation, and occupied as an IT manager at General Motor and Dupont respectively. Graduated from Tsinghua University, he has 18 years of IT management experience in the manufacturing industry. He holds a bachelor degree in Electronic Engineering and a master degree in Computer Science as well as a master degree in Business Administration in Queens' University, Canada.

Mr. Jiang Zhongsheng, 44, joined the Group in 2009, and has served as the Group's General Manager of the Heat-electricity Department in charge of the Group's heat-electrical production and heat-electrical engineering management since 2010. Mr. Jiang has 20 years of experience in power station management and worked in Shanghai Energy Co., Ltd. (上海能源股份有限公司). He graduated from Nanjing Institute of Technology.

Directors' Report

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for the FY2011.

PRINCIPAL BUSINESSES

The Group primarily manufactures linerboard, high-performance corrugating medium and certain types of coated duplex board. The Group also manufactures specialty paper, wood and bamboo pulp and produces unbleached kraft pulp.

RESULTS AND APPROPRIATIONS

The results of the Group for the FY2011 are set out in the financial statements on page 65.

An interim dividend of RMB2.0 cents (equivalent to approximately HK2.4 cents) (2010: RMB2.0 cents) per share for the six-month ended 31 December 2010 was paid to Shareholders on 30 May 2011.

The Board has resolved to recommend the payment of a final dividend of RMB8.0 cents (equivalent to approximately HK9.8 cents) per share for FY2011, which is expected to be paid on Friday, 9 December 2011 subject to the approval of the forthcoming annual general meeting dated 21 November 2011. The final 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, 30 November 2011. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.81929 as at 20 September 2011 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.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on pages 26 to 27.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2011 are set out in note 9 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

Details of the movements in the property, plant and equipment, and land use rights of the Group during the year are set out in notes 6 and 7 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in note 16 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 14 to the financial statements.

RESERVES

Details of the change in reserves of the Group and the Company during the Year are set out in note 15 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 June 2011, the Company's reserve available for cash distribution and/or distribution in specie, representing the retained earnings, amounted to RMB514,858,000 (30 June 2010: RMB918,684,000). In addition, the Company's share premium account and contributed surplus of RMB8,709,250,000 and RMB2,074,700,000, respectively, as at 30 June 2011 may be distributed to shareholders in certain circumstance prescribed by Section 54 of the Companies Act 1981 of Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, approximately 50.9% of the aggregate amount of purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 38.9% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's five largest customers was approximately 4.3% of total turnover of the Group.

ACN, a company owned by Ms. Cheung, is one of the Group's five largest suppliers. Ms. Cheung is the chairlady, executive director and controlling shareholder of the Company. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun. Save as disclosed herein, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the "Directors and Senior Management" of this Annual Report.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Year.

DIRECTORS

The Directors who held office during the Year and up to the date of this report are:

Executive Directors

Ms. Cheung
Mr. Liu
Mr. Zhang
Mr. Zhang Yuanfu
Mr. Lau Chun Shun
Ms. Gao Jing

Independent non-executive Directors

Ms. Tam Wai Chu, Maria
Mr. Chung Shui Ming, Timpson
Dr. Cheng Chi Pang
Mr. Wang Hong Bo

In accordance with the Company's Bye-laws, at each annual general meeting, every director will be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at the AGM at which he retires. The election of each Director is done through a separate resolution.

Ms. Cheung, Mr. Liu, Ms. Tam Wai Chu Maria and Mr. Wang Hong Bo will retire at the 2011 AGM under the provision of Bye-law 87 and, being eligible, will offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2011, the Directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

The Company

(A) Interests in the Company

The table below sets out the aggregate long positions in the Shares and underlying shares of the Directors and the chief executive of the Company as at 30 June 2011.

		Number of Shares			Number of underlying shares (in respect of share options)			
Name of Directors	Long Position/ Short Position	Personal Interests	Family Interests	Corporate Interests (Note 1)	Personal Interests	Family Interests	Total	Approximate percentage of shareholdings
Ms. Cheung	Long Position	55,352,758	27,094,184	2,992,120,000	33,200,000	33,200,000	3,140,966,942	67.365%
Mr. Liu	Long Position	27,094,184	55,352,758	2,992,120,000	33,200,000	33,200,000	3,140,966,942	67.365%
Mr. Zhang	Long Position	21,814,821	–	–	33,200,000	–	55,014,821	1.180%
Mr. Zhang Yuanfu	Long Position	300,000	–	–	2,400,000	–	2,700,000	0.058%
Mr. Lau Chun Shun	Long Position	–	–	2,992,120,000	450,000	–	2,992,570,000	64.183%
Ms. Gao Jing	Long Position	200,000	400,000	–	–	–	600,000	0.013%
Ms. Tam Wai Chu, Maria	Long Position	1,216,670	–	–	–	–	1,216,670	0.026%
Mr. Chung Shui Ming, Timpson	Long Position	1,017,496	–	–	–	–	1,017,496	0.022%
Dr. Cheng Chi Pang	Long Position	700,002	–	–	–	–	700,002	0.015%

(B) Interests in Associated Corporation – Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficial owner	7,367	7.367%
	Long Position	Founder of YC2006 Family Irrevocable Trust	29,706	29.706%
	Long Position	Interest of spouse	37,053	37.053%
Mr. Liu	Long Position	Founder of The Liu Family Trust	37,053	37.053%
		Interest of spouse	37,073	37.073%
Mr. Zhang	Long Position	Founder and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of trusts (Note 4)	82,633	82.633%

Notes:

(1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (v) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

(2) YC2006 Family Irrevocable Trust and The Zhang Family Trust are irrevocable trusts while The Liu Family Trust and The Golden Nest Trust are revocable trusts.

(3) Ms. Cheung is the spouse of Mr. Liu. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

(4) Mr. Lau Chun Shun is a beneficiary of each of the YC2006 Family Irrevocable Trust, The Liu Family Trust and The Golden Nest Trust. He is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

(5) Details of the share options under the Pre-Listing Share Options Scheme and 2006 Share Option Scheme are set out on pages 32 to 37 in the section of Remuneration Committee.

Save as disclosed above, none of the Directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation as at 30 June 2011, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Directors or chief executive of the Company, as at 30 June 2011, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholders	Long Position/ Short Position	Capacity	No. of Shares held	Approximate percentage of total issued Shares
Best Result (Note)	Long Position	Beneficial Owner	2,992,120,000	64.173%
The Northern Trust Company of Delaware	Long Position	Trustee of YC 2006 Family Irrevocable Trust	2,992,120,000	64.173%
Zhang Xiujie	Long Position	Special trustee of YC 2006 Family Irrevocable Trust	2,992,120,000	64.173%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Liu Family Trust	2,992,120,000	64.173%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	64.173%

Note:

Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (v) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at 30 June 2011, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out in the Connected Transactions and note 31 to the consolidated accounts of this Annual Report respectively.

Save for the above, there was no contract of significance connected to the business of the Group (within the meaning of the Listing Rules), to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any director of the Company had a direct or indirect material interest, subsisting at the end of the Year or at any time during the Year.

DONATIONS

The Group's charitable and other donations during the Year amounted to RMB11,544,000 (2010: approximately RMB11,000,000).

CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholders of the Company as at the date of this Report.

The Group entered into a 3-year facility agreement with Bank of China (Hong Kong) Limited, Bank of China Limited, Macau branch and China Development Bank Corporation in the aggregate amount of up to US$500 million (the "US$500 million Loan Facility").

The Company entered into a facility agreement with China Development Bank Corporation, Hong Kong Branch in the aggregate amount of up to RMB1 billion (the "RMB1 Billion Loan Facility") which is divided into Tranche A of RMB800 million (the "Tranche A") and Tranche B of RMB200 million (the "Tranche B"). The termination date of the Tranche A and Tranche B shall be the date falling twelve months from the first utilisation date of Tranche A and the date falling thirty six months from the first utilisation date of Tranche B respectively.

Under the aforesaid US$500 million Loan Facility and the RMB1 Billion Loan Facility, it would constitute an event of default if (i) any one of Ms. Cheung, Mr. Liu and Mr. Zhang (together, the "Controlling Shareholders"), the Controlling Shareholders of the Company, ceases to be a director of the Company; or (ii) the Controlling Shareholders cease to have joint management control of the Company; or (iii) the Controlling Shareholders and the family members of Ms. Cheung, together, cease to beneficially own in aggregate, directly or indirectly, at least 51% of the issued share capital (which carries full voting rights) of the Company. Upon the occurrence of any of the above events, the outstanding liability under the loan facilities will become immediately repayable.

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 FY 2011.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Throughout the Year, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

For further information on the corporate governance policy of the Company, please refer to the following sections:

(a) "Corporate Governance" on page 28, in which the details of the Company's corporate governance compliance are set out;

(b) "Remuneration Committee" on page 32, in which the scope of duties and activities of the Remuneration Committee during the Year are set out;

(c) "Audit Committee" on page 38 in which the scope of duties and activities of the Audit Committee during the Year are set out;

(d) "Internal Control and Risk Management" on page 40, in which the structure and policy of the Company in respect of internal control and risk management are set out;

(e) "Connected Transactions" on page 42, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 45, in which the details of the Company's environmental protection policy and contributions to society are set out.

RELATED PARTY TRANSACTIONS

Details of related party transactions conducted during the ordinary course of business, which cover all transactions with related parties which constitute connected transactions as defined under the Listing Rules, are set out in note 31 to the financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the applicable laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the Year and up to the date of this report as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 16 August 2011, the Company has redeemed all outstanding senior notes in full at a redemption price equal to 100% of the principal amount of approximately USD47.6 million (equivalent to approximately RMB305.9 million), plus the applicable premium of approximately USD7.4 million (equivalent to approximately RMB47.8 million), and accrued and unpaid interest of approximately USD1.4 million (equivalent to approximately RMB8.9 million) to 16 August 2011. The redemption price paid by the Company on 16 August 2011 amounted to approximately USD56.4 million (equivalent to approximately RMB360.2 million).

AUDITOR

The Group's financial statements for the FY2011 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution to re-appoint them and to authorize the Directors to fix their remuneration will be proposed at the 2011 AGM.

On behalf of the Board
Cheung Yan
Chairlady
Hong Kong, 20 September 2011

Independent Auditor's Report

羅兵咸永道

Independent Auditor's Report
To the shareholders of Nine Dragons Paper (Holdings) Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 128, which comprise the consolidated and company balance sheets as at 30 June 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report

羅兵咸永道

Independent Auditor's Report
To the shareholders of Nine Dragons Paper (Holdings) Limited (continued)
(incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2011

Balance Sheets

	Note	Consolidated		Company	
		30 June 2011 RMB'000	30 June 2010 RMB'000	30 June 2011 RMB'000	30 June 2010 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**38,628,163**	30,157,456	**1,601**	1,948
Land use rights	7	**1,515,520**	1,299,607	**–**	–
Intangible assets	8	**234,827**	239,543	**–**	–
Investments in subsidiaries	9	**–**	–	**2,438,928**	2,428,624
Deferred income tax assets	17	**16,682**	–	**–**	–
		40,395,192	31,696,606	**2,440,529**	2,430,572
Current assets					
Inventories	10	**2,557,583**	3,764,989	**–**	–
Trade and other receivables	11	**5,307,951**	3,385,855	**11,772**	1,998
Amounts due from subsidiaries	11	**–**	–	**10,043,919**	10,121,552
Tax recoverable		**42,216**	29,695	**–**	–
Restricted cash	12	**97,450**	–	**–**	–
Cash and cash equivalents	13	**2,500,254**	2,340,967	**8,506**	7,720
		10,505,454	9,521,506	**10,064,197**	10,131,270
Total assets		**50,900,646**	41,218,112	**12,504,726**	12,561,842
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	14	**9,187,231**	9,093,747	**9,187,231**	9,093,747
Other reserves	15	**1,200,373**	1,222,588	**2,105,216**	2,117,784
Retained earnings					
– Proposed final dividend	27	**373,007**	462,955	**373,007**	462,955
– Unappropriated retained earnings		**9,839,100**	8,350,924	**141,851**	455,729
		20,599,711	19,130,214	**11,807,305**	12,130,215
Non-controlling interests		**420,949**	246,528	**–**	–
Total equity		**21,020,660**	19,376,742	**11,807,305**	12,130,215

Balance Sheets

		Consolidated		Company	
	Note	**30 June 2011 RMB'000**	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
LIABILITIES					
Non-current liabilities					
Deferred government grants		**–**	7,258	**–**	–
Borrowings	16	**20,973,492**	14,604,056	**306,773**	320,104
Deferred income tax liabilities	17	**905,322**	710,863	**–**	–
		21,878,814	15,322,177	**306,773**	320,104
Current liabilities					
Derivative financial instruments		**–**	1,922	**–**	–
Trade and other payables	18	**4,803,799**	4,288,535	**8,533**	6,346
Amounts due to subsidiaries	18	**–**	–	**28,422**	105,177
Current income tax liabilities		**194,176**	173,145	**–**	–
Borrowings	16	**3,003,197**	2,055,591	**353,693**	–
		8,001,172	6,519,193	**390,648**	111,523
Total liabilities		**29,879,986**	21,841,370	**697,421**	431,627
Total equity and liabilities		**50,900,646**	41,218,112	**12,504,726**	12,561,842
Net current assets		**2,504,282**	3,002,313	**9,673,549**	10,019,747
Total assets less current liabilities		**42,899,474**	34,698,919	**12,114,078**	12,450,319

Ms. Cheung Yan
Chairlady

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 70 to 128 are an integral part of these financial statements.

Consolidated Income Statement

	Note	For the year ended 30 June 2011 RMB'000	2010 RMB'000
Sales	19	**24,386,905**	17,946,032
Cost of goods sold		**(20,160,107)**	(14,033,437)
Gross profit		**4,226,798**	3,912,595
Other gains – net	20	**106,034**	42,366
Selling and marketing costs		**(526,400)**	(355,090)
Administrative expenses		**(627,463)**	(479,849)
Operating profit		**3,178,969**	3,120,022
Finance costs – net	23	**(775,220)**	(541,120)
Profit before income tax		**2,403,749**	2,578,902
Income tax expense	24	**(388,691)**	(359,263)
Profit for the year		**2,015,058**	2,219,639
Profit attributable to:			
– Equity holders of the Company		**1,967,838**	2,166,452
– Non-controlling interests		**47,220**	53,187
		2,015,058	2,219,639
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	26	**0.4227**	0.4792
– diluted	26	**0.4217**	0.4746
Dividends	27	**466,252**	555,199

The notes on pages 70 to 128 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**2,015,058**	2,219,639
Other comprehensive income:		
Currency translation differences	**(28,716)**	(14,267)
Cash flow hedges	**(7,790)**	(18,869)
Other comprehensive income for the year	**(36,506)**	(33,136)
Total comprehensive income for the year	**1,978,552**	2,186,503
Attributable to:		
– Equity holders of the Company	**1,942,368**	2,139,018
– Non-controlling interests	**36,184**	47,485
	1,978,552	2,186,503

The notes on pages 70 to 128 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 14)	**Other reserves** RMB'000 (Note 15)	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 July 2009	6,539,269	1,250,050	6,904,003	14,693,322	199,043	14,892,365
Comprehensive income						
Profit for the year	–	–	2,166,452	2,166,452	53,187	2,219,639
Other comprehensive income:						
– Currency translation differences	–	(8,565)	–	(8,565)	(5,702)	(14,267)
– Cash flow hedges	–	(18,869)	–	(18,869)	–	(18,869)
Total other comprehensive income	–	(27,434)	–	(27,434)	(5,702)	(33,136)
Total comprehensive income	–	(27,434)	2,166,452	2,139,018	47,485	2,186,503
Transactions with owners						
Placement of shares	2,475,484	–	–	2,475,484	–	2,475,484
2009 final and 2010 interim dividends paid to equity holders of the Company	–	–	(253,539)	(253,539)	–	(253,539)
Appropriation to other reserves	–	3,037	(3,037)	–	–	–
Share options granted to directors and employees	–	16,123	–	16,123	–	16,123
Exercise of share options	78,994	(19,188)	–	59,806	–	59,806
Total transactions with owners	2,554,478	(28)	(256,576)	2,297,874	–	2,297,874
Balance at 30 June 2010	9,093,747	1,222,588	8,813,879	19,130,214	246,528	19,376,742

The notes on pages 70 to 128 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 14)	Other reserves RMB'000 (Note 15)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2010	9,093,747	1,222,588	8,813,879	19,130,214	246,528	19,376,742
Comprehensive income						
Profit for the year	–	–	1,967,838	1,967,838	47,220	2,015,058
Other comprehensive income:						
– Currency translation differences	–	(17,680)	–	(17,680)	(11,036)	(28,716)
– Cash flow hedges	–	(7,790)	–	(7,790)	–	(7,790)
Total other comprehensive income	–	(25,470)	–	(25,470)	(11,036)	(36,506)
Total comprehensive income	–	(25,470)	1,967,838	1,942,368	36,184	1,978,552
Transactions with owners						
2010 final and 2011 interim dividends paid to equity holders of the Company	–	–	(561,577)	(561,577)	(24,037)	(585,614)
Appropriation to other reserves	–	8,033	(8,033)	–	–	–
Share options granted to directors and employees	–	3,971	–	3,971	–	3,971
Exercise of share options	93,484	(8,749)	–	84,735	–	84,735
Non-controlling interest arising on business combination	–	–	–	–	162,274	162,274
Total transactions with owners	93,484	3,255	(569,610)	(472,871)	138,237	(334,634)
Balance at 30 June 2011	9,187,231	1,200,373	10,212,107	20,599,711	420,949	21,020,660

The notes on pages 70 to 128 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 30 June 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	28	**4,309,661**	789,865
Income tax paid		**(153,625)**	(129,530)
Interest paid		**(1,301,731)**	(741,407)
Net cash generated from/(used in) operating activities		**2,854,305**	(81,072)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(573,083)**	–
Purchase of property, plant and equipment		**(8,192,410)**	(4,187,555)
Purchase of intangible assets		**–**	(9,030)
Proceeds from disposals of property, plant and equipment	28	**94,291**	13,111
Payment for acquisition of land use rights		**(181,401)**	(145,601)
Deposits paid for acquisition of land use rights		**(102,850)**	–
Interest received		**21,257**	8,826
Net cash used in investing activities		**(8,934,196)**	(4,320,249)
Cash flows from financing activities			
Placement of shares		**–**	2,475,484
Exercise of share options		**84,735**	59,806
Proceeds from borrowings		**13,466,217**	13,808,596
Repayments of borrowings		**(6,836,643)**	(10,971,841)
Tax refund received from government for purchase of property, plant and equipment	6	**98,356**	105,400
Dividend paid to non-controlling interests		**(24,037)**	–
Dividend paid to equity holders of the Company		**(561,577)**	(253,539)
Proceeds from government grants		**47,904**	29,234
Net cash generated from financing activities		**6,274,955**	5,253,140
Net increase in cash and cash equivalents		**195,064**	851,819
Cash and cash equivalents at beginning of the year		**2,340,967**	1,508,542
Exchange losses on cash and cash equivalents		**(35,777)**	(19,394)
Cash and cash equivalents at end of the year	13	**2,500,254**	2,340,967

The notes on pages 70 to 128 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") mainly engage in the manufacture and sale of packaging paper, pulp and high value specialty board 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 has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the board of directors of the Company (the "BoD") on 20 September 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group as of 1 July 2010

- HKFRS 1 (amendment), "First-time adoption of HKFRS – Oil and gas assets and determining whether an arrangement contains a lease". This is not relevant to the Group as it is an existing HKFRS preparer.

- HKFRS 1 (amendment), "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters". This is not relevant to the Group as it is an existing HKFRS preparer.

- HKAS 32 (amendment), "Financial instruments – Classification of rights issues". It states that if rights issues offered for a fixed amount of foreign currency are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This is not currently applicable to the Group.

- HK(IFRIC) –Int 19, "Extinguishing financial liabilities with equity instruments". It clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This is not currently applicable to the Group.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group as of 1 July 2010 (continued)

- HKFRS 2 (amendments), "Group cash-settled share-based payment transactions". In addition to incorporating HK(IFRIC) 8, "Scope of HKFRS 2", and HK(IFRIC) 11, "HKFRS 2 – Group and treasury share transactions", the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation. This is not currently applicable to the Group.

- HK Int 5, "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause" is issued 29 November 2010. This Interpretation is a clarification of an existing standard, HKAS 1 "Presentation of Financial Statements", and shall have immediate effect. This Interpretation is not currently applicable to the Group, as the Group has not such a term loan.

- Second improvements to HKFRSs (2009) were issued in May 2009 by the HKICPA. These are not currently applicable to the Group.

(b) New and amended standards that are not yet effective and have not been early adopted by the Group

- HK(IFRIC) Int-14 (amendment), "Prepayments of a minimum funding requirement" is effective for annual periods beginning on or after 1 January 2011. It corrects an unintended consequence of HK(IFRIC) Int-14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". This is not currently applicable to the Group.

- Third improvements to HKFRS (2010) were issued in May 2010 by HKICPA. All improvements are effective for annual periods beginning on or after 1 January 2011. The Group is yet to assess impact of the improvements and has not yet decided when to adopt the improvements.

- HKAS 24 (revised), "Related party disclosures", issued in November 2009, is mandatory for periods beginning on or after 1 January 2011. It supersedes HKAS 24, "Related party disclosures", issued in 2003. The Group is yet to assess impact of HKAS 24 (revised) and has not yet decided when to adopt HKAS 24 (revised).

- HKFRS 7 (amendment), "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. It introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). This is not currently applicable to the Group.

- HKFRS 1 (amendment), two amendments were made to HKFRS 1, "First-time adoption of HKFRS": (i) exemption for severe hyperinflation and (ii) removal of fixed dates. These two amendments are effective for annual periods beginning on or after 1 July 2011. This is not relevant to the Group as it is an existing HKFRS preparer.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New and amended standards that are not yet effective and have not been early adopted by the Group (continued)

- HKAS 12 (amendment), "Deferred tax: Recovery of underlying assets" is applicable retrospectively to annual periods beginning on or after 1 January 2012. This is not currently applicable to the Group.

- HKAS 1 (amendment), "Presentation of financial statements" is effective for annual periods beginning on or after 1 July 2012. The amendment changes the disclosure of items presented in other comprehensive income in the statement of comprehensive income. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by HKAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income". However HKAS 1 still permits entities to use other titles. The Group is yet to assess impact of the amendment and has not yet decided when to adopt the improvements.

- HKFRS 9, "Financial instruments", issued in November 2009, is not applicable until 1 January 2013 but is available for early adoption. This standard is the first step in the process to replace HKAS 39, "Financial instruments: recognition and measurement". HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The Group is yet to assess impact of HKFRS 9 and has not yet decided when to adopt the improvements.

- HKFRS 10, "Consolidated financial statements" is effective for annual periods beginning on or after 1 January 2013. The Group is yet to assess the impact of HKFRS 10 and has not yet decided when to adopt HKFRS 10.

- HKAS 27 is renamed "Separate financial statements", and it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. This is effective annual periods beginning on or after 1 January 2013. The Group is yet to assess its impact and has not yet decided when to adopt it.

- HKAS 28 is reissued as HKAS 28 "Investments in Associates and Joint Ventures" and is effective for annual periods beginning on or after 1 January 2013. This is not currently applicable to the Group.

- HKFRS 11, "Joint arrangements" is effective for annual periods beginning on or after 1 January 2013. This is not currently applicable to the Group.

- HKFRS 12, "Disclosure of interests in other entities" is effective for annual periods beginning on or after 1 January 2013. The Group is yet to assess the impact of HKFRS 11 and has not yet decided when to adopt HKFRS 11.

- HKFRS 13, "Fair value measurements" is effective for annual periods beginning on or after 1 January 2013. The Group is yet to assess the impact of HKFRS 13 and has not yet decided when to adopt HKFRS 13.

- HKAS 19 (amendment), "Employee benefits" is effective for annual periods beginning on or after 1 January 2013. The Group is yet to assess the impact of this amendment and has not yet decided when to adopt this amendment.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2011.

(a) **Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) **Transactions with non-controlling interests**

The Group treats transactions with non-controlling interest as transactions with equity holders of the Company. For purchases from non-controlling interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the BoD that makes strategic decisions.

2.4 Foreign currency translation

(a) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(b) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available for sale reserve in equity.

(c) **Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	24 years
Plant and machinery	15 – 30 years
Furniture, fixtures and equipment	5 – 10 years
Motor vehicles, transportation and logistic	8 – 15 years

The assets' residual values ranged from 3% to 5%. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net", in the consolidated income statement.

2.6 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.7 Land use rights

Land use rights in the balance sheet represent up-front prepayment made for operating leases for land use rights paid and payable to the counterparties. Land use rights are carried at cost and are charged to the consolidated income statement on a straight-line basis over the respective periods of the leases which range from 30 years to 50 years.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets arising from business combinations

(i) Trademark

Separately acquired trademark represents the power of "Xuesha" brand which delivers an earning stream and generates value for the Group. The trademark is renewable every 10 years at minimal cost. The directors of the Company are of the view that the Group has both the intention and ability to renew the trademark continuously. As a result, the useful life of the trademark is considered by the management as indefinite because the trademark is expected to contribute to the Group's net cash inflows indefinitely. Trademark acquired in a business combination are recognised at fair value at the acquisition date. Trademark with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Impairment testing of intangible assets is described in Note 2.9.

(ii) Patent

The patent represents the odor treatment equipment which can solve the environment pollution problems caused by odor emission during the production process. Patent acquired in a business combination are recognised at fair value at the acquisition date. The patent is carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patent over their estimated useful lives of 8 years.

(iii) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date. The customer relationship has a finite useful life of 10 years and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

(iv) Computer software

Computer software is shown at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Computer software has a definite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (10 years).

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.15 and 2.16).

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Recognition and measurement

Regular way purchase and sale of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other gains – net", in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.12.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial collectability;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (continued)

(b) **Assets classified as available for sale**

The Group assesses at the end of each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

(c) **Investments in subsidiaries**

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.13 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in Note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Derivative financial instruments and hedging activities (continued)

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within "other gains – net".

Amounts accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of cross currency swaps hedging foreign currency denominated borrowings is recognised in the consolidated income statement within "finance costs". The gain or loss relating to the ineffective portion is recognised in the consolidated income statement within "other gains – net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within "other gains – net".

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other gains – net".

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operation capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all eligible employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate income and HK$1,000. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee benefits (continued)

(d) **Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax, return, rebate and discount after eliminating sales within the group companies.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Sales of goods**

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) **Interest income**

Interest income is recognised using the effective interest method.

(c) **Sales of electricity**

Sales of electricity are recognised when electricity is generated and transmitted to the power grids operated by the provincial electricity power company.

(d) **Incentive subsidy**

Incentive subsidy is recognised as income of the period which it is reasonably assured that the subsidy will be received and the Group will comply with the conditions attaching to those (if any) in accordance with the relevant agreements.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plants and equipment are deducted from the cost of additions of the related assets and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The sales transactions of the Group are denominated in United States Dollars ("US$"), Hong Kong Dollars ("HK$") and RMB. There are purchases of raw materials and acquisition of plant and equipment that are required to be settled in US$, HK$, EURO, Great Britain Pound ("GBP") and Japanese Yen ("JPY"). RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

To manage the Group's exposure to fluctuations in foreign exchange rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments were used to hedge material exposure.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Foreign exchange risk (continued)

At 30 June 2011, if RMB had weakened/strengthened by 1.0% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB42,609,000 lower/higher (at 30 June 2010, if RMB had weakened/strengthened by 0.6% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB22,727,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and cash equivalents, trade and other receivables (excluding prepayments), trade and other payables (excluding deposits from customers) and borrowings.

At 30 June 2011, if RMB had weakened/strengthened by 1.0% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB7,812,000 lower/higher (at 30 June 2010, if RMB had weakened/strengthened by 1.0% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB1,573,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HK$-denominated cash and cash equivalents, trade and other receivables (excluding prepayments) and borrowings.

At 30 June 2011, if RMB had weakened/strengthened by 1.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB14,250,000 lower/higher (at 30 June 2010, if RMB had weakened/strengthened by 14.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB43,602,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated cash and cash equivalents and trade and other payables (excluding deposits from customers).

(b) Interest rate risk

The Group's major interest-bearing assets are cash at banks. The maturity term of cash at banks is within 12 months so there would be no significant interest rate risk.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. To manage the Group's exposure to fluctuations in interest rates on specific transactions, appropriate financial instruments were used to hedge material exposure.

At 30 June 2011, if interest rates on borrowings had been 1 basis point higher/lower with all other variables held constant, post-tax profit for the year would have been RMB983,000 (2010: RMB669,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

Credit risk arises from restricted cash, cash at bank and bank deposits, derivative financial instruments and trade and other receivables, except for prepayment.

The Group has no significant concentration of credit risk. Management do not expect any losses from non-performance by the banks and financial institutions, as they are with good reputation.

The table below shows the restricted cash, cash at bank and bank deposit balances of the major counterparties with external credit ratings as at 30 June 2011.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Credit risk (continued)

Counterparties with external credit rating (Note)

	30 June 2011 RMB'000	30 June 2010 RMB'000
Aa3	7,692	–
A1	1,276,657	1,601,962
A3	372,705	–
Baa1	–	81,753
Baa2	5,947	31,387
Baa3	196,415	240,493
Ba2	11,338	3,995
Others	627,826	380,500
	2,498,580	2,340,090

Note: The source of credit rating is from Moody's.

Credit risk related to trade receivables is the risk that the receivables cannot be collected on the due date. The Group has policies in place to ensure that sales of goods are made to customers with a good credit quality based on assessment of ageing of trade receivables, repayment history, the customers' financial position and other factors.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprises undrawn borrowing facility (Note 16) and cash and cash equivalents (Note 13) on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (Note).

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 30 June 2011				
Borrowings	**4,140,587**	**9,570,555**	**10,174,137**	**3,347,185**
Trade and other payables (excluding deposits from customers)	**3,965,353**	**–**	**–**	**–**
At 30 June 2010				
Borrowings	2,750,193	7,499,424	6,933,038	1,310,499
Trade and other payables (excluding deposits from customers)	4,064,215	–	–	–
Company				
At 30 June 2011				
Borrowings	**363,082**	**9,389**	**313,734**	**–**
Trade and other payables	**36,955**	**–**	**–**	**–**
At 30 June 2010				
Borrowings	31,610	31,610	346,518	–
Trade and other payables	111,523	–	–	–

Note: Interest on borrowings is calculated on borrowings held as at 30 June 2011 and 2010, respectively. Floating-rate interest is estimated using the current interest rate as at 30 June 2011 and 2010, respectively.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and restricted cash. Total capital is "Total equity" as shown in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

The gearing ratio is calculated as follows:

	30 June 2011 RMB'000	30 June 2010 RMB'000
Total borrowings (Note 16)	**23,976,689**	16,659,647
Less: cash and cash equivalents and restricted cash	**(2,597,704)**	(2,340,967)
Net debt	**21,378,985**	14,318,680
Total equity	**21,020,660**	19,376,742
Gearing ratio	**102%**	74%

3.3 Fair value estimation

The Group has adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of derivative financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The carrying amounts of trade and other receivables, trade and other payables and short term borrowings approximate their fair values due to their short term nature.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated recoverable amounts of intangible assets with indefinite useful lives

Determining whether intangible assets with indefinite useful lives are impaired requires an estimation of the value-in-use calculation. These calculations require the use of estimates (Note 8).

(b) Useful lives of plant and machinery

The Group's management determines the estimated useful lives and related depreciation expense for its plant and machinery for paper manufacturing. The estimate is based on the expected lifespan of the paper machines. It could change significantly as result of technical innovations in response to industry cycles. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the actual useful lives of the paper manufacturing plant and machinery to differ by 10% from management's estimate, the carrying amount of the plant and machinery as at 30 June 2011 would be an estimated RMB293,743,000 (2010: RMB220,946,000) higher or RMB 359,019,000 (2010: RMB270,046,000) lower.

(c) Plant and machinery under construction

Plant and machinery under construction is testing for its functioning before it is capable of operating in a manner intended by management. Cost of testing after deducting the net proceeds from selling any items produced during testing period are capitalised as cost to the plant and machinery under construction. Plant and machinery under construction are transferred to property, plant and equipment and depreciated when they are ready for intended use. The determination of intended use requires significant judgement.

When intended use status occurs 1 month earlier or later from management's judgement, net profit for the year ended 30 June 2011 would be an estimated RMB6,799,000 higher and RMB1,912,000 lower, respectively. The corresponding impact to the net profit for the year ended 30 June 2010 was RMB47,927,000 and RMB5,057,000 lower, respectively.

(d) Impairment of property, plant and equipment

The Group follows the guidance of HKAS 36 to determine when an asset is impaired. This determination requires significant judgement. In making this judgement, management evaluates, among other factors, the technology, market, economic and legal environment that the Group operates and the business outlook for the Group. Management assesses the impairment at each balance sheet date. As at 30 June 2011, the carrying amounts of property, plant and equipment were RMB38,628,163,000 (2010: RMB30,157,456,000).

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management reassesses the estimations at each balance sheet date. As at 30 June 2011, the carrying amounts of inventories were RMB2,557,583,000 (2010: RMB3,764,989,000).

(f) Employee benefits – share-based compensation

The fair value of options granted under the Pre-IPO Share Option Scheme and 2006 Share Option Scheme is determined using the Binomial and Black-Scholes valuation model respectively. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected life, expected volatility, trigger price multiple and employees turnover rate. Where the outcome of the number of options that are exercisable is different, such difference will have an impact on the Group's net profit in the subsequent remaining vesting period over the relevant share options. Additional information is disclosed in Note 15.

For the year ended 30 June 2011, were the number of options expected to vest to decrease by 10% from management's estimate, the net profit of the Group would increase by RMB397,000 (2010: RMB1,612,000).

(g) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management reassesses the provision at each balance sheet date. As at 30 June 2011, the carrying amounts of trade receivables were RMB2,003,478,000 (2010: RMB1,769,932,000).

(h) Value-added taxes ("VAT")

The Group is subject to VAT under relevant PRC tax regulations. The interpretations on relevant VAT regulations of the Group's management may be different from that of the in-charge tax bureaus. The ultimate tax determination is uncertain and the Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and provisions of VAT in the period in which such determination is made.

(i) Income taxation and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of packaging paperboard and unbleached kraft pulp. As the products and services provided by the Group's entities are all related to the manufacture and sales of paper and subject to similar business risks, no segment information have been prepared by the Group.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation and logistic RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 July 2009						
Cost	4,129,645	18,512,902	307,840	346,892	6,208,700	29,505,979
Accumulated depreciation	(513,240)	(1,769,022)	(92,177)	(120,146)	–	(2,494,585)
Net book amount	3,616,405	16,743,880	215,663	226,746	6,208,700	27,011,394
Year ended 30 June 2010						
Opening net book amount	3,616,405	16,743,880	215,663	226,746	6,208,700	27,011,394
Additions	17,657	28,519	27,117	117,078	4,024,513	4,214,884
Transfer	234,970	3,029,879	68,249	2,099	(3,335,197)	–
Tax benefit (Note (a))	–	(105,400)	–	–	–	(105,400)
Disposals (Note 28)	(8,952)	(2,729)	(5,150)	(9,838)	–	(26,669)
Depreciation (Note 21)	(183,441)	(671,760)	(37,017)	(33,676)	–	(925,894)
Exchange differences	(2,548)	(8,063)	(16)	(232)	–	(10,859)
Closing net book amount	3,674,091	19,014,326	268,846	302,177	6,898,016	30,157,456
At 30 June 2010						
Cost	4,364,591	21,444,737	395,224	438,525	6,898,016	33,541,093
Accumulated depreciation	(690,500)	(2,430,411)	(126,378)	(136,348)	–	(3,383,637)
Net book amount	3,674,091	19,014,326	268,846	302,177	6,898,016	30,157,456
Year ended 30 June 2011						
Opening net book amount	3,674,091	19,014,326	268,846	302,177	6,898,016	30,157,456
Acquisition of subsidiaries	295,600	988,110	1,742	77,087	40,511	1,403,050
Additions	6,681	78,147	127,098	39,798	8,081,638	8,333,362
Transfer	476,559	1,922,893	17,019	33,366	(2,449,837)	–
Tax benefit (Note (a))	–	(98,356)	–	–	–	(98,356)
Disposals (Note 28)	(2,254)	(45,787)	(2,051)	(126,177)	–	(176,269)
Depreciation (Note 21)	(205,530)	(678,088)	(45,776)	(46,001)	–	(975,395)
Exchange differences	(3,820)	(11,469)	(20)	(312)	(64)	(15,685)
Closing net book amount	4,241,327	21,169,776	366,858	279,938	12,570,264	38,628,163
At 30 June 2011						
Cost	5,135,711	24,254,411	534,768	441,905	12,570,264	42,937,059
Accumulated depreciation	(894,384)	(3,084,635)	(167,910)	(161,967)	–	(4,308,896)
Net book amount	4,241,327	21,169,776	366,858	279,938	12,570,264	38,628,163

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation and logistic RMB'000	Total RMB'000
At 1 July 2009			
Cost	63	2,750	2,813
Accumulated depreciation	(20)	(500)	(520)
Net book amount	43	2,250	2,293
Year ended 30 June 2010			
Opening net book amount	43	2,250	2,293
Depreciation	(12)	(333)	(345)
Closing net book amount	31	1,917	1,948
At 30 June 2010			
Cost	63	2,750	2,813
Accumulated depreciation	(32)	(833)	(865)
Net book amount	31	1,917	1,948
Year ended 30 June 2011			
Opening net book amount	**31**	**1,917**	**1,948**
Depreciation	**(12)**	**(335)**	**(347)**
Closing net book amount	**19**	**1,582**	**1,601**
At 30 June 2011			
Cost	**63**	**2,750**	**2,813**
Accumulated depreciation	**(44)**	**(1,168)**	**(1,212)**
Net book amount	**19**	**1,582**	**1,601**

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) During the year, the Group has received tax benefit of RMB98,356,000 (2010: RMB105,400,000) relating to the purchase of qualified equipment manufactured in the PRC. The amount has been deducted from the cost of additions of the plant and machinery.

(b) Certain property, plant and equipment of the Group with carrying values of approximately RMB522,195,000 as at 30 June 2011 (2010: RMB118,748,000) had been pledged for bank borrowings of the Group (Note 16).

(c) Depreciation was expensed in the following category in the consolidated income statement:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Cost of goods sold	**874,546**	716,026
Other gains – net	**4,843**	1,667
Administrative expenses	**99,305**	85,295
Selling and marketing costs	**47,955**	47,954
Capitalised in construction in progress	**–**	1,804
Total depreciation expense	**1,026,649**	852,746
Add: change of depreciation capitalised in finished goods	**(51,254)**	73,148
	975,395	925,894

Notes to the Consolidated Financial Statements

7. LAND USE RIGHTS – GROUP

	Land use rights RMB'000
At 1 July 2009	
Cost	1,278,625
Accumulated amortisation	(92,810)
Net book amount	1,185,815
Year ended 30 June 2010	
Opening net book amount	1,185,815
Additions	144,627
Amortisation (Note 21)	(27,722)
Exchange differences	(3,113)
Closing net book amount	1,299,607
At 30 June 2010	
Cost	1,423,252
Accumulated amortisation	(123,645)
Net book amount	1,299,607
Year ended 30 June 2011	
Opening net book amount	**1,299,607**
Acquisition of subsidiaries	**74,400**
Additions	**177,305**
Amortisation (Note 21)	**(31,081)**
Exchange differences	**(4,711)**
Closing net book amount	**1,515,520**
At 30 June 2011	
Cost	**1,674,957**
Accumulated amortisation	**(159,437)**
Net book amount	**1,515,520**

The land is outside Hong Kong and held on leases of between 30 years to 50 years.

Amortisation of RMB31,081,000 (2010: RMB27,722,000) is included in the "cost of goods sold" of the consolidated income statement.

As at 30 June 2011, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB244,375,000 (2010: RMB46,048,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

Certain land use rights of the Group with carrying values of approximately RMB15,583,000 as at 30 June 2011 (2010: nil) had been pledged for bank borrowings of the Group (Note 16).

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS – GROUP

	Goodwill RMB'000	Trademark RMB'000	Patent RMB'000	Customer relationship RMB'000	Computer software RMB'000	Total RMB'000
At 1 July 2009						
Cost	221,830	56,357	4,524	30,709	–	313,420
Accumulated amortisation and impairment charge	(75,136)	–	(566)	(3,071)	–	(78,773)
Net book amount	146,694	56,357	3,958	27,638	–	234,647
Year ended 30 June 2010						
Opening net book amount	146,694	56,357	3,958	27,638	–	234,647
Addition	–	–	–	–	9,030	9,030
Amortisation (Note 21)	–	–	(566)	(3,071)	(497)	(4,134)
Closing net book amount	146,694	56,357	3,392	24,567	8,533	239,543
At 30 June 2010						
Cost	221,830	56,357	4,524	30,709	9,030	322,450
Accumulated amortisation and impairment charge	(75,136)	–	(1,132)	(6,142)	(497)	(82,907)
Net book amount	146,694	56,357	3,392	24,567	8,533	239,543
Year ended 30 June 2011						
Opening net book amount	**146,694**	**56,357**	**3,392**	**24,567**	**8,533**	**239,543**
Amortisation (Note 21)	**–**	**–**	**(566)**	**(3,071)**	**(1,079)**	**(4,716)**
Closing net book amount	**146,694**	**56,357**	**2,826**	**21,496**	**7,454**	**234,827**
At 30 June 2011						
Cost	**221,830**	**56,357**	**4,524**	**30,709**	**9,030**	**322,450**
Accumulated amortisation and impairment charge	**(75,136)**	**–**	**(1,698)**	**(9,213)**	**(1,576)**	**(87,623)**
Net book amount	**146,694**	**56,357**	**2,826**	**21,496**	**7,454**	**234,827**

Amortisation of RMB4,716,000 (2010: RMB4,134,000) is included in the "selling and marketing costs" and "administrative expenses" of the consolidated income statement.

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS – GROUP (CONTINUED)

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment of paper manufacturing. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, which is based on management's past experience and its expectation for the market development and is consistent with their business plan. Cash flows beyond the ten-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations:

Gross margin (Note (i))	21.1%
Long-term growth rate (Note (ii))	1.0%
Discount rate (Note (iii))	17.9%

Note:

(i) Management determined budgeted gross margin based on past performance and its expectations for the market development.

(ii) The long-term growth rate used does not exceed the long-term growth rate for the paper manufacturing industry in which it operates and is used to extrapolate cash flow beyond the budget period.

(iii) The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the relevant segment.

The Group does not have to recognise an impairment loss as at 30 June 2011 (2010: Nil) based on the impairment assessment performed.

If the gross margin during the ten-year period had decreased by 10%, the long-term growth rate applied in the value-in-use calculation had decreased by 10% or the discount rate applied in the value-in-use calculation had increased by 10% with other variables held at constant, the goodwill's recoverable amount would still be greater than its carrying value and no impairment would be noted.

(b) Impairment test for trademark

The recoverable amount of the trademark is determined by reference to a valuation performed using the royalty relief valuation method. Under this method, the value of the trademark represents the present value of the hypothetical royalty income from licensing out the trademark.

The key assumptions used for value-in-use calculations are as follows:

Revenue growth rate (Note (i))	5.0%
Royalty rate (Note (ii))	2.0%
Long-term growth rate (Note (iii))	5.0%
Discount rate (Note (iv))	14.0%

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS – GROUP (CONTINUED)

(b) Impairment test for trademark (continued)

Note:

(i) Management determined budgeted revenue growth rate over a ten-year budget period by reference to the past performance and its expectations for the market development and is consistent with their business plan.

(ii) Royalty rate is based on management's estimate and knowledge about the business.

(iii) The long-term growth rate used does not exceed the long-term growth rate for the paper manufacturing industry in which it operates and is used to extrapolate cash flow beyond the budget period.

(iv) The discount rate used is pre-tax discount rate applied to the cash flow projections and reflect specific risks relating to the business segment.

The Group does not have to recognise an impairment loss as at 30 June 2011 (2010: Nil) based on the impairment assessment performed.

If the revenue growth rate, royalty rate, and long-term growth rate during the ten-year period had decreased by 10%, respectively, or the discount rate applied in the valuation increased by 10% with other variables held at constant, the recoverable amount of trademark would still be greater than its carrying value and no impairment would be noted.

9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	30 June 2011 RMB'000	30 June 2010 RMB'000
Investments in unlisted shares, at cost	**2,386,700**	2,386,700
Share option granted to employees of subsidiaries	**52,228**	41,924
	2,438,928	2,428,624

The following is a list of the principal subsidiaries as at 30 June 2011:

Company	Place of incorporation	Principal activities/place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI"), limited liability company	Investment holdings/PRC	US$10,000	100%
Indirectly held:				
Nine Dragons Worldwide Investment Limited	Hong Kong, limited liability company	Investment holdings/PRC	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$238,024,000	99.9%
Dongguan Sea Dragon Paper Industries Company Limited [1]	PRC, limited liability company	Manufacture of paper/PRC	US$193,300,000	99.9%

Notes to the Consolidated Financial Statements

9. INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Company	Place of incorporation	Principal activities/place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Dongguan Land Dragon Paper Industries Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$164,040,000	99.9%
Nine Dragons Paper Industries (Taicang) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$255,529,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$191,860,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$183,260,000	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$4,500,000	99.9%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited [2]	PRC, limited liability company	Manufacture of pulp and paper /PRC	RMB163,640,000	55%
Cheng Yang Paper Mill Co., Ltd.	Vietnam, limited liability company	Manufacture of paper/Vietnam	US$30,000,000	60%
Nine Dragons Paper Industries (Tianjin) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$97,520,000	99.9%
Shine Dragon Paper Industries (Tianjin) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$68,360,000	99.9%
Hebei Yongxin Paper Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$68,995,000	78.13%

The English names of the companies comprising the Group which incorporated in the PRC represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

Kind of legal entities:

1 Sino-foreign equity joint venture enterprise

2 Domestic enterprise

Notes to the Consolidated Financial Statements

10. INVENTORIES – GROUP

	30 June 2011 RMB'000	30 June 2010 RMB'000
At cost:		
Raw materials	**1,194,040**	1,727,454
Finished goods	**1,363,543**	2,037,535
	2,557,583	3,764,989

(a) The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB20,160,107,000 (2010: RMB14,070,359,000).

(b) As at 30 June 2011, finished goods of approximately RMB128,800,000 (30 June 2010: nil) were pledged as securities for the Group's bills payable of RMB60,000,000 (30 June 2010: nil) (Note 18). Such pledged assets will be released after the repayment of the bills payable.

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	30 June 2011 RMB'000	30 June 2010 RMB'000
Trade receivables	**2,003,478**	1,769,932	**–**	–
Bills receivable	**1,499,009**	779,139	**–**	–
Prepayments	**222,683**	171,804	**–**	–
Amounts due from subsidiaries (Note (b))	**–**	–	**10,043,919**	10,121,552
Other receivables (Note (d))	**1,582,781**	664,980	**11,772**	1,998
	5,307,951	3,385,855	**10,055,691**	10,123,550

(a) The fair value of trade and other receivables approximate their carrying amounts.

(b) The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

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

(d) Other receivables of RMB9,036,000 were due from a related party (Note 31) (2010: nil).

Notes to the Consolidated Financial Statements

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(e) As at 30 June 2011, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2011 RMB'000	30 June 2010 RMB'000
0-30 days	**1,665,223**	1,320,934
31-60 days	**279,661**	277,064
61-90 days	**37,948**	43,652
Over 90 days	**20,646**	128,282
	2,003,478	1,769,932

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.

(f) Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

Trade receivables are analysed below:

	Group	
	30 June 2011 RMB'000	30 June 2010 RMB'000
Fully performing under credit term (Note (i))	**1,916,633**	1,575,461
Past due but not impaired (Note (ii))	**86,845**	194,471
Total trade receivables	**2,003,478**	1,769,932

Notes to the Consolidated Financial Statements

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(f) (continued)

Note:

(i) Trade receivables that are not yet past due relate to customers who have long-term trading relationship or have good payment history.

(ii) Trade receivables that are past due but not impaired relate to customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	Group	
	30 June 2011 RMB'000	30 June 2010 RMB'000
0-30 days	**26,192**	26,136
31-60 days	**50,871**	16,573
61-90 days	**5,731**	28,228
Over 90 days	**4,051**	123,534
	86,845	194,471

(g) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group	
	30 June 2011 RMB'000	30 June 2010 RMB'000
RMB	**5,024,036**	2,946,996
US$	**50,027**	198,096
Others	**233,888**	240,763
	5,307,951	3,385,855

(h) The maximum exposure to credit risk is the carrying amount of trade and other receivables. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements

12. RESTRICTED CASH

	30 June 2011 RMB'000	30 June 2010 RMB'000
Bank deposits pledged as securities for bills payable (Note 18)	90,000	–
Others	7,450	–
	97,450	–

As at 30 June 2011, bank deposits of approximately RMB90,000,000 (30 June 2010: nil) were pledged as securities for the Group's bills payable of RMB220,000,000 (30 June 2010: nil) (Note 18). Such pledged assets will be released after the repayment of the bills payable.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	30 June 2011 RMB'000	30 June 2010 RMB'000
Cash at bank and in hand	2,422,097	2,295,830	8,506	7,720
Short-term time deposits	78,157	45,137	–	–
	2,500,254	2,340,967	8,506	7,720
Denominated in:				
RMB	1,826,151	1,703,167	–	–
HK$	160,978	141,265	2,688	2,262
US$	417,817	440,494	5,654	5,458
Others	95,308	56,041	164	–
	2,500,254	2,340,967	8,506	7,720
Maximum exposure to credit risk	2,498,580	2,340,090	8,506	7,720

Notes to the Consolidated Financial Statements

13. CASH AND CASH EQUIVALENTS (CONTINUED)

The maximum exposure to credit risk is the carrying amount of cash at bank.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated cash and cash equivalents out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short term deposit rates.

14. SHARE CAPITAL

	Note	**Number of ordinary shares**	**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						
At 1 July 2009		4,335,304,699	433,530	449,214	6,090,055	6,539,269
Placement of shares		264,285,000	26,429	23,285	2,503,090	2,526,375
Placing expenses		–	–	–	(50,891)	(50,891)
Exercise of share options	15(b)	29,964,468	2,996	2,633	76,361	78,994
At 30 June 2010		4,629,554,167	462,955	475,132	8,618,615	9,093,747
At 1 July 2010		**4,629,554,167**	**462,955**	**475,132**	**8,618,615**	**9,093,747**
Exercise of share options	15(b)	**33,038,453**	**3,304**	**2,849**	**90,635**	**93,484**
At 30 June 2011		**4,662,592,620**	**466,259**	**477,981**	**8,709,250**	**9,187,231**

The total authorised number of ordinary shares as at 30 June 2011 is 8,000,000,000 shares (2010: 8,000,000,000 shares) with a par value of HK$0.1 per share (2010: HK$0.1 per share).

Notes to the Consolidated Financial Statements

15. OTHER RESERVES

Group

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000 (Note (b))	Statutory reserve and enterprise expansion fund RMB'000 (Note (d))	Translation RMB'000	Cash flow hedge reserve RMB'000 (Note (c))	Total RMB'000
At 1 July 2009	660,542	98,980	37,606	447,013	(21,503)	27,412	1,250,050
Transfer from net profit	–	–	–	3,037	–	–	3,037
Share options granted to directors and employees	–	–	16,123	–	–	–	16,123
Exercise of share options	–	–	(19,188)	–	–	–	(19,188)
Currency translation differences	–	–	–	–	(8,565)	–	(8,565)
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 23)	–	–	–	–	–	(18,869)	(18,869)
At 30 June 2010	660,542	98,980	34,541	450,050	(30,068)	8,543	1,222,588
At 1 July 2010	**660,542**	**98,980**	**34,541**	**450,050**	**(30,068)**	**8,543**	**1,222,588**
Transfer from net profit	**–**	**–**	**–**	**8,033**	**–**	**–**	**8,033**
Share options granted to directors and employees	**–**	**–**	**3,971**	**–**	**–**	**–**	**3,971**
Exercise of share options	**–**	**–**	**(8,749)**	**–**	**–**	**–**	**(8,749)**
Currency translation differences	**–**	**–**	**–**	**–**	**(17,680)**	**–**	**(17,680)**
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 23)	**–**	**–**	**–**	**–**	**–**	**(7,790)**	**(7,790)**
At 30 June 2011	**660,542**	**98,980**	**29,763**	**458,083**	**(47,748)**	**753**	**1,200,373**

Notes to the Consolidated Financial Statements

15. OTHER RESERVES (CONTINUED)

Company

	Contributed surplus RMB'000 (Note (e))	Share option reserve RMB'000 (Note (b))	Cash flow hedge reserve RMB'000 (Note (c))	Total RMB'000
At 1 July 2009	2,074,700	37,606	27,412	2,139,718
Share option expense written back	–	–	–	–
Share options granted to directors and employees	–	16,123	–	16,123
Exercise of share options	–	(19,188)	–	(19,188)
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 23)	–	–	(18,869)	(18,869)
At 30 June 2010	2,074,700	34,541	8,543	2,117,784
At 1 July 2010	**2,074,700**	**34,541**	**8,543**	**2,117,784**
Share options granted to directors and employees	**–**	**3,971**	**–**	**3,971**
Exercise of share options	**–**	**(8,749)**	**–**	**(8,749)**
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 23)	**–**	**–**	**(7,790)**	**(7,790)**
At 30 June 2011	**2,074,700**	**29,763**	**753**	**2,105,216**

(a) Contributed surplus of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

(b) A summary of the share option schemes, details of the movement in share options and valuation of the share options are set out on pages 32 to 37.

(c) Cash flow hedge reserve represents the cumulative gains of the cash flow hedge, which was discontinued during the year ended 30 June 2009. This remaining balance in equity will be recognised when the hedged items that previously designated affected consolidated income statement. During the year ended 30 June 2011, an amount of approximately RMB7,790,000 (2010: RMB18,869,000) has been released to the consolidated income statement following the repurchase of senior notes and the interest payment on senior notes.

Notes to the Consolidated Financial Statements

15. OTHER RESERVES (CONTINUED)

(d) Statutory reserve and enterprise expansion fund

In accordance with relevant rules and regulations in the PRC, except for Sino-foreign equity joint venture enterprises, all the PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of respective companies or to expand their production operations upon approval by the relevant authority.

In accordance with relevant rules and regulations in the PRC applied on Sino-foreign equity joint venture enterprises, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by the board of directors of respective companies.

(e) Contributed surplus of the Company represents the difference between the costs of investments in NDP (BVI) acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

16. BORROWINGS

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
Non-current				
– Long-term bank borrowings	**18,490,119**	10,896,284	**306,773**	–
– Club term loan	**2,483,373**	3,387,668	**–**	–
– Senior notes	**–**	320,104	**–**	320,104
	20,973,492	14,604,056	**306,773**	320,104
Current				
– Short-term bank borrowings	**1,787,262**	1,337,947	**–**	–
– Current portion of long-term bank borrowings	**30,298**	717,644	**–**	–
– Current portion of club term loan	**831,944**	–	**–**	–
– Current portion of senior notes	**353,693**	–	**353,693**	–
	3,003,197	2,055,591	**353,693**	–
	23,976,689	16,659,647	**660,466**	320,104

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

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

	Group 30 June 2011				Company 30 June 2011		
	Bank borrowings RMB'000	**Club term loan** RMB'000	**Senior notes** RMB'000	**Total** RMB'000	**Bank borrowings** RMB'000	**Senior notes** RMB'000	**Total** RMB'000
Within 1 year	**1,817,560**	**831,944**	**353,693**	**3,003,197**	**–**	**353,693**	**353,693**
Between 1 and 2 years	**6,227,960**	**2,483,373**	**–**	**8,711,333**	**–**	**–**	**–**
Between 2 and 5 years	**9,261,795**	**–**	**–**	**9,261,795**	**306,773**	**–**	**306,773**
Wholly repayable within 5 years	**17,307,315**	**3,315,317**	**353,693**	**20,976,325**	**306,773**	**353,693**	**660,466**
Over 5 years	**3,000,364**	**–**	**–**	**3,000,364**	**–**	**–**	**–**
	20,307,679	**3,315,317**	**353,693**	**23,976,689**	**306,773**	**353,693**	**660,466**

	Group 30 June 2010				Company 30 June 2010		
	Bank borrowings RMB'000	Club term loan RMB'000	Senior notes RMB'000	Total RMB'000	Bank borrowings RMB'000	Senior notes RMB'000	Total RMB'000
Within 1 year	2,055,591	–	–	2,055,591	–	–	–
Between 1 and 2 years	6,193,470	846,917	–	7,040,387	–	–	–
Between 2 and 5 years	3,516,586	2,540,751	320,104	6,377,441	–	320,104	320,104
Wholly repayable within 5 years	11,765,647	3,387,668	320,104	15,473,419	–	320,104	320,104
Over 5 years	1,186,228	–	–	1,186,228	–	–	–
	12,951,875	3,387,668	320,104	16,659,647	–	320,104	320,104

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

(b) The effective interest rates as at 30 June 2011 are as follows:

		Group 30 June 2011			Company 30 June 2011
	RMB	**HK$**	**US$**	**Euro**	**US$**
Long-term bank borrowings	**5.8348%**	**1.7477%**	**2.9674%**	**4.5747%**	**3.0605%**
Club term loan	**5.7600%**	**–**	**1.7585%**	**–**	**–**
Senior notes	**–**	**–**	**9.8750%**	**–**	**9.8750%**
Short-term bank borrowings	**4.9180%**	**1.4916%**	**3.3558%**	**–**	**–**

		Group 30 June 2010			Company 30 June 2010
	RMB	HK$	US$	Euro	US$
Long-term bank borrowings	4.8562%	0.7089%	2.3280%	–	–
Club term loan	4.8600%	–	1.7374%	–	–
Senior notes	–	–	9.8750%	–	9.8750%
Short-term bank borrowings	4.8521%	–	3.6986%	–	–

(c) As at 30 June 2011, borrowings of RMB250,547,000 (2010: RMB55,478,000) are secured by certain property, plant and equipment of the Group (Note 6), borrowings of RMB21,607,256,000 (2010: RMB15,813,538,000) are guaranteed by certain subsidiaries within the Group.

(d) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
6 months or less	**17,039,415**	9,076,174	**660,466**	320,104
6 - 12 months	**5,355,233**	3,496,768	**–**	–
1 - 5 years	**1,582,041**	4,086,705	**–**	–
	23,976,689	16,659,647	**660,466**	320,104

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

(e) The carrying amounts of short-term bank borrowings, current portion of long-term bank borrowings, current portion of club term loan and current portion of syndicated term loans approximate their fair values.

The carrying value and fair value of non-current borrowings are as follows:

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
Carrying amounts	**20,973,492**	14,604,056	**306,773**	320,104
Fair values	**20,763,079**	14,526,422	**306,773**	320,104

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(f) The carrying amounts of all the Group's borrowings as at 30 June 2011 are denominated in the following currencies:

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
RMB	**17,524,458**	13,559,376	**–**	–
US$	**4,154,206**	2,947,603	**660,466**	320,104
HK$	**1,184,469**	152,668	**–**	–
Euro	**1,113,556**	–	**–**	–
	23,976,689	16,659,647	**660,466**	320,104

(g) The Group has the following undrawn bank borrowing facilities:

	Group		Company	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
Expiring within one year	**9,814,093**	8,798,468	**800,000**	–
Expiring beyond one year	**5,386,517**	5,225,798	**200,000**	–
	15,200,610	14,024,266	**1,000,000**	–

Notes to the Consolidated Financial Statements

17. DEFERRED INCOME TAX – GROUP

	30 June 2011 RMB'000	30 June 2010 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(16,682)**	–
Deferred income tax liabilities to be payable within 12 months	**2,142**	2,142
Deferred income tax liabilities to be payable after more than 12 months	**903,180**	708,721
	905,322	710,863
Deferred tax liabilities (net)	**888,640**	710,863

The gross movement on the deferred income tax account is as follows:

	For the year ended 30 June	
	2011 RMB'000	2010 RMB'000
Beginning of the year	**710,863**	558,695
Recognised in the consolidated income statement (Note 24)	**141,595**	152,978
Acquisition of subsidiaries	**36,803**	–
Exchange differences	**(621)**	(810)
End of the year	**888,640**	710,863

Notes to the Consolidated Financial Statements

17. DEFERRED INCOME TAX – GROUP (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities	**Accelerated tax depreciation** RMB'000 (Note (a))	**Fair value gains** RMB'000 (Note (b))	**Total** RMB'000
At 1 July 2009	505,387	53,308	558,695
Charged/(credited) to the consolidated income statement	155,120	(2,142)	152,978
Exchange differences	–	(810)	(810)
At 30 June 2010	660,507	50,356	710,863
At 1 July 2010	660,507	50,356	710,863
Charged/(credited) to the consolidated income statement	164,125	(2,142)	161,983
Acquisition of subsidiaries	–	36,803	36,803
Exchange differences	–	(621)	(621)
At 30 June 2011	824,632	84,396	909,028

Deferred income tax assets	**Tax losses** RMB'000
At 1 July 2010	–
Credited to the consolidated income statement	(20,388)
At 30 June 2011	(20,388)

(a) Deferred income tax liabilities arose as a result of differences on depreciation periods of plant and machinery between tax bases and accounting bases. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheet and its tax bases.

(b) Deferred income tax liabilities on fair value gain is derived from the acquisition of certain subsidiaries, being the difference between the carrying amounts of the assets and their tax bases.

Notes to the Consolidated Financial Statements

17. DEFERRED INCOME TAX – GROUP (CONTINUED)

(c) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. The Group did not recognise deferred tax assets of RMB37,384,000 (2010: RMB41,941,000) in respect of tax losses amounting to RMB209,209,000 (2010: RMB245,095,000) as at 30 June 2011 as management believes it is more likely than not that such tax losses would not be utilised before they expire, or would not be utilised in the foreseeable future. As at 30 June 2011, the tax losses carried forward will be expired in the following years:

	30 June 2011 RMB'000	30 June 2010 RMB'000
2012	**1,081**	2,129
2013	**1,345**	11,317
2014	**4,039**	8,998
2015	**1,925**	72,930
2016	**25,309**	–
Tax losses with no expiry date	**175,510**	149,721
	209,209	245,095

(d) Apart from those as disclosed in Note (c), the Group has no significant unrecognised deferred tax assets as at 30 June 2011 and 2010.

18. TRADE AND OTHER PAYABLES

	Group		**Company**	
	30 June 2011 RMB'000	30 June 2010 RMB'000	**30 June 2011 RMB'000**	30 June 2010 RMB'000
Trade payables due to:				
– third parties	**358,563**	903,903	**–**	–
– related parties (Note 31)	**614,173**	871,806	**–**	–
	972,736	1,775,709	**–**	–
Bills payable (Note 10 and 12)	**1,338,486**	677,000	**–**	–
Deposits from customers				
– third parties	**815,753**	224,320	**–**	–
– related party (Note 31)	**22,693**	–	**–**	–
Amounts due to subsidiaries (Note (a))	**–**	–	**28,422**	105,177
Other payables (Note (b))	**1,512,206**	1,515,236	**383**	851
Staff welfare benefits payable	**92,124**	42,772	**–**	–
Accrued expenses	**49,801**	53,498	**8,150**	5,495
	4,803,799	4,288,535	**36,955**	111,523

Notes to the Consolidated Financial Statements

18. TRADE AND OTHER PAYABLES (CONTINUED)

(a) The amounts due to subsidiaries are unsecured, interest free and repayable upon demand.

(b) Other payables mainly represent payables for acquisition of property, plant and equipment.

(c) The ageing analysis of trade payables as at 30 June 2011 is as follows:

	Group	
	30 June 2011	30 June 2010
	RMB'000	RMB'000
0 – 90 days	**887,051**	1,683,849
91 – 180 days	**58,603**	37,884
181 – 365 days	**15,030**	36,531
Over 365 days	**12,052**	17,445
	972,736	1,775,709

19. SALES

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of packaging paper	**24,014,795**	17,458,142
Sales of pulp	**240,038**	269,280
Sales of high value specialty board products	**132,072**	218,610
	24,386,905	17,946,032

Notes to the Consolidated Financial Statements

20. OTHER GAINS – NET

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Gains from sales of electricity (net of cost)	**18,651**	5,625
Interest income	**21,257**	8,826
Net foreign exchange gains	**51,115**	4,280
Net gains/(losses) from derivative financial instruments	**33,468**	(2,363)
Loss on disposals of property, plant and equipments	**(52,803)**	(13,558)
Subsidy income	**47,904**	29,234
Loss from fire accident	**(27,798)**	–
Negative goodwill (Note 30)	**2,189**	–
Others	**12,051**	10,322
	106,034	42,366

21. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Depreciation (Note 6)	**975,395**	925,894
Less: amount charged to other gains – net	**(4,843)**	(1,667)
Less: amount capitalised to construction in progress	**–**	(1,804)
	970,552	922,423
Amortisation of intangible assets (Note 8)	**4,716**	4,134
Employee benefit expenses (Note 22)	**715,899**	585,295
Changes in finished goods	**673,992**	(1,585,676)
Raw materials and consumables used (net of claims)	**18,077,166**	14,310,043
Transportation	**228,398**	185,091
Operating leases		
– Land use rights (Note 7)	**31,081**	27,722
– Buildings	**2,404**	2,471
Auditor's remuneration	**6,900**	5,900
Non-deductible value added tax for indirect export sales	**61,878**	101,192
Provision/(reversal) of impairment of receivables	**19,000**	(30,024)
Other expenses	**521,984**	339,805
	21,313,970	14,868,376

Notes to the Consolidated Financial Statements

22. EMPLOYEE BENEFIT EXPENSES

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Wages and salaries	**677,279**	531,724
Share options granted to directors and employees (Notes 15 and (a))	**3,971**	16,123
Pension costs – defined contribution plans (Note (b))	**22,717**	24,224
Medical benefits	**5,882**	6,313
Other allowances and benefits	**6,050**	6,911
	715,899	585,295

(a) Performance conditions are attached to share options granted on 17 November 2006 under the 2006 Share Options Scheme. The performance conditions for the years ended 30 June 2011 and 2010 were not met and the directors consider that the performance targets attached to the remaining two tranches of the share options would not be met in future periods. Thus, no share option expense related to these share options are charged to consolidated income statement for the year ended 30 June 2011 (2010: nil).

(b) Pensions costs – defined contribution plans

The details of retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement are as follows:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Gross scheme contributions	**22,717**	24,224

Notes to the Consolidated Financial Statements

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(c) Directors' and senior management's emoluments

The remuneration of every director for the year ended 30 June 2011 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan ("Ms. Cheung")	4,095	–	1,471	–	–	–	5,566
Mr. Liu Ming Chung ("Mr. Liu")	3,890	–	1,278	–	–	–	5,168
Mr. Zhang Cheng Fei ("Mr. Zhang")	3,685	–	688	–	–	–	4,373
Mr. Zhang Yuan Fu	853	–	2,123	–	507	10	3,493
Mr. Lau Chun Shun	348	–	–	–	1,133	5	1,486
Ms. Gao Jing	288	–	82	–	–	–	370
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	450	–	–	113	–	–	563
Mr. Chung Shui Ming, Timpson	450	–	–	113	–	–	563
Dr. Cheng Chi Pang	450	–	–	113	–	–	563
Mr. Wang Hong Bo	288	–	–	–	–	–	288
	14,797	–	5,642	339	1,640	15	22,433

Notes to the Consolidated Financial Statements

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(c) Directors' and senior management's emoluments (continued)

The remuneration of every director for the year ended 30 June 2010 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan	2,350	400	–	448	1,080	–	4,278
Mr. Liu Ming Chung	3,350	350	–	796	1,079	–	5,575
Mr. Zhang Cheng Fei	3,750	350	–	597	754	–	5,451
Mr. Zhang Yuan Fu	1,120	–	3,476	–	2,028	12	6,636
Mr. Lau Chun Shun	791	482	–	–	285	10	1,568
Ms. Gao Jing	135	–	468	–	56	2	661
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	431	–	–	70	74	–	575
Mr. Chung Shui Ming, Timpson	431	–	–	70	74	–	575
Dr. Cheng Chi Pang	431	–	–	70	74	–	575
Mr. Wang Hong Bo	240	–	–	–	–	–	240
	13,029	1,582	3,944	2,051	5,504	24	26,134

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or has agreed to waive any emoluments during the year presented.

Notes to the Consolidated Financial Statements

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2011 include four (2010: four) directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining one (2010: one) individual during the year are as follows:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Pension costs	**–**	–
Salaries, share options, other allowances and benefits in kind	**2,387**	4,072
	2,387	4,072

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
RMB2,000,001 to RMB4,000,000	**1**	–
RMB4,000,001 to RMB6,000,000	**–**	1

Notes to the Consolidated Financial Statements

23. FINANCE COSTS – NET

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interest on borrowings		
– wholly repayable within five years	**883,191**	593,323
– not wholly repayable within five years	**124,151**	58,543
	1,007,342	651,866
Less: interest capitalised	**(455,860)**	(195,717)
	551,482	456,149
Bills discount charges	**243,987**	86,098
Other incidental borrowing costs	**80,667**	23,465
Exchange gains on borrowings	**(93,126)**	(5,723)
Hedge reserve released (Note 15)	**(7,790)**	(18,869)
	775,220	541,120

The capitalisation interest rate applied to funds borrowed generally and used for the development of construction in progress is 4.776% for the year ended 30 June 2011 (2010: 4.666%).

24. INCOME TAX EXPENSE

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Current tax		
– Hong Kong profits tax (Note (a))	**–**	–
– PRC corporate income tax (Note (b))	**247,096**	206,285
	247,096	206,285
Deferred income tax (Note 17)	**141,595**	152,978
	388,691	359,263

Notes to the Consolidated Financial Statements

24. INCOME TAX EXPENSE (CONTINUED)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies as follows:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit before taxation	**2,403,749**	2,578,902
Calculated at tax rates applicable to profits in the respective jurisdictions	**584,809**	668,689
Effect of tax holidays	**(213,684)**	(324,207)
Add:		
Tax losses for which no deferred income tax asset was recognised	**11,132**	19,440
Expense not deductible	**22,123**	24,345
Less:		
Income not subject to tax	**–**	(9,894)
Utilisation of previously unrecognised tax losses	**(15,689)**	(19,110)
Income tax expense	**388,691**	359,263

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2011 (2010: Nil).

(b) PRC corporate income tax

The Corporate Income Tax Law of the PRC (the "new CIT Law") was effective from 1 January 2008, which unifies the corporate income tax rate for domestic and foreign enterprises at 25%. From 1 January 2008, PRC corporate income tax is provided based on the statutory income tax rate of 25% of the assessable income of each of these companies for the period as determined in accordance with the new CIT Law except for certain subsidiaries of the Company, which were exempted from tax or taxed at preferential rates of 7.5%, 12.5%,15% and 25%.

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, withholding income tax of 10% shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax. As at 30 June 2011, the Group has not accrued any withholding income tax for the earnings of its PRC subsidiaries (2010: nil), because the Group does not have a plan to distribute earnings from its PRC subsidiaries generated in the period from 1 January 2008 to 30 June 2011 in the foreseeable future.

Notes to the Consolidated Financial Statements

25. RETAINED EARNINGS OF THE COMPANY

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Beginning of the year	**918,684**	791,057
Profit for the year	**157,751**	381,166
Dividends	**(561,577)**	(253,539)
End of the year	**514,858**	918,684
Representing		
– Proposed final dividend	**373,007**	462,955
– Unappropriated retained earnings	**141,851**	455,729

26. EARNINGS PER SHARE

– Basic

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit attributable to equity holders of the Company (RMB'000)	**1,967,838**	2,166,452
Weighted average number of ordinary shares in issue (shares in thousands)	**4,654,889**	4,520,533
Basic earnings per share (RMB per share)	**0.4227**	0.4792

Notes to the Consolidated Financial Statements

26. EARNINGS PER SHARE (CONTINUED)

– Diluted

Diluted earnings per share is calculated 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 annual market share price of the Company) 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.

	For the year ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**1,967,838**	2,166,452
Weighted average number of ordinary shares in issue (shares in thousands)	**4,654,889**	4,520,533
Adjustments for share options (shares in thousands)	**11,049**	44,054
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	**4,665,938**	4,564,587
Diluted earnings per share (RMB per share)	**0.4217**	0.4746

27. DIVIDENDS

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interim dividend, RMB2.0 cents (2010: RMB2.0) per ordinary share (Note (a))	**93,245**	92,244
Final dividend, proposed, of RMB8.0 cents (2010: RMB10.0 cents) per ordinary share (Note (b))	**373,007**	462,955
	466,252	555,199

Notes to the Consolidated Financial Statements

27. DIVIDENDS (CONTINUED)

(a) An interim dividend for the six months ended 31 December 2010 of RMB2.0 cents per ordinary share, totalling approximately RMB93,245,000 (six months ended 31 December 2009: RMB2.0 cents per ordinary share, totalling approximately RMB92,244,000) has been approved in the meeting of BoD on 23 February 2011.

(b) At a meeting held on 20 September 2011, the BoD proposed a final dividend of RMB8.0 cents per ordinary share, approximately RMB373,007,000, for the year ended 30 June 2011. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2012.

A final dividend for the year ended 30 June 2010 of RMB10.0 cents per ordinary share, totalling approximately RMB462,955,000 has been declared in the Company's Annual General Meeting on 22 November 2010 and paid during the year.

28. CASH GENERATED FROM OPERATIONS

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**2,015,058**	2,219,639
Adjustments for		
Income tax expense (Note 24)	**388,691**	359,263
Depreciation (Note 6)	**1,026,649**	850,942
Amortisation (Notes 7 and 8)	**35,797**	31,856
Provision/(reversal) of impairment of receivables	**19,000**	(30,024)
Share options granted to directors and employees (Note 15)	**3,971**	16,123
Loss on disposals of property, plant and equipment (note)	**52,803**	13,558
Net loss arising from change in fair value of derivative financial instruments (Note 20)	**–**	2,363
Subsidy income (Note 20)	**(47,904)**	(29,234)
Interest income (Note 20)	**(21,257)**	(8,826)
Negative goodwill (Note 30)	**(2,189)**	–
Finance cost (Note 23)	**775,220**	541,120
Exchange losses on cash and cash equivalents	**35,777**	19,394
	4,281,616	3,986,174
Changes in working capital		
Inventories	**1,313,995**	(2,196,462)
Trade and other receivables before provision for impairment	**(1,368,833)**	(1,279,555)
Derivative financial instruments after fair value changes	**(1,922)**	–
Trade and other payables	**84,805**	279,708
Cash generated from operations	**4,309,661**	789,865

Notes to the Consolidated Financial Statements

28. CASH GENERATED FROM OPERATIONS (CONTINUED)

Note: Disposals of property, plant and equipment:

	For the year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net book amount of property, plant and equipment (Note 6)	**176,269**	26,669
Loss on disposals of property, plant and equipment	**(52,803)**	(13,558)
Other receivables	**(29,175)**	–
Proceeds from disposals of property, plant and equipment	**94,291**	13,111

29. COMMITMENTS

(a) Capital commitments

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

	30 June 2011	30 June 2010
	RMB'000	RMB'000
Contracted but not provided for		
Not later than one year	**2,520,451**	3,853,624
Later than one year and not later than five years	**515,120**	1,325,410
	3,035,571	5,179,034
Authorised but not contracted for		
Not later than one year	**100,000**	413,677
Later than one year and not later than five years	**300,000**	550,000
	400,000	963,677
	3,435,571	6,142,711

Notes to the Consolidated Financial Statements

29. COMMITMENTS (CONTINUED)

(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 2011 RMB'000	30 June 2010 RMB'000
Not later than one year	**2,760**	2,829
Later than one year and not later than five years	**7,273**	2,872
Later than five years	**18,088**	19,507
	28,121	25,208

30. BUSINESS COMBINATION

In January 2011, the Group entered into a sale and purchase agreement with a third party to acquire 78.13% equity interest in the Hebei Yongxin Paper Co., Ltd. ("Hebei Yongxin") at a consideration of RMB564,000,000. Hebei Yongxin is principally engaged in the manufacture and sale of containerboard products.

The acquisition is expected to provide greater synergy, strengthen the Group's competitiveness and enhance the Group's profile in the PRC.

None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Hebei Yongxin and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Hebei Yongxin.

Notes to the Consolidated Financial Statements

30. BUSINESS COMBINATION (CONTINUED)

	RMB'000
Consideration	564,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	50,917
Property, plant and equipment	1,330,650
Land use rights	74,400
Inventories	157,843
Trade and other receivables	425,584
Trade and other payables	(425,296)
Current income tax liabilities	(11,432)
Current borrowings	(117,100)
Non-current borrowings	(720,300)
Deferred income tax liabilities	(36,803)
Total identifiable net assets	728,463
Non-controlling interests	(162,274)
Negative goodwill (Note 20)	(2,189)
	564,000

The fair value of the non-controlling interests in Hebei Yongxin, two unlisted companies, was estimated by applying an income approach. The fair value estimates are based on:

(a) an assumed discount rate of 9.4%;

(b) gross margin of 16.0%;

(c) long-term growth rate of 0.5%.

The sales included in the consolidated income statement since January 2011 contributed by Hebei Yongxin was RMB733,429,000. Hebei Yongxin also contributed post-tax profit of RMB1,940,000 over the same period.

Had Hebei Yongxin been consolidated from 1 July 2010, the consolidated income statement would show sales of RMB25,229,987,000 and post-tax profit of RMB2,064,416,000.

Notes to the Consolidated Financial Statements

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
America Chung Nam Inc. (“ACN”)	Beneficially owned by Ms. Cheung, an executive director of the Company
Nine Dragons Packaging (Taicang) Company Limited (“Taicang Packaging”)	Beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang, executive directors of the Company

(b) Transactions with related parties

For the year ended 30 June 2011, the Group had the following significant transactions with related parties. Sales and purchase transactions are conducted in the normal course of the Group’s business:

	For the year ended 30 June	
	2011	2010
	RMB’000	RMB’000
Sales of goods:		
Taicang Packaging	**92,131**	330,296
Purchase of recovered paper (net of claims):		
ACN	**8,277,842**	6,692,699
Taicang Packaging	**16,911**	5,653
	8,294,753	6,698,352

(c) Key management compensation

Other than compensation for directors as disclosed in Note 22, compensation for other key management is as follows:

	For the year ended 30 June	
	2011	2010
	RMB’000	RMB’000
Salaries and other short-term employee benefits	**21,077**	23,740
Termination benefits	**–**	–
Share options	**3,324**	4,100
	24,401	27,840

Notes to the Consolidated Financial Statements

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties

	30 June 2011 RMB'000	30 June 2010 RMB'000
Other receivable due from a related party:		
– Taicang Packaging	9,036	–
Trade payables and deposits due to related parties:		
– ACN	613,970	863,156
– Taicang Packaging	22,896	8,650
	636,866	871,806

Other receivable due from a related party is unsecured, interest free and receivable on demand. Trade payables due to related parties are unsecured, interest free and repayable within 90 days.

32. ULTIMATE HOLDING COMPANY

The directors of the Company regard Best Result Holdings Limited ("Best Result"), a company incorporated in the BVI, as the ultimate holding company of the Group. The ultimate controlling parties to Best Result are Ms. Cheung and Mr. Liu, who are executive directors of the Company.

33. SUBSEQUENT EVENTS

On 16 August 2011, the Company has redeemed all outstanding senior notes in full (Note 16).

Investor Relations and Communications with Shareholders

ND Paper has adopted a variety of channels and methods to ensure effective communications and close contacts with shareholders and investor communities. Such protocol allows the company's business development, operating strategies and industry updates to be regularly communicated and interpreted effectively.

Corporate updates, press releases and the annual and interim reports provide the means for investors and the public to receive accurate and timely information about ND Paper. Participation by management in one-on-one investor meetings, conference calls and regional and global investor forums also allows business visions and financials to be well interpreted and analyzed.

Effective two-way communications are further enhanced by frequent plant tours conducted for fund managers, research analysts and institutional investors. This allows for more understanding of ND Paper's business operations and production processes.

Over 25 local and international research institutions have published reports on ND Paper.

SHAREHOLDERS

As at 30 June 2011, the Group had over 4,200 non-institutional shareholders.

FINANCIAL CALENDAR

FY2011 interim results Announcement	published on 23 February 2011
FY2011 annual results Announcement	published on 20 September 2011
Closure of register of members for entitlement to attend and vote at 2011 AGM	17 November 2011 to 21 November 2011 (both dates inclusive)
2011 AGM	21 November 2011
Ex-dividend date for final dividend	24 November 2011
Latest time to lodge transfer with the Share Registrar for entitlement of the final dividend	25 November 2011 4:30 p.m.
Closure of register of members for entitlement of the final dividend	28 November 2011 to 30 November 2011 (both dates inclusive)
Distribution of FY2011 final dividend	9 December 2011

ANNUAL GENERAL MEETING

The 2011 AGM will be held on Monday, 21 November 2011. The notice of the 2011 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The notice of 2011 AGM and the proxy form will also be available on the website of HKExnews at www.hkexnews.hk under Listed Company Information and the website of the Company at www.ndpaper.com.

Investor Relations and Communications with Shareholders

SHARE INFORMATION

Shares listing

The Shares of ND Paper have been listed on the Main Board of the Stock Exchange (Stock Code: 2689) since March 2006.

Index constituent

ND Paper is a constituent of the following indices:
Hang Seng Composite Index Series
MSCI Global Standard Index

Ordinary shares

Issued Shares as at 30 June 2011:	4,662,592,620 Shares
Nominal Value:	HK$0.1 per Share
Board Lot:	1,000 Shares

Dividend

Dividend per Share for the year ended 30 June 2011	
– Interim Dividend:	RMB2 cents per Share
– Final Dividend:	RMB8 cents per Share

Share registrar and transfer office

Principal:
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre 11, Bermudiana Road, Pembroke, HM 08 Bermuda

Hong Kong branch:
Tricor Investor Services Limited
26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

Investor relations contact

Nine Dragons Paper (Holdings) Limited
Corporate Communications Department
Room 3129, 31/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890
Email: ir@ndpaper.com

Stock Code

HKSE: 2689
Reuters: 2689.HK
Bloomberg: 2689 HK

Website

www.ndpaper.com
www.irasia.com/listco/hk/ndpaper

Definition

2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2011 AGM	Annual General Meeting to be held on 21 November 2011
ACN	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, is indirectly wholly owned by Ms. Cheung
Associate(s)	has the meaning ascribed to it under the Listing Rules
Best Result	Best Result Holdings Limited, a company incorporated under the laws of BVI, is a substantial shareholder of the Company
Board	The board of directors of the Company
BVI	the British Virgin Islands
Bye-laws	the bye-laws of ND Holdings
CAGR	Compound annual growth rate
China Inner Mongolia Forestry	China Inner Mongolia Forestry Industry Co., Ltd., a state-owned enterprise
Company or ND Holdings or ND Paper	Nine Dragons Paper (Holdings) Limited, a company which was incorporated in Bermuda on 17 August 2005 under the companies Act 1981 as an exempt Company with limited liability
Director(s)	the director(s) of the Company or any one of them
Dongguan Longteng	Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業有限公司) a limited liability company established in the PRC in May 2003
FY	Financial year ended/ending 30 June
Group	The Company and its subsidiaries
HKD/HK$	Hong Kong dollars
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR	The Hong Kong Special Administrative Region of the People's Republic of or HKSAR China
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Mr. Liu	Mr. Liu Ming Chung, an executive Director, the Deputy Chairman and the Chief Executive Officer of the Company

Definition

Mr. Zhang	Mr. Zhang Cheng Fei, an executive Director and the Deputy Chief Executive Officer of the Company
Ms. Cheung	Ms. Cheung Yan, an executive Director and the Chairlady of the Company
ND Xing An	Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited (玖龍興安漿紙(內蒙古)有限公司), an equity joint venture established in the PRC on 16 February 2004. ND Xing An is 55% indirectly owned by the Company and 45% owned by China Inner Mongolia Forestry
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
Pre-Listing Share Option Scheme	the Pre-Listing Share Option Scheme adopted by the Company with effect from 1 January 2006
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share Option Schemes	Pre-Listing Share Option Scheme and 2006 Share Option Scheme
Share(s)	Ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
sq.ft	square feet
sq.m	square metre
Taicang Packaging	Nine Dragons Packaging (Taicang) Company Limited, a wholly foreign owned enterprise established in the PRC on 9 April 2002
The Liu Family Trust	a trust set up Mr. Liu as the settlor and BNP Paribas Jersey Trust Corporation Limited as the trustee
tpa	tonnes per annum
USD/US$	US dollars
YC 2006 Family Irrevocable Trust	The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee, of YC 2006 Family Irrevocable Trust
Year	the twelve months ended 30 June 2011
%	per cent

This 2010/11 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at www.ndpaper.com and on the website of HKExnews at www.hkexnews.hk.

Shareholders who have chosen to receive the Company's Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to the Annual Report posted on the Company's website will promptly upon request be sent by post the Annual Report in printed form free of charge.

Shareholders who have chosen to receive the Company's Corporate Communications in either English or Chinese version may request for the other language version of the Annual Report.

Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.

Shareholders may request for printed copy of the Annual Report or change of their choice of means of receipt and language of the Corporate Communications by sending reasonable notice in writing to the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong or by sending an email to ndpaper-ecom@hk.tricorglobal.com.

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