玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2008

FINANCIAL HIGHLIGHTS

- Consolidated revenue increased by 43.5% to RMB14,113.6 million.
- Gross profit rose by 13.6% to RMB2,872.3 million.
- Gross margin decreased from 25.7% to 20.4%.
- Profit for the year decreased by 7.7% to RMB1,900.8 million.
- Basic earnings per share decreased from RMB0.48 to RMB0.44.
- Proposed final dividend per share of RMB3.50 cents (equivalent to approximately HK3.98 cents).

FINANCIAL RESULTS

The Board of Directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the year ended 30 June 2008, together with the comparative figures for the last financial year.

CONSOLIDATED INCOME STATEMENT

		Audited	
		For the year ended 30 June	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Sales	2	**14,113,586**	9,837,664
Cost of goods sold	3	**(11,241,250)**	(7,308,753)
Gross profit		**2,872,336**	2,528,911
Other gains — net	4	**228,780**	311,216
Selling and marketing costs	3	**(335,482)**	(195,429)
Administrative expenses	3	**(499,778)**	(351,274)
Operating profit		**2,265,856**	2,293,424
Finance costs	5	**(101,884)**	(131,441)
Profit before income tax		**2,163,972**	2,161,983
Income tax expense	6	**(263,145)**	(101,645)
Profit for the year		**1,900,827**	2,060,338
Profit attributable to:			
Equity holders of the Company		**1,876,850**	2,003,408
Minority interests		**23,977**	56,930
		1,900,827	2,060,338
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
— basic	7	**0.4354**	0.4794
— diluted	7	**0.4249**	0.4703
Dividends	8	**223,720**	494,650

CONSOLIDATED BALANCE SHEET

	Note	Audited 30 June 2008 RMB'000	30 June 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**23,536,557**	13,802,727
Land use rights	9	**1,185,424**	949,259
Intangible assets	10	**238,284**	146,694
Derivative financial instruments		**25,923**	—
		24,986,188	14,898,680
Current assets			
Inventories		**2,818,476**	1,502,509
Trade and other receivables	11	**2,852,233**	2,188,107
Derivative financial instruments		—	24,900
Restricted cash		**393,175**	—
Bank and cash balances		**1,562,873**	1,748,224
		7,626,757	5,463,740
Total assets		**32,612,945**	20,362,420
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	**6,526,986**	6,179,161
Other reserves		**1,233,201**	1,056,189
Retained earnings			
— Proposed final dividend		**151,580**	429,065
— Unappropriated retained earnings		**5,359,735**	3,848,519
		13,271,502	11,512,934
Minority interests		**273,648**	123,084
Total equity		**13,545,150**	11,636,018

	Note	Audited 30 June 2008 RMB'000	30 June 2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		**17,039**	17,215
Borrowings	13	**12,389,923**	4,088,927
Deferred income tax liabilities		**452,421**	281,746
		12,859,383	4,387,888
Current liabilities			
Derivative financial instruments		**1,730**	7,417
Trade and other payables	14	**3,838,793**	1,766,599
Current income tax liabilities		**72,374**	21,416
Borrowings	13	**2,295,515**	2,543,082
		6,208,412	4,338,514
Total liabilities		**19,067,795**	8,726,402
Total equity and liabilities		**32,612,945**	20,362,420
Net current assets		**1,418,345**	1,125,226
Total assets less current liabilities		**26,404,533**	16,023,906

CONSOLIDATED CASH FLOW STATEMENT

	Audited For the year ended 30 June **2008** ***RMB'000***	 2007 *RMB'000*
Profit for the year	**1,900,827**	2,060,338
Adjustments for non-cash items/income tax/finance costs	**294,151**	327,386
Changes in working capital	**(799,192)**	(1,631,633)
Net cash generated from operating activities	**1,395,786**	756,091
Net cash used in investing activities	**(9,809,408)**	(5,523,978)
Net cash generated from financing activities	**8,270,241**	3,726,965
Net decrease in bank and cash balance	**(143,381)**	(1,040,922)
Bank and cash balances at beginning of the year	**1,748,224**	2,816,660
Exchange losses on bank and cash balances	**(41,970)**	(27,514)
Bank and cash balances at end of the year	**1,562,873**	1,748,224

1. **General information and summary of significant accounting policies**

The Group mainly engages in the manufacture and sale of packaging paperboard and unbleached kraft pulp in the People's Republic of China ("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.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The 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 HKFRS 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.

(a) The following standards and interpretations are effective during the year ended 30 June 2008:

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements — Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC)-Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

HK(IFRIC)-Int 11, 'HKFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. The interpretation has been applied retrospectively. The adoption of this interpretation does not have material impact on the Company's and Group's financial statements.

(b) The followings are new standards and amendments that are not yet effective and have not been early adopted by the Group:

HKAS 1 (Revised), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 July 2009.

HKAS 23 (Revised), 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group's financial statements.

HKAS 27 (Revised) “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group’s financial statements.

HKFRS 2 (Amendment) “Share-based Payment Vesting Conditions and Cancellations” (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of “vesting conditions” and specifies the accounting treatment of “cancellations” by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All “non-vesting conditions” and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 July 2009, but it is not expected to have any material impact on the Group’s financial statements.

HKFRS 3 (Revised) “Business Combination” (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are ‘capable of being conducted’ rather than ‘are conducted and managed’. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group’s financial statements.

HKFRS 8, ‘Operating segments’ (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 July 2009. The expected impact is still being assessed in detail by management.

(c) The followings are new amendments and interpretations to existing standards that are not yet effective and not relevant to the Group’s operations:

HKAS 32 (Amendment), ‘Financial instruments: presentation’, and consequential amendments to HKAS 1, ‘Presentation of financial statements’ (effective for annual periods beginning on or after 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments are not relevant to the Group’s operations because none of the Group’s companies have puttable instruments.

HK(IFRIC)-Int 12, 'Service concession arrangements' (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

HK(IFRIC)-Int 13, 'Customer loyalty programmes' (effective for annual periods beginning on or after 1 July 2008). HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HK(IFRIC)-Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC)-Int 14 is not relevant to the Group's operations because none of the Group's companies have defined benefit asset.

2. Sales

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Sales of packaging paper	**13,901,777**	9,469,325
Sales of pulp paper	**211,809**	368,339
	14,113,586	9,837,664

3. 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	
	2008	2007
	RMB'000	*RMB'000*
Depreciation *(Note 9)*	**487,100**	353,218
Less: amount charged to other gains — net	**(4,390)**	(10,393)
	482,710	342,825
Employee benefit expense	**659,859**	503,054
Changes in finished goods	**(720,622)**	(12,661)
Raw materials and consumables used	**10,817,218**	6,647,307
Transportation	**110,717**	55,134
Operating leases		
— Land use rights *(Note 9)*	**20,160**	15,711
— Buildings	**1,760**	902
Auditors' remuneration	**5,593**	4,428
Non-deductible value added tax for indirect export sales	**262,492**	98,793
Provision for impairment of trade receivables	**50,947**	—
Other expenses	**385,676**	199,963
	12,076,510	7,855,456

4. Other gains — net

	For the year ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Gains from sales of scrap materials	**125,916**	55,338
Gains from sales of electricity	**10,624**	123,227
Gains from sales of coals	**1,707**	—
Interest income	**10,647**	25,099
Net foreign exchange (loss)/gain	**(4,918)**	77,855
Transportation	**749**	5,985
Net (loss)/gain arising from change in fair value of derivative financial instruments	**(20,108)**	26,423
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	**(1,879)**	(2,711)
Negative goodwill *(Note 16)*	**181,178**	—
Goodwill impairment *(Note 16)*	**(75,136)**	—
	228,780	311,216

5. Finance costs

	For the year ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Interest on borrowings		
— wholly repayable within five years	**487,246**	260,404
— not wholly repayable within five years	**24,570**	139
	511,816	260,543
Less: interest capitalised	**(288,446)**	(86,742)
	223,370	173,801
Bills discount charge	**92,122**	35,964
Other incidental borrowing cost	**7,696**	5,827
Exchange gains on borrowings	**(221,304)**	(84,151)
	101,884	131,441

6. Income tax expense

	For the year ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Current tax		
—Hong Kong profits tax *(Note (a))*	**—**	—
— PRC enterprise income tax	**148,270**	94,368
— Reversal of prior years' PRC enterprise income tax	**—**	(47,661)
	148,270	46,707
Deferred income tax	**114,875**	54,938
	263,145	101,645

(a) Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the years ended 30 June 2008 and 2007.

7. Earnings per share

Basic

	For the year ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**1,876,850**	2,003,408
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,310,918**	4,179,049
Basic earnings per share *(RMB per share)*	**0.4354**	0.4794

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's shares) 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	
	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**1,876,850**	2,003,408
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,310,918**	4,179,049
Adjustments for share options *(shares in thousands)*	**105,946**	80,658
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,416,864**	4,259,707
Diluted earnings per share *(RMB per share)*	**0.4249**	0.4703

8. Dividends

	For the year ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Interim dividend, paid, of RMB1.68 cents (2007: RMB1.60 cents) per ordinary share	**72,140**	65,585
Final dividend, proposed, of RMB3.50 cents (2007: RMB10.00 cents) per ordinary share	**151,580**	429,065
	223,720	494,650

The directors recommend the payment of a final dividend of RMB3.50 cents per ordinary share, totalling RMB151,580,000. Such final dividend is to be approved by the shareholders at the Annual General Meeting on 27 November 2008. These financial statements do not reflect this final dividend payable.

9. Capital expenditures

	Land use rights RMB'000	Property, plant and equipment RMB'000
For the year ended 30 June 2007		
Opening net book amount	592,125	8,625,486
Additions	220,915	5,539,183
Acquisition of a subsidiary	151,930	—
Disposals	—	(8,724)
Amortisation/depreciation expense *(Note 3)*	(15,711)	(353,218)
Closing net book amount	949,259	13,802,727
For the year ended 30 June 2008		
Opening net book amount	**949,259**	**13,802,727**
Additions	**149,871**	**9,896,287**
Acquisition of subsidiaries *(Note 16)*	**113,244**	**349,933**
Disposals	**(3,698)**	**(12,150)**
Amortisation/depreciation expense *(Note 3)*	**(20,160)**	**(487,100)**
Exchange differences	**(3,092)**	**(13,140)**
Closing net book amount	**1,185,424**	**23,536,557**

10. Intangible assets

	Goodwill RMB'000 Note (a)	Trademark RMB'000	Patent RMB'000	Customer relationship RMB'000	Total RMB'000
At 1 July 2007					
Cost and net book amount	146,694	—	—	—	146,694
Year ended 30 June 2008					
Opening net book amount	146,694	—	—	—	146,694
Acquisition of subsidiaries *(Note 16)*	75,136	56,357	4,524	30,709	166,726
Impairment charge *(Note 4)*	(75,136)	—	—	—	(75,136)
Closing net book amount	146,694	56,357	4,524	30,709	238,284
At 30 June 2008					
Cost	221,830	56,357	4,524	30,709	313,420
Accumulated impairment	(75,136)	—	—	—	(75,136)
Net book amount	146,694	56,357	4,524	30,709	238,284

(a) Goodwill

(i) Goodwill as at 30 June 2008 represents the excess of the fair value of the shares of Zhang's Enterprises Company Limited ("Zhang's") issued in consideration of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 1 January 2005.

(ii) The addition during the year represents the excess of the cash consideration paid for the acquisition of the entire share capital of Best Shine International Development (Cayman V) Ltd ("Best Shine") over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 5 May 2008

(iii) The directors do not consider that a provision for impairment in the carrying amount of the goodwill for Zhang's as at 30 June 2008 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited as at 30 June 2008. However, impairment charge for goodwill of RMB75,136,000 had been provided for Best Shine.

11. Trade and other receivables

(a) The Group's sales to corporate customers are entered into on credit terms around 30 to 60 days. As at 30 June 2008, the ageing analysis of trade receivables is as follows:

	30 June 2008	30 June 2007
	RMB'000	*RMB'000*
0–30 days	**1,139,493**	1,158,030
31–60 days	**394,480**	269,387
61–90 days	**97,610**	114,214
Over 90 days	**39,756**	1,548
	1,671,339	1,543,179

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.

(b) As at 30 June 2008, trade receivables of RMB50,947,000 (2007: Nil) were impaired. The amount of the provision was RMB50,947,000 as at 30 June 2008 (2007: Nil). The individually impaired receivables relate to customers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	30 June 2008	30 June 2007
	RMB'000	*RMB'000*
1–30 days	**5,936**	—
31–60 days	**5,978**	—
61–90 days	**16,669**	—
Over 90 days	**22,364**	—
	50,947	—

(c) As at 30 June 2008, trade receivables of RMB18,154,000 (2007: RMB19,222,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2008	30 June 2007
	RMB'000	*RMB'000*
61–90 days	**1,786**	18,142
Over 90 days	**16,368**	1,080
	18,154	19,222

(d) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The Group does not hold any collateral as security.

12. Share capital

Movements were:

	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 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291
Placement of shares for cash		125,000,000	12,500	12,353	1,998,695	2,011,048
Placing expenses		—	—	—	(32,358)	(32,358)
Exercise of share options		15,652,029	1,565	1,554	57,626	59,180
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161
Repurchase of shares of the Company	(a)	(1,000,000)	(100)	(91)	(6,416)	(6,507)
Exercise of share options		41,210,070	4,121	3,854	350,478	354,332
At 30 June 2008		4,330,862,099	433,086	448,822	6,078,164	6,526,986

The total authorised number of ordinary shares as at 30 June 2008 is 8,000,000,000 shares (2007: 8,000,000,000 shares) with a par value of HK$0.1 per share (2007: HK$0.1 per share).

(a) The Company repurchased 1,000,000 of its own shares through purchases on the Stock Exchange during the year ended 30 June 2008. The shares have been cancelled upon being reacquired. The total amounts paid to acquire the shares were approximately HK$7,126,000 (equivalent to RMB6,507,000), which have been deducted from equity attributable to the Company's equity holders.

13. Borrowings

	30 June 2008 ***RMB'000***	30 June 2007 *RMB'000*
Non-current		
— Long-term bank borrowings	**6,463,692**	1,431,535
— Syndicated term loans	**3,903,005**	2,657,392
— Senior notes	**2,023,226**	—
	12,389,923	4,088,927
Current		
— Short-term bank borrowings	**1,190,768**	2,373,082
— Current portion of long-term bank borrowings	**64,678**	170,000
— Current portion of syndicated term loans	**240,069**	—
— Short-term financing bills	**800,000**	—
	2,295,515	2,543,082
Total borrowings	**14,685,438**	6,632,009

As at 30 June 2008, borrowings of RMB11,630,072,000 (2007: RMB5,531,408,000) are secured by assets of the Group and guarantees given by subsidiaries within the Group which are detailed as follows:

	30 June 2008 *RMB'000*	30 June 2007 *RMB'000*
Borrowings secured by assets of the Group*	**485,172**	3,276
Borrowings guaranteed by subsidiaries within the Group	**11,144,900**	5,528,132
	11,630,072	5,531,408

* The above borrowings are secured by the Group's property, plant and equipment and restricted cash.

14. Trade and other payables

	30 June 2008 *RMB'000*	30 June 2007 *RMB'000*
0–90 days	**2,039,363**	949,693
91–180 days	**41,167**	9,536
181–365 days	**17,149**	27,141
Over 365 days	**18,998**	4,843
	2,116,677	991,213

15. Commitments

(a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred is as follows:

	30 June 2008 *RMB'000*	30 June 2007 *RMB'000*
Contracted but not provided for:		
— Property, plant and equipment	**4,514,218**	5,809,540
Authorised but not contracted for:		
— Property, plant and equipment	**835,494**	939,222
	5,349,712	6,748,762

(b) Operating lease commitments — where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2008 *RMB'000*	30 June 2007 *RMB'000*
Not later than one year	**986**	2,131
Later than one year and not later than five years	**2,125**	612
Later than five years	**20,721**	—
	23,832	2,743

16. Business combination

During the year ended 30 June 2008, the Group has acquired certain entities which resulted in business combination.

(a) Sichuan Qian Wei Baiya Paper Co., Ltd. ("Qian Wei") and Sichuan Rui Song Paper Co. Ltd. ("Rui Song")

Qian Wei and Rui Song were originally owned by the same parties, who are independent to the Group ("originally share holders").

On 20 December 2007, the Group entered into an agreement with originally share holders to acquire 100% share capital of Qian Wei at no consideration. Qian Wei was established in December 2005. Qian Wei has not yet commenced production but holding of certain land use rights for future paper manufacturing establishment and possesses a right to develop and produce high value specialty board products, mainly insulating paper and capacitor tissue paper, bleached wood pulp and bleached bamboo pulp. Qian Wei was renamed as Nine Dragons Pulp and Paper (Leshan) Co., Ltd. ("Nine Dragons Leshan") on 15 January 2008.

On 9 May 2008, the Group entered into an agreement with Rui Song to acquire a series of assets from Rui Song. The transaction was effective on 25 May 2008. The assets are required to be relocated by August 2010. The consideration paid is RMB73,990,000. The assets acquired were integrated into Nine Dragons Leshan for continuing operation. The existing annual designed production capacity of Rui Song for the production of high value specialty board products and bleached wood pulp and bleached bamboo pulp is 15,000 tonnes and 26,000 tonnes respectively.

The acquired business of Nine Dragons Leshan contributed revenues of RMB32,490,000 and profit of RMB4,197,000 for the year ended 30 June 2008.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	73,990
Less: fair value of net assets acquired	(255,168)
Negative goodwill	(181,178)

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquirees' Carrying amount *RMB'000*
Bank and cash balances	2	2
Property, plant and equipment *(Note 9)*	135,794	18,270
Land use rights *(Note 9)*	63,130	39,425
Intangible assets *(Note 10)*	91,590	—
Receivables	1,364	1,364
Inventories	55,990	55,990
Provision for relocation cost	(42,992)	—
Net deferred tax liabilities	(49,710)	—
Net assets	255,168	115,051
Purchase consideration settled in cash	(73,990)	
Negative goodwill	181,178	
Purchase consideration settled in cash	73,990	
Cash and cash equivalents in subsidiary acquired	(2)	
Cash outflow on acquisition	73,988	

(b) Best Shine

On 5 May 2008, the Group acquired the entire issue share capital of Best Shine from independent third parties for an aggregate consideration of US$22,800,000.

Best Shine was established in Cayman Islands in February 2003, and acts as an investment holding company that holds 60% equity interest in Cheng Yang Paper Mill Co., Ltd. ("Cheng Yang Paper") which principally engages in the production of various kinds of industrial papers, including kraft paper, testliner and medium paper in Vietnam.

The acquired business of Cheng Yang Paper contributed revenues of RMB61,271,000 and loss of RMB3,120,000 for the year ended 30 June 2008.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	160,545
Less: Fair value of net assets acquired	(85,409)
Goodwill	75,136

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquirees' Carrying amount *RMB'000*
Bank and cash balances	10,616	10,616
Property, plant and equipment *(Note 9)*	214,139	202,271
Land use rights *(Note 9)*	50,114	18,706
Inventories	58,889	58,889
Receivables	57,803	57,803
Payables	(20,387)	(20,387)
Borrowings	(221,938)	(221,938)
Net deferred tax liabilities	(6,491)	—
Net assets	142,745	105,960
Minority interests	(57,336)	
Net assets acquired	85,409	
Purchase consideration settled in cash	160,545	
Cash and cash equivalents in subsidiary acquired	(10,616)	
Cash outflow on acquisition	149,929	

DIVIDENDS

An interim dividend of RMB1.68 cents (equivalent to approximately HK1.87 cents) (2007: RMB1.60 cents) per share was paid to shareholders on 21 May 2008.

The Board has resolved to recommend the payment of a final dividend of RMB3.50 cents (equivalent to approximately HK3.98 cents) per share for the year ended 30 June 2008, which is expected to be payable on Monday, 15 December 2008 subject to the approval of the forthcoming annual general meeting dated 27 November 2008. The dividend will be payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 November 2008. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.88 as at 10 October 2008 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 21 November 2008 to Thursday, 27 November 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday, 20 November 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

ND Paper is the largest containerboard producer in Asia and one of the leading players in the world. The Group primarily produces high value and diversified containerboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium, and coated duplex board. Equipped with multiple production lines with flexible configuration, the Group could offer customers a diversified product portfolio with various types, sizes, grades, burst indices, stacking strengths, basis weights, printability and brands in an efficient manner. Currently, five principal products are available in over 60 different basis weights and over 1,000 different sizes and type specifications.

During the year, the Group added six paper machines offering the Group an additional capacity of 2.40 million tpa. The 19 paper machines in operation command design capacities in PRC aggregating 6.95 million tpa, of which 3.70 million tpa are for linerboard, 2.30 million tpa are for high performance corrugating medium and 0.95 million tpa are for coated duplex board. Until the end of June 2008, all the paper machines in operation were located in the Dongguan base (4.45 million tpa) and Taicang base (2.50 million tpa).

Construction of third production base in Chongqing was completed, it started the operation in August 2008 with an additional capacity of 450,000 tpa of linerboard and 350,000 tpa of high performance corrugating medium.

The fourth production base in Tianjin has commenced construction during the year. This base will serve north and northeast China. Two paper machines stationed in Tianjin production base is scheduled to commence production by mid-2009 with an initial capacity of 800,000 tpa.

With a fully functional infrastructure and facilities that provide the Group with power, steam, water supplies, piers and logistical locations, the Group will have a better cost control and higher flexibility in operation. These features allow the Group to be self sustaining in several areas while also ensuring the highest standard of environmentally friendly manufacturing.

Business Strategy

Thanks to prudent and flexible business strategies, the Group managed to achieve satisfactory value growth in production capacity, product portfolio and market distributions despite the economic challenges and natural disasters occurred during the year.

Foreseeing the economic downturns will be recovered in two to three years' time, the Group will equipped itself to be well-prepared for rebound on market demand by allocating more resources on consolidating the existing business, aiming to achieve the status of the world's premier packaging board manufacturer with more diversified product portfolio and ultimately evolving itself into fully-integrated manufacturer from forestry to end-product with international reach and diversified offerings.

Prudent capacity expansion plan to meet market needs

During the year, the Group enlarged the production capacity of PM8 with an additional 50,000 tpa, and commenced the operations of PM12 and PM13 in August 2007. Moreover, PM18 and PM19 in Dongguan, and PM20 and PM21 in Taicang started to operate in June 2008. In May 2008, the Group acquired 60% equity interest of Cheng Yang Paper Mill Co. Ltd., an existing paper manufacturer in Vietnam which currently has a production capacity of 100,000 tpa.

In order to meet the current market condition, the Group has adjusted the original capacity expansion plan. While PM25 and PM26 situated in Tianjin will commence operation in mid-2009, operation of PM 27, PM28, PM29 and PM30 will be postponed to after 2010 so as to meet the expected economic recovery.

Investing in infrastructure facilities to achieve economies of scale

(1) Power resources

To facilitate expanding production capacity and support large-scale containerboard manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. The Group has set up central coal-fired cogeneration power plants in both Dongguan and Taicang with aggregate installed capacity of 735 MW by end-June 2008. In Chongqing we have built two power generators with aggregating installed capacity of 120 MW to propel the new paper machines there. The Group is building power generating facilities with aggregate installed capacity of 158 MW in the Tianjin base. These power plants provide both electric power and steam for use in the drying process in the production process to all of its paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, the Group can achieve savings by using electric power from the Group's cogeneration plants compared to the cost of purchasing power from third parties. The Group's sourcing strategy for coal is to purchase from suppliers that can provide a stable and reliable supply at the lowest cost. To lower its coal costs, the Group purchases all of its coal directly from coal distributors and arranged its own shipping. The Group receives the coal by ship at its pier in Taicang and at Xinsha Ports in Dongguan. We have also invested in a new fully enclosed coal storage system in Dongguan in order to increase efficiency and reduce wastage and more importantly increase the environmental protection standard of our Group.

All of the Group's power plants are connected with the regional power grids, which enable the Group to sell excess power. In addition, the connection to public power grids provides the Group with a back-up power source.

(2) Land resources

Apart from infrastructure, the Group has made investments in acquiring land use rights for sufficient land plots for its existing operations to allow for future development. Until 30 June 2008, the Group secured land use rights for land plots in Dongguan, Taicang, Chongqing and Tianjin aggregating 8.51 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 Taicang and Chongqing.

The current pier in Taicang is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the shipping pier for its own use and to offer loading and unloading services to third parties. The operating berth, with an annual loading and unloading capacity of 2.7 million tonnes, is dedicated to receiving coal deliveries. Given that the Group can take direct delivery by ocean freight from the major coal ports on China's coast, the Group is able to realize cost savings by eliminating loading and unloading charges that the Group would otherwise incur for transit of coal.

The Group has finished the construction of a self-owned pier at Chongqing production base, there also exist a railway spur next to the production base. These ancillary facilities are all in place for the commencement of commercial production of the paper machines.

In Dongguan base, the Group also plans to construct a pier to meet the transportation requirements for finished products, raw materials and coal. The relevant approval procedures are still underway. This Dongguan pier is scheduled to complete construction and commence service by 2010. It has a design annual loading and unloading capacity of approximately 3.0 million tonnes.

Comprehensive geographical coverage to meet diverse needs

During the year, the Group achieved balanced market coverage with its four production bases established in Dongguan, Taicang, Chongqing and Tianjin. This comprehensive geographical production network enables the Group to fully cover the major PRC economic regions and provide services to customers.

Tianjin base, the Group's fourth base, serves the northern and north-eastern regions by PM25 with 450,000 tpa will produce linerboard paper and PM26 with 350,000 tpa will produce high performance corrugating medium paper. Production is expected to commence by mid-2009.

The production plant newly acquired in Vietnam in May 2008 also enables the Group to cultivate business opportunities to access the Asian packaging paperboard market in the future.

Diversifying into high value product portfolio

As the leader in the Asian market, the Group is always ahead of its peers to capture the business opportunity by introducing the newest products to the market. During the year, the Group further strengthened its product portfolio by expanding the product range and focusing on high value products.

Along the 3R's strategy "Reduce, Reuse and Recycle", demand for high value-added containerboard such as lighter weight high performance corrugating medium (70–90g/m^2) is increasing. In view of this, the Group constructed high-speed paper machines PM18 and PM21 in Dongguan and Taicang specifically dedicated for this product category during the year. These machines already commenced production in June 2008 with capacities aggregating 700,000 tpa.

The Group is determined to diversify into production of high value paperboard products. During the year, the Group completed the handover of operations and productions of Sichuan Qian Wei Baiya Paper Co. Ltd. and Sichuan Rui Song Paper Co. Ltd. for production of high value specialty paper. In addition, the Group is planning to develop the production of liquid packaging board products to further diversify its product portfolio. However, in view of a downturn in global economy, the Group would invest its resources in developing its current businesses, and only commence new projects in appropriate times in the future.

Committed to Environmentally Responsible Practices

The Group has always been sustaining the highest standard of environmentally practices by strictly complying with environmental laws and regulations promulgated by central and local environmental authorities. During the year, the Group purchased new environmental protection facilities so as to upgrade the wastewater discharge, airborne emissions and solid waste disposal etc. The production bases in Dongguan and Taicang have also been granted the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau and obtained ISO14001 certification for its environmental management standards. In respect of energy saving and emission reduction, ND Paper passed the energy saving assessment held by the Economic and Trade Commission of Guangdong Province and attained its energy saving goal successfully.

Sources of high quality and price competitive raw materials

Recovered paper and kraft pulp are the Group's principal raw materials used in the manufacture of its products. Therefore, the ability to maintain a stable source of high quality raw materials at a reasonable price is crucial to the Group.

(1) Recovered Paper

Recovered paper is the largest raw materials component. Like most large-scale containerboard manufacturers, the Group is able to source large volumes of consistent high-quality recovered paper under stable, long-term arrangements. Because of the Group's policy of maximising the use of recovered paper to produce high-quality products to meet its customers' cost objectives and environmental policies, this ability is even more critical to the Group's strategy. As such, the Group's sourcing strategy is to purchase from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. To select additional suppliers, the Group's sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy its volume and delivery requirements.

The Group sources its recovered paper from America Chung Nam, Inc. ("ACN") and the remainder from other suppliers. The Group entered into the Renewed ACN Supply Agreement and Further Renewed ACN Supply agreement in relation to the supply of recovered papers from ACN to members of the Group for the 3 years ending 30 June 2011.

Due to the Group's recurring purchases of recovered paper in large quantities and centralized procurement, the Group has been able to secure supplies from suppliers (including from ACN) at more competitive prices and incur lower transportation costs.

The Group has a policy to diversify its sources of supply and to maintain not less than 20% of its recovered paper in terms of aggregate value of its purchase of recovered paper from suppliers other than ACN. Consistently with previous years, the Group has also maintained an independent system which is based on biding procedures for recovered paper purchases and reviewed by one of the independent-non executive directors ("INEDs") with solid industry expertise. Regular reports regarding the Group's purchase and other relevant information will be provided to the INEDs who will conduct a quarterly review of the purchase terms and the fairness of the Group's basis for selecting its recovered paper suppliers.

We believe that the above arrangement can better ensure that the terms of the Group's purchases with its suppliers, including ACN, are in the best interests of the Company and its independent shareholders as a whole.

(2) Kraft Pulp

Kraft pulp is the Group's second largest raw materials component. The Group uses both bleached and unbleached kraft pulp in the production of some of its products to increase the consistency of appearance and strength of the products. The Group strives to maintain a diversified source of kraft pulp. In addition to an initiative to secure part of the supply of unbleached kraft pulp through the joint venture Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited, we are in the process of examining a number of kraft pulp projects. These projects will provide us with convenient accesses to kraft pulp supplies to support our current paper production bases and future capacity expansion in time of 2010 economic rebound.

Enhance efficiency and effectiveness

The Group is implementing an enterprise resource planning (ERP) system for its Dongguan, Taicang and Chongqing operations. It will manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of its products, sales and marketing and delivery of its products through its internal transportation and delivery network. All paper machines have Distributed Control Systems that monitor and control all aspects of production and automated quality control system to ensure that every segment of the production process comply with our quality requirements. This arrangement enabled the Group to maintain its ISO9001 quality standard accreditation.

Emphasis on People-Oriented strategy

We believe that the high quality of human resources, particularly its management and professional engineers, is the most valuable asset of ND Paper. The Group obtained the OHSAS18001 certification for its occupational health and safety management system in March 2005. During the year, the Group provided continuous staff development programs, such as periodic in-house and overseas training and promotional opportunities. The Group does not limit itself to complying with the new Labour Contract Law, but aims to exceed international standards of performance by following international best practices for management processes and corporate governance.

As at 30 June 2008, the Group had approximately 10,840 full time staff in Hong Kong and the PRC. The related employee's costs for the year (including directors' emoluments) amounted to approximately RMB659.9 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's remuneration system. Moreover, the Group adopted a share option scheme for employees and refining the incentive bonus program to attract and retain capable human resources.

Financial Review

Revenue

The Group achieved a revenue of approximately RMB14,113.6 million for FY2008, representing an increase of approximately 43.5% as compared with the last financial year. The major contributor of the revenue growth was the increase of sales volume. In FY2008, the Group's total sales volume of packaging paperboard products reached approximately 4.3 million tonnes, representing an increase of approximately 30.3% as compared to that of the last financial year. The Group's total sales volume of kraft pulp products decreased to approximately 56,000 tonnes from approximately 88,000 tonnes in FY2007, representing a decrease of approximately 36.4%. The increase of sales volume of packaging paperboard was supported by the full year contribution in FY2008 by PM11, PM16 and PM17, which commenced operation in January 2007, the enlargement of the production capacity of PM8 with an additional 50,000 tpa, as well as commenced operations of PM12 and PM13 in August 2007.

The price increment of all the Group's product lines recognised during FY2008, particularly during its first half which is in line with the increase in the raw material costs, also bolstered the top line figure and confirmed the Group's industry leadership and the robust market demand.

The Group mainly manufactures packaging paperboard products, which include linerboard, coated duplex board and high performance corrugating medium, and kraft pulp products. The majority of the Group's sales is in China, whereas a significant portion of the Group's export sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency. For FY2008, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises and direct export, constituted approximately 38.4% of the Group's total sales as compared with 42.3% in the last financial year.

For FY2008, sales to the Group's top five customers in aggregate accounted for approximately 8.2% (2007: 13.4%) of the Group's revenue, with that to the single largest customer accounted for approximately 2.0% (2007: 3.8%).

Gross profit

The gross profit for FY2008 was approximately RMB2,872.3 million, an increase of RMB343.4 million or 13.6% as compared with the RMB2,528.9 million recorded in the last financial year. Overall gross margin for the year decreased from 25.7% to approximately 20.4%. In the financial year 2008, the gross margin of packaging paperboard products were decreased from 25.7% to approximately 20.4%. The decrease in gross profit margin was mainly due to the slowdown of economic growth, the rise in costs of energy and raw materials and the non-deductible value added tax for indirect export sales.

Other gains — net

Other gains, net, of the Group decreased to approximately RMB228.8 million in FY2008 from RMB311.2 million in the last financial year. The decrease was mainly the net effects of the substantial drop in sales of electricity which cannot be offset by the increase in sales of scrap materials and net negative goodwill recognised. The substantial decrease of electricity sales of RMB112.6 million was mainly due to the increase in paper production capacity, which resulted in higher electricity consumption as compared with the last financial year.

Operating profit

The operating profit for FY2008 was approximately RMB2,265.9 million, a slight drop of approximately 1.2% over the last financial year.

Selling and marketing costs were approximately RMB335.5 million in FY2008, compared with RMB195.4 million in FY2007. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.0% in the last financial year to approximately 2.4% in FY2008, which was resulted from the increase in staff salaries and transportation costs, and the provision for impairment of trade receivables of approximately RMB50.9 million.

Administrative expenses increased from RMB351.3 million in the last financial year to approximately RMB499.8 million in FY2008. The increase was mainly a result of additional management and administrative costs were also incurred to support the commencement of new paper machines. The amount of administrative expenses as a percentage of Group revenue maintained at a stable level of 3.5% in FY2008 as compared to that in the last financial year. The Group's administrative expenses amounted to approximately RMB400.8 million after deducting the share option expenses, representing approximately 2.8% of the group's revenue. In the long run, the proactive investment in human resources assures the Group's growth sustainability.

Total staff costs of the Group increased by approximately 31.2% amounted to approximately RMB659.9 million during the financial year, representing approximately 4.7% of the Group's revenue as compared to 5.1% in the last financial year.

Net profit and dividends

The profit attributable to equity holders for FY2008 was approximately RMB1,876.9 million, a decrease of RMB126.6 million as compared with that in last financial year. The ratios of EBIT and EBITDA to revenue were 17.5% and 20.9% respectively.

The Group's finance costs decreased by 22.5% to approximately RMB101.9 million in FY2008 from RMB131.4 million in FY2007. The substantial decrease in the Group's finance costs was mainly the result of the increases in interest capitalised of approximately RMB288.4 million arised from upgrading of the Group's credit profile and optimising loan portfolio mix in terms of maturity and currency, which was attributable to the amelioration of the Group's financial position and the exchange gains of foreign currency borrowings of RMB221.3 million attributed by continuous appreciation of RMB during the financial year.

Basic earnings per share for FY2008 and the last financial year were RMB0.44 and RMB0.48 respectively.

During the year, the Group declared and paid an interim dividend of RMB1.68 cents per share, which amounted to RMB72.1 million. The directors have proposed a final dividend of RMB3.50 cents per share, which will aggregate to approximately RMB151.6 million. The total dividend for the year amounted to RMB5.18 cents per Share, representing a decrease of RMB6.42 cents per Share.

Taxation

Income tax charged for the financial year amounted to approximately RMB263.1 million and increased by approximately RMB161.5 million as compared with that in last financial year.

The increase in provision for income tax was mainly due to the increase in tax rate for some of the subsidiaries after the new Corporate Income Tax Law became effective on 1 January 2008 and the expiry of the tax holidays of certain subsidiaries.

From 1 July 2007 to 31 December 2007, PRC enterprise income tax is provided based on the statutory income tax rate of 18% to 27% of the assessable income of each of these companies for the period. After the Corporate Income Tax Law of the People's Republic of China (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 enterprise income tax is provided based on the statutory income tax rate of 25% of the assessable income of our subsidiaries for the period. Certain subsidiaries of our Group still enjoy a grace period of the tax holidays in the PRC for 5 years from 1 January 2008 and during the grace period their income tax are exempted from tax or taxed at preferential rates of 7.5% to 12.5%.

More provision for deferred tax is provided for FY2008 which is in line with the increase in capex as compared with the last financial year.

Working capital

The inventories increased by approximately RMB1,316.0 million for FY2008 and amounted to approximately RMB2,818.5 million, representing an increase of 87.6% from that of last financial year. Inventories mainly comprise raw materials of approximately RMB1,814.8 million and finished goods of approximately RMB1,003.7 million.

The raw materials and finished goods increased by approximately RMB595.3 million and approximately RMB720.6 million respectively as compared to last financial year. The increase in raw materials balances were primarily the result of storing a stable amount of raw materials for deployment by increased production capacity in FY2008 whereas the increase in finished goods balance was mainly due to the full operations of PM11, PM16 and PM17 in FY2008 and the commencement of operation for PM12 and PM13 in FY2008.

As a result, during FY2008, inventory turnover increased to approximately 92 days as compared to 75 days for FY2007.

Trade and bills receivable increased by approximately RMB221.4 million for FY2008 and amounted to approximately RMB1,991.8 million. During FY2008, the turnover days of trade receivables were approximately 52 days as compared to 66 days for FY2007.

Trade and bills payable increased by approximately RMB1,218.0 million for FY2008 and amounted to approximately RMB2,286.5 million. Trade and bills payable turnover days was approximately 74 days for FY2008 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 primarily comes from its operating cash flows and borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's net cash inflow from operating activities increased from approximately RMB756.1 million in 2007 to approximately RMB1,395.8 million in FY2008, representing an increase of approximately 84.6%. The increase was attributable primarily to the changes in working capital, mainly the increase of year end trade and other payables after netting off the increase in inventories and trade and other receivables. In terms of available financial resources as at 30 June 2008, the Group had total undrawn borrowing facilities of RMB4,250.8 million and cash and bank balances of RMB1,562.9 million. As at 30 June 2008, the shareholders' funds were approximately RMB13,271.5 million, an increase of approximately RMB1,758.6 million from that of the last financial year. The shareholders' fund per share increased by approximately 14.2% from RMB2.68 to RMB3.06.

The Group had outstanding bank loans and borrowings as at 30 June 2008 of approximately RMB14,685.4 million, of which approximately RMB2,295.5 million shall be repaid within 1 year, approximately RMB4,852.7 million shall be repaid after 1 year but within 2 years, approximately RMB6,587.0 million shall be repaid after 2 years but within 5 years, and approximately RMB950.2 million shall be repaid after 5 years. The net borrowings to equity ratio of the Group as at 30 June 2008 increased from 42.4% to approximately 95.9%, due to draw down of bank loans to fund the capital expenditure requirements of the Group.

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 closely monitors the Group's loan portfolio and compares the loan margin under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks. During FY2008, the Group executed new loan agreements to refinance substantial portfolio of the loans draw down under previous agreements which carried a higher interest rate. The Group has also sought to hedge its medium term interest rate risk by entering into cross currency interest rate swap contracts at a minimal price. As at 30 June 2008, the notional amounts of the outstanding cross currency interest rate swaps were US$350 million.

(b) Minimise currency risk

The Group has contracted new bank loans in US$ or HK$ for its subsidiaries in China to the extent allowable in view of the continued strengthening of the RMB. The Group has also sought to hedge its medium term currency risk by entering into cross currency swap contracts at a minimal price. As at 30 June 2008, the notional amounts of the outstanding cross currency swaps were US$100 million.

In the past two years, the Group has already executed two unsecured syndicated loan agreements, one on 19 September 2006 in US$ for 4 years and the other one on 18 June 2007 in HK$ for 5 years, with financial institutions in a total amount of equivalent to US$606.4 million as at 30 June 2008. These loans have served to push out maturities of loans, reduced the Group's average loan interest margin and have also increased the proportion of non-RMB borrowings considering the appreciation of RMB.

In April 2008, the Group has issued a 5 year senior unsecured notes with interest rate of 7.875% per annum. With the issuance of senior unsecured note, the Group has successfully diversified its funding channel and explored a new fund raising channel, international bond market, with the benefits of relative lower funding cost, sizeable market and higher efficiency as compared to the traditional short-term bank loans.

As at 30 June 2008, total foreign currency borrowings amounted to the equivalent of approximately RMB7,397.8 million and RMB loans amounted to approximately RMB7,287.6 million, representing approximately 50.4% and approximately 49.6% of the Group's borrowings respectively.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

Cost of Borrowing

Despite higher interest rates in the first half of the year, average borrowing cost in FY2008 rose only slightly to 6.493% and 5.528% from 5.770% and 5.233% for long-term bank borrowings and short-term bank borrowings respectively in FY2007 due to the Group's prudent use of fixed and floating rate debt. The gross interest and finance charges (before interest income and impact from derivative financial instruments) increased to approximately RMB611.6 million in FY2008 from RMB302.3 million in FY2007.

Capital expenditures

For FY2008, the Group invested approximately RMB10,046.2 million for the construction of factory buildings, purchase of plant and machinery, equipment and land use rights. These capital expenditures were fully financed by bank borrowings and internal resources.

Capital commitments and contingencies

The Group expected to invest approximately RMB5,349.7 million on capacity expansion in the future 5 financial years. The Group made capital expenditure commitments mainly for machineries of approximately RMB835.5 million which were authorized but not contracted and approximately RMB4,514.2 million were contracted but not provided for in the financial statements as at 30 June 2008. These commitments were mainly related to the expansion of the Group's production capacity and part of these commitments may be postponed accordingly based on the availability of Group's internal financial resources in the forthcoming two years.

As of the financial year end date, the Group had no material contingent liabilities.

Future Plans and Prospects

The prospect of the global economy is still subject to uncertainties, and business environment of Chinese manufacturing industry will in no doubt face great hardships and challenges. In face of these issues, ND Paper is equipping itself and formulates the following three strategies:

Firstly, adopt stringent control measures on capital expenditure to maintain sufficient cash flow

— Capital expenditure for FY2009 will be cut down from RMB3.0 billion to RMB2.2 billion.

— New capacity expansion plan of 2.40 million tonnes has been completed and the Tianjin production base will commence operation with a capacity of 800,000 tonnes before 30 June 2009, and the aggregate capacity will reach 8.70 million tonnes by 2009. Also, the implementation of the original capacity expansion plan will be delayed to 2010 or 2011.

Secondly, enhance internal control and expand our own advantages

— ND Paper will focus on strengthening the control on operating costs and risks in respect of sales, and strive for reasonable profit under unfavourable market conditions.

Thirdly, reform our management structure

— ND Paper will reform and reorganize the management structure and recruit international professional management staff of high quality. Capitalizing on the management experience brought by these new professionals, together with our unique management concept and extensive technical knowledge, ND Paper will turn the challenges arising from this unfavourable economy into opportunities. Our management will lead ND Paper to become a leading enterprise by utilizing these opportunities.

We are now experiencing challenges of a downturn in global economy and rapid integration of paper industry. These challenges provide ND Paper with opportunities in internal improvement. ND Paper shall actively enhance and reform internal management, place stringent control on costs, improve mechanization level, and make further progresses based on our solid foundation, regional advantages, extensive market share and coverage obtained in the past 10 years. In this difficult situation, ND Paper, as a leading enterprise with extensive management capabilities and unique operating concept, will face these challenges head-on. We shall secure a better position despite adverse economic conditions. With our large production capacity of 8.70 million tonnes, once the economy is recovered, we are well-prepared to create substantial profit for investors, and lay solid foundations for the years to come.

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

During the year ended 30 June 2008, the Company repurchased its shares on The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") for purpose of enhancing its earnings per share as follows:

Month/year	Number of shares repurchased	Price per share Highest *(HK$)*	Price per share Lowest *(HK$)*	Aggregate consideration paid *(HK$)*
March 2008	1,000,000	7.19	7.06	7,126,000.00

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 30 June 2008.

REVIEW OF ACCOUNTS

The consolidated financial statements of the Company and its subsidiary companies for the year ended 30 June 2008 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, PricewaterhouseCoopers. The unqualified auditor's report will be included in the Annual Report to shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 30 June 2008, the Group was in compliance with the provisions of the Code on Corporate Governance Practices and, where appropriate, the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

DIRECTORS' COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in the 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 under review, they were in compliance with provisions of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under "Listed Company Information" and on the website of the Company at www.ndpaper.com. The annual report will be despatched to the shareholders of the Company and will also be available for viewing at the aforesaid websites in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 27 November 2008. Notice of the Annual General Meeting will be published and issued to shareholders in due course.

APPRECIATION

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

As at the date of this announcement, the directors of the Company are:

Executive Directors:
Ms. Cheung Yan
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei
Mr. Zhang Yuanfu
Ms. Gao Jing

Non-Executive Director:
Mr. Lau Chun Shun

Independent Non-Executive Directors:
Dr. Cheng Chi Pang
Ms. Tam Wai Chu, Maria
Mr. Chung Shui Ming, Timpson
Mr. Wang Hong Bo

On Behalf of the Board
Cheung Yan
Chairlady

Hong Kong, 10 October 2008

* *for identification purpose only*