玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 2689

2008/09
ANNUAL REPORT

* For identification purposes only

Main Products

Kraftlinerboard

Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. The Group markets its high performance kraftlinerboard under its "Nine Dragons" brand and its standard kraftlinerboard under its "Sea Dragon" and "Land Dragon" brands.

Testlinerboard

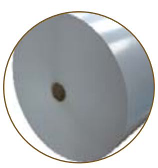
Testlinerboard is made 100% from recovered paper, and meets certain customers' requirements for lower cost linerboard or for more environmentally-friendly content. The Group markets this product under the "Nine Dragons" and "Sea Dragon" brands.

White Top Linerboard

White top linerboard is a three-ply sheet of which one layer is bleached, and caters to customers that require a white surface for appearance or superior printability. The Group markets this product under the "Nine Dragons" and "Sea Dragon" brands.

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 markets this product under the "Nine Dragons" brand.



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 and 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 markets this under the "Nine Dragons" and "Sea Dragon" brands.

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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*
Mr. 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

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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

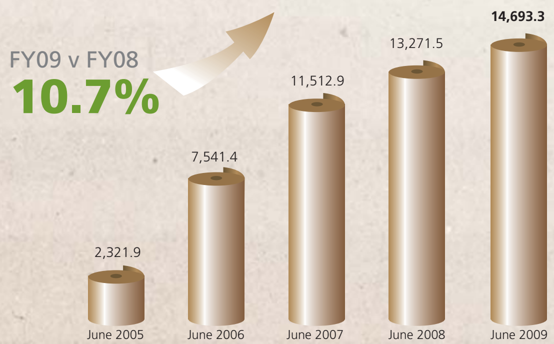
Financial Highlights

For the year ended 30 June	2009	2008	Change
Operating results (RMB million)			
Sales	**13,128.6**	14,113.6	(7.0%)
Gross profit	**2,348.4**	2,872.3	(18.2%)
Operating profit	**1,744.9**	2,265.9	(23.0%)
Profit before taxation	**1,836.8**	2,164.0	(15.1%)
Profit attributable to Company's equity holders	**1,661.1**	1,876.9	(11.5%)
Financial position (RMB million)			
Cash generated from operations	**3,929.3**	1,395.8	181.5%
Net debt	**12,275.0**	12,729.4	(3.6%)
Shareholders' funds	**14,693.3**	13,271.5	10.7%
Per share data (RMB cents)			
Earnings per share — basic	**38.35**	43.54	(11.9%)
Earnings per share — diluted	**38.22**	42.49	(10.0%)
Dividend per share			
— Interim	**—**	1.68	(100.0%)
— Final	**3.50**	3.50	—
Other data (RMB million)			
Capital expenditures	**4,277.6**	10,046.2	(57.4%)
Key ratios (%)			
Gross profit margin	**17.9**	20.4	(2.5 pts)
Operating profit margin	**13.3**	16.1	(2.8 pts)
Net profit margin	**12.7**	13.3	(0.6 pts)
EBITDA/ratio	**23.9**	20.9	3.0 pts
Return on capital employed	**5.5**	7.1	(1.6 pts)

- Group revenue decreased by 7.0% to RMB13,128.6 million
- Profit for the year decreased by 12.6% to RMB1,661.3 million
- Net profit margin less 0.6 percentage points to 12.7%

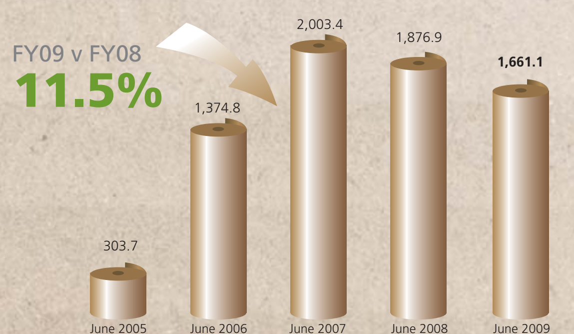
Total assets
RMB million

Shareholder's fund
RMB million



Sales
RMB million

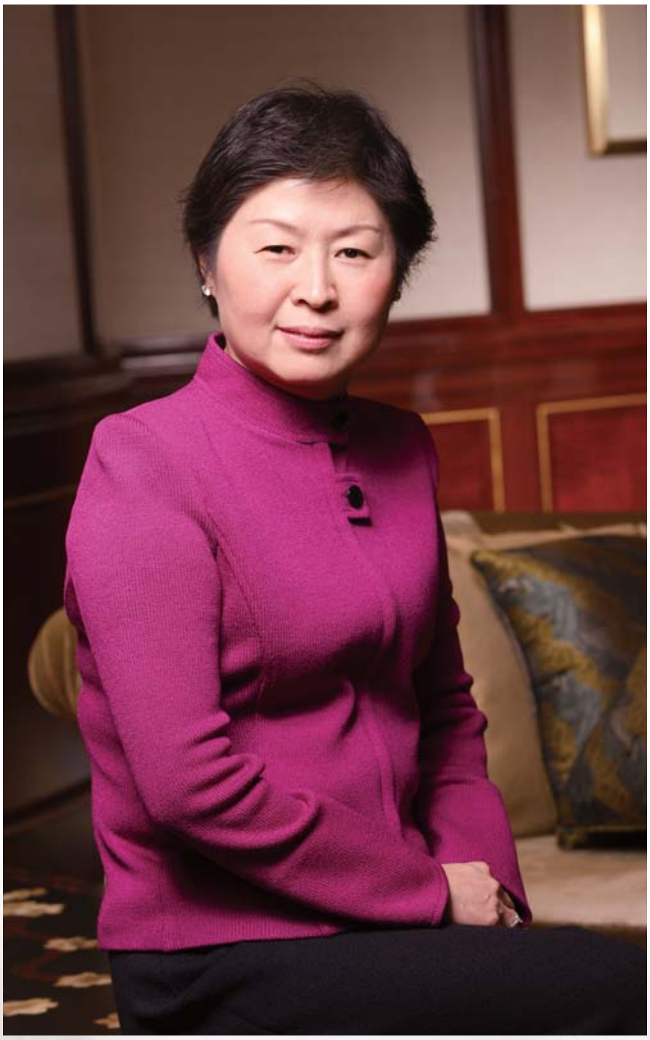
Profit attributable Company's equity holders
RMB million



No ENVIRONMENT No Paper

One-stop shop product service

Chairlady's Statement



Boasting the most advanced production equipment, a diversified product portfolio, high caliber management and sound development strategies, the Group is set to capture market opportunities to position itself for a better development.

Dear Shareholders,

On behalf of ND Paper, I present the annual results for the year. On behalf of the Board, I would also like to express my heartfelt gratitude to all shareholders and friends from various circles for their care extended to the Group.

The onset of the global financial tsunami in the second half of 2008 in tandem with contracted export demand had plunged China's paper industry into a trough. Nevertheless, opportunities are once again surfacing in the industry's operating environment, as the economy has delivered more positive feedbacks in the first half of 2009, thanks to the global recovery and state-run stimulus package to promote domestic demand in China. Being the largest containerboard manufacturer in Asia, the Group leveraged on its robust strength and well-defined strategies during economic upturns to keep its core business on course, with total design production capacity reaching 8.82 million tpa. Its geographical reach at home was further expanded following the commencement of production of the Tianjin base which, together with the Dongguan base, Taicang base and Chongqing base, formed the four focal points of our strategic geographical layout. The remarkable improvement in the Group's many business indicators as compared to the second half of 2008 underscored the Group's strength in making the best out of market resilience and its industry-leading competence during times of adversity.

Despite numerous industry setbacks from the macro environment, the Group weathered the storm by maintaining disciplined development, leveraging on its advantages from a diversified product mix and adjusting the proportion of sales in relation to domestic demand to over 80%. As the economy gradually picks up, the demand for paper-based packaging in various industry sectors grew earnest, offering ample room for the Company to enjoy a quantum leap. While the Group's paper machines have maintained their high utilization rates, six new paper machines (PM18 to PM23) in Dongguan, Taicang and Chongqing commenced production as scheduled in the middle of 2008 and went through their optimization smoothly in the Year. Tianjin base, being the fourth base of the Group, also commenced production as scheduled in September 2009 and brought to the Group an additional design production capacity of 800,000 tpa. Such success has much to do with ND Paper's proactive and effective countermeasures.

To address the extremely volatile economic environment the Group adopted a series of measures in the Year, with improvement in internal management being the key to the overall solutions. The set up of a Group General Management Office dedicated to standardizing and regulating production workflows of all bases improved the general efficiency and facilitated business development. On top of our effort to strengthen the internal system, the Group seized the initiative to consolidate its operations and financial capabilities. Such strategic measures include adjusting operating strategy, tightening cost control, flexibly rescheduling the production commencement of several projects in 2009, improving its financial structure to maintain adequate cash flow, consistently emphasising environmental protection and further standardizing enterprise operations using international management disciplines. These forward-looking initiatives consolidated our ongoing policies and provided effective new protection against adverse market conditions.

The Group's sales amounted to approximately RMB13.1 billion for the Year, representing a decrease of approximately 7% compared with last year. Gross profit amounted to approximately RMB2.35 billion, representing a drop of approximately 18% compared with last year. Net profit attributable to shareholders of the Group was approximately RMB1.66 billion, and earnings per share were approximately RMB0.38.

In order to express our gratitude to shareholders who have been standing by ND Paper amidst the bleak economic environment, the Board proposes the payment of a final dividend of RMB3.5 cents per share, accounting for approximately 9% of the attributable profit.

ENHANCED CORPORATE DISCIPLINES BY ADOPTING INTERNATIONAL INTERNAL MANAGEMENT SYSTEMS

As the number of bases increased, ND Paper actively reinforced its internal management during the Year by establishing the Group General Management Office, and expanding the application of Enterprise Resource Planning (ERP) systems aiming at reducing uncertainties in management functions by improving all the standards in each department with respect to production, recycling, sales, materials management, logistics as well as receivables and payables, maximizing control from internal to external operations and enhancing risk management. Meanwhile, the Group facilitated communications among its bases and created inter-departmental synergies by unifying standards and convening regular meetings among bases so as to exploit edges and increase efficiencies of each base. Such move had mitigated inherent risks in each management function and boosted effectiveness of the Group as a whole.

In 2009, the major subsidiaries of the Group — Dongguan Nine Dragons Paper Industries Co., Ltd., Dongguan Sea Dragon Paper Industries Co., Ltd and Nine Dragons Paper Industries (Taicang) Co., Ltd. were recognised as High-Tech Enterprises by the state, enabling these subsidiaries to enjoy preferential tax rate for High-Tech Enterprises in future. Meanwhile, the Group sought to retain managerial talents with international visions from diversified fields, so as to enhance its corporate disciplines under international management systems. With a diversified product portfolio, an increase in the number of bases, a stronger client network and sufficient training opportunities, each staff of the Group is given more avenues to sustainable individual development and promotion.

DEPLOYED EFFECTIVE INVENTORY MANAGEMENT STRATEGIES

Amidst erratic economic volatilities, the Company had successfully reduced the turnover days of raw materials through the synergy and coordination among its procurement function, sales function and internal production lines, with a view to increasing production efficiency by keeping a sufficient quantity of raw materials for production whilst cutting redundant inventories. Turnover days of finished products were kept within around 15 days to render the Company more flexibility to adjust its production plan for customers' needs. Meanwhile, to balance the international price movements of recovered paper, the Group is vigorously increasing its procurement of domestic recovered paper. Quality domestic recovered paper now represents about 20% of total procurement. Such proportion will be adjusted according to the price trends of quality recovered paper in the domestic and overseas markets.

ATTAINED SOLID FINANCIAL POSITION

To withstand credit risks inherent in the global economic downturn, the Group has ensured healthy cash flows by putting rigorous control on receivables collection and improving the applications of its working capital whilst continually improving its financial structure. With a sound financial position, the Group managed to reduce its interest rate going forward by repurchasing senior notes for three times. In December 2008 it also made two voluntary prepayments on its syndicated loans for a total amount of approximately HK$1.5 billion. Under the taxation policies for High-Tech Enterprises, the Company is poised to enjoy preferential tax treatment with a lower tax expense in the forthcoming financial year. On the back of the above favorable fiscal arrangement, the Group will be in a more flexible position when utilizing its financial resources.

CONTINUED EMPHASIS ON ENVIRONMENTAL PROTECTION

As the international communities become more demanding in environmental protection, energy saving and discharge reduction, the government has exerted more and more rigid regulatory enforcements. Compliance with environmental protection standards had already directly affected the continuity of operations and business performance of an enterprise. Being highly conscious of its social responsibilities, ND Paper has always adhered to its philosophy of "No environment, no paper", and has always performed better than the state requirements. Hence, not only has it never been penalized for non-compliance in environmental management, in fact it has received numerous awards for many times, and won the recognition and endorsement from various governments and community groups. The Dongguan base has successfully passed the energy saving assessment by the Economic and Trade Commission of Guangdong Province and attained the 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 bases have been granted the honors of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau respectively, and continued to obtain ISO 14001 certification. It remains to be the belief of the Group that an enterprise can only survive and evolve by persisting in sustainable developments and reciprocating to society through ceaseless improvement. Therefore, discharge control and activities of social responsibilities have always been top priorities of the Group.

CAPITALIZED ON INDUSTRY CONSOLIDATION

Beset by the financial turmoil and subject to the government's tightened regulatory enforcement over environmental protection, various small and medium-sized paper makers faced tremendous business pressure in the Year and found their operating environments becoming extremely difficult. Hence, they need to suspend or close down their business thus accelerated industry consolidation. With ND Paper's most advanced production equipment and diversified product mix in ND Paper, and taking advantage of the surging demand for domestic paper-based packaging paperboard and the trend of industry consolidation, not only can the Group offer more paper product choices than its peers, it can also capitalize on its solid strength and flexible strategies to offer more paper alternatives than its peers but also excel across the industry in the course of consolidation, thus further reinforce its leadership position.

OUTLOOK

Over the past year, ND Paper has gained precious experience in addressing and development under a less-than-favorable international climate. Looking forward, particularly the second half of 2009, the initial signs of global economic recovery as well as government policy changes and stimulus are all expected to bring steady growth to domestic demand. Boasting the most advanced production equipment, a diversified product portfolio, high caliber management and sound development strategies, the Group is set to capture market opportunities to position itself for a better development in future. To this end, the Group has formulated the following strategies:

ADOPTED A FLEXIBLE APPROACH TO ADJUST PRODUCTION EXPANSION PLANS

While working to confront the economic turbulence worldwide, the Group's new base in Tianjin had duly commenced operation as planned in September 2009 to fill the market space in northern and north-eastern China which is experiencing supply shortage. The economic scenario was far from clear last year but taking the gradual market recovery into perspective, the Group has rescheduled the production commencement dates of PM27 to PM30 (currently under construction) to before the end of December 2010 so as to grasp market opportunities amidst economic recovery ahead of its peers, with a view to expanding its market coverage and extending ND Paper's unrivaled presence in the paper making industry.

STEPPED UP PRODUCT DIVERSIFICATION TO BOOST EARNINGS

ND Paper always excels in new product marketing. Its self-developed high quality products for domestic and overseas markets have gained market recognition, which in turn strengthen ND Paper's industry-leading position and make room for more sales opportunities. The Group also adjusts its product mix in response to the market demand, boosting sales value and optimizing its product structure by delivering more diversified and comprehensive products than its peers.

The Group plans to upgrade the existing PM3 in Dongguan base and PM20 in Taicang base to manufacture white top linerboard and coated white top linerboard with expanded capacities. The upgrading is expected to complete by August 2010. PM27 in Dongguan base, which was originally scheduled to commence production by the end of 2010 for the production of linerboard will be modified for the production of coated duplex board, food grade white board and de-inked recycled duplex board with white back. The design capacity will also be increased to 600,000 tpa. The modification will further enhance our product mix, increase our market share and make greater room for profit.

ACKNOWLEDGEMENT

As one of the leading international containerboard companies, ND Paper has laid a solid foundation for over a decade and proved its strength in seizing ongoing opportunities. Going forward, we are confident in making achievements just like what we have achieved in the past. In face of such financial upheaval rare in a century, with the unwavering confidence of all our staff and management, we flexibly adjusted our pace of endeavors and business strategies at the worst times, and managed to strive a stable balance between current operations and future advancement. We have preserved our strong fundamentals so as to allow us to be ahead of our competitors in capturing any opportunities. We have established a solid foothold to take advantage of the forthcoming economic recovery and maintain our leading market position. Given encouraging signs in the global economy and the recovery of all sectors in 2009, the Group will make use of its strong foundation comprising the four major bases as a springboard to advance its business strategy for product diversification, higher quality and ever improving customer service standards, as well as a management philosophy emphasizing environmental protection and flexibility in the optimal deployment of various resources to make room for future growth. It is under such beliefs can ND Paper move forward to exploit its edges as an industry leader, maintaining healthy operations and orderly development to capture more opportunities emerging from the rebound. On behalf of the Board, I would like to take this opportunity to extend my heartfelt gratitude to the management, all our staff, governments at all levels, investors, banks and our business partners who have been supporting us all the time! Our future path of development may remain full of challenges ahead, but armed with the shared confidence and courage throughout the Group, we aim at maximizing our shareholder value, furthering our commitment on social responsibilities whilst working conscientiously to reap benefits from our strategic geographical layout of four bases to capture the market opportunities in China that come ahead!

Cheung Yan
Chairlady

Hong Kong, 14 September 2009

Chief Executive Officer's Operation Review and Outlook

We relentlessly consolidated the fundamentals under our business philosophy to address the gloomy market, seeking to enhance internal management and control for better overall efficiency.

Dear Shareholders,

I am delighted to share with you our results for the year.

Despite the challenges from global economic slowdown and volatile prices of raw materials in the second half of 2008, the Group firmly held its footing amid the financial storm. In light of our diversified product mix, a prudent and practical operating strategy as well as flexible adjustments to our expansion plans according to market changes, we managed to capture market opportunities to actively expand our reach and secure our leadership in the paper manufacturing industry as the global economy began to recover in the first half of 2009.

REVIEW OF OPERATIONS

In the second half of 2008, the domestic paper manufacturing industry had been reined back by volatile prices of raw materials and energy, where we were not an exception. As global economy picked up in the first half of 2009, the gloom hung over the industry was clearing up. Prices of raw materials and our products saw less volatility during the first half of 2009, and were rebounding from the bottom in 2008. With expanding domestic demand under China's stimulus packages, the utilization rate of our paper machines remained on the high side, which brought our gross margin gradually back to normal territory. Meanwhile, we relentlessly consolidated the fundamentals under our ongoing business philosophy to address the gloomy market, seeking to enhance internal management and control for better overall efficiency. As a result, many operating parameters in the half-year period from January to June 2009 had beaten those in the half-year period from July to December 2008, presenting an encouraging signal.

During the Year, the Group saw its revenue decreased by approximately 7% year-on-year to approximately RMB13.1 billion while gross profit stood at approximately RMB2.35 billion. Gross margin was approximately 18%, representing a decrease of approximately 2.5 percentage points compared with last year. Profit attributable to the Company's equity holders was approximately RMB1.66 billion, among which profit from senior note repurchase amounted to approximately RMB0.59 billion. Basic earnings per share was approximately RMB0.38.

The Group's total design production capacity aggregated to 8.82 million tpa, representing an increase of approximately 22% compare with that as at 30 June 2008, of which 4.60 million tpa are for linerboard, 3.00 million tpa are for high performance corrugating medium and 0.95 million tpa are for coated duplex board. This operating scale has made the Group Asia's largest containerboard manufacturer by design production capacity. During the Year, sales volume of packaging paperboard products rose by approximately 23.7% from the last corresponding year to about 5.27 million tonnes, bringing in revenue aggregating RMB12.8 billion for the Group. The Group adjusted its proportion of sales in relation to domestic demand from 62% in the past to more than 80% due to constantly increasing domestic demand.

FLEXIBLY ADJUSTED PRODUCT PRICES AND EXPANDED PROCUREMENT NETWORK

The economic downturn and drastic raw material price swings eroded our general performance for the second half of 2008. Thanks to the economy warm-up in 2009, paper manufacturing industry environment was improving with less volatility in raw material prices as compared with the second half of 2008, thus easing the pressure on gross margin, while raw material costs could be kept at lower levels. These translated into more profit. At the same time, benefiting from customers' affordability recovering with the economy, we timely aligned product prices with raw materials and sent gross margin back to normal ranges.

During the Year, while strengthening cost control through bulk procurement from reliable suppliers of raw materials and recovered paper, we diversified the sourcing of high quality recovered paper by tapping on new supply channels. Save for the major sources in the USA, Europe, Japan and Australia, we increased the share of high quality recovered paper from domestic sources to approximately 20%. Through internal coordination and cooperation, our raw material turnover was trimmed down, with adequate inventory allowed for production need, while eliminated excessive stockpile, thus helped to maintain high production efficiency.

PRODUCTION PLANS MATERIALISED WITH COMPREHENSIVE FACILITIES LAYING THE FOUNDATION FOR FUTURE

In response to the changing market conditions in the second half of 2008, we kept realigning capacity expansion plan flexibly with market shifts. Taking the opportunity from economic recovery in 2009, the Group put Tianjin Base, being its fourth production base, into operation in September 2009 as planned. The new paper machines PM25 and PM26 have a total design production capacity of 0.80 million tpa, including 0.45 million tpa of linerboard and 0.35 million tpa of high performance corrugating medium, which has contributed a further 10.2% growth to the Group's packaging paper capacity as at the end of the Year. The two different paper machines, both with considerable capacity, will not only bring certain economies of scale and reasonable return to Tianjin base when it is initially put into operation, but also present variegated choices to our customers favouring future business development of the base. To facilitate the production and optimization of Tianjin base, the Group had in advance deployed internal resources to support its development. Presently, Tianjin Base has in place comprehensive recovered paper supply and is utilizing existing resources to enhance local sales network. Meanwhile, we provided effective training in existing bases to build up an outstanding management team, so as to facilitate equipment optimization of the new base to maximize its production efficiency and advantages.

Furthermore, our PM18 and PM19 in Dongguan Base, PM20 and PM21 in Taicang Base as well as PM22 and PM23 in Chongqing started production in mid-2008, adding to the Group 2.40 million tpa of design capacity. The third production base — Chongqing Base had built a full set of ancillary facilities, including heat-power cogeneration facilities providing abundant power for paper machines, and container wharf and bulk cargo wharf with an annual throughput capacity of 4.00 million tpa providing logistics support for the base. All these high quality ancillary facilities lay a solid foundation for the base, and underpin its promising future.

In addition to the four major paper production bases, the 50,000 tpa specialty paper project in Leshan Sichuan, 100,000 tpa packaging paper project in Vietnam and 120,000 tpa unbleached kraft pulp project in Inner Mongolia were operating satisfactorily.

FLEXIBLE CAPACITY EXPANSION PLANNING ACCORDING TO MARKET CHANGES

In response to continued volatility in the external market environment, we allocated resources with a higher priority for paper machines in operation, and strategically deferred the production commencement time of four paper machines under construction (PM27-30) from 2009 to the end of December 2010. Through such market-oriented flexible adjustments to business strategy and capacity expansion plans, we are confident to take the lead in economic recovery and continue our dominance in the industry.

DRIVING PRODUCT DIVERSIFICATION TO INCREASE MARKET SHARE

The production volume and sales volume of the Group during the Year was 5.31 million tpa and 5.39 million tpa respectively, reflecting a general balance between production and sales. Among them, coated duplex board was in the spotlight demonstrating strong sales. The Group will continue to tap market potentials of the product. Save as developing its existing portfolio, the Group actively empowered its new product projects whilst strengthening its sensitivity towards changing market demands and creativity in product design to offer a wide array of paper types for market needs. Accordingly, the Group plans to upgrade PM3 and PM20 to manufacture white top linerboard and coated white top linerboard so as to meet the unsatisfied demand of the market and bring potential for profit enhancement. The total design production capacity of these two paper machines will increase from 850,000 tpa to 950,000 tpa.

In respect of the new paper machines scheduled to commence production by the end of 2010, PM27 in Dongguan base for the production of linerboard will be modified for the production of coated duplex board, food grade white board and de-inked recycled duplex board with white back. The design capacity will also be increased from 450,000 tpa to 600,000 tpa. The modification will enhance our product mix for meeting market demands. It will also increase our market share in high end products as well as profit. PM28 for the production of light weight high performance corrugating medium with a design capacity of 350,000 tpa will be built in Dongguan base and PM29 and PM30 for the production of linerboard and light weight high performance corrugating medium with design capacities of 450,000 tpa and 350,000 tpa respectively will be built in Taicang base as planned.

COMMITTED TO SOCIAL RESPONSIBILITIES BY PERSISTENT BELIEF IN ENVIRONMENTAL PROTECTION

In light of growing concerns on environmental protection, the Chinese government unveils proactive green policies. Steeped in its philosophy of "No environment, no paper", ND Paper has not only met the government's stringent requirements on environmental protection but even performed better than the regular standards. The Dongguan base has successfully passed the energy saving assessment by the Economic and Trade Commission of Guangdong Province and attained the 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 granted the honors of Green/ Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau respectively, and continued to obtain ISO 14001 certification. These awards are the government's acknowledgement and recognition of our aspirations on environmental protection and incentives for us to propagate the eco message. Such dedication to environmental management has also brought fruitful advantages to the Group, as it does not need to face the penalties and production suspension due to non-compliance. Moreover, it can make customers realize the benefits of doing business with an environmentally compliant enterprise, thus positioning ND Paper further ahead of its competitors.

STRENGTHENED FINANCIAL POSITION WITH LOWER LIABILITIES

During the Year, the Group has been consolidating its financial position under the impact of financial turmoil. The Group tightened internal management with more stringent control on the internal assessment of capital expenditure while keeping a closer scrutiny of liquidity. Such measures further ensured abundant cash flow for the Group.

In December 2008, the Group has made voluntary prepayments on its two syndicated loans for a total amount of approximately HK$1,500,000,000 which covered all repayments due in 2009, thus allowing more flexible utilization of the Group's funds in future. Meanwhile, the Group successfully reduced its future interest expenses and liabilities through repurchasing its senior notes in principal amounts of US$16,250,000, US$165,177,000 and US$70,998,000 in December 2008, March 2009 and July 2009 respectively, which also demonstrated the Group's abundant liquidity and sound financial status.

On the other hand, the Group has tentatively stopped increasing its total debts and entered into negotiations with banks concerning terms of loan based on the prevailing market situation in the Year. Such negotiations revealed the supporting, understanding and optimistic attitude of the banking industry towards ND Paper's development prospects and future potentials which confirmed the Group's leading position in the paper industry. The Group's total borrowings as at 30 June 2009 was approximately RMB13.8 billion. During the Year, the Group has not recorded any bad debt and maintained its normal and stable financial position.

OUTLOOK

Notwithstanding the fickle financial market in 2008, ND Paper has gone through the worst of times with an unwavering commitment to its corporate philosophy and flexible business tactics, and keeps its business on steady course in the first half of 2009. Over the past year, the Group has gained invaluable experience in a stressful business environment and laid sold foundation in adversity. On solid ground the Group will be at its prime to make the best of opportunities from market recovery. At present, China's per capita consumption of paper is still below consumption levels in developed countries. Under the government's pervasive effort in economic stimulation, the domestic market is full of potential. In anticipation of a significant increase in national income in the next three to five years, consumption power will increase and boost the momentum of domestic demand for paper products. Putting these into perspective, ND Paper is set to enjoy a bright prospect to expand with a potential that is not yet fully reflected by the existing market scale. On this vision, the Group will continue to work towards optimizing its internal management, reinforcing its financial position, tightening its capital expenditure and procurement expenses, enhancing its product quality and adhering to its environmental protection philosophy, with a view to position ND Paper as the first mover to grasp opportunities arising from the gradual market recovery and maximize shareholders' return on basis of its unique strategic layout featuring four production bases and leading competencies.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 14 September 2009

Dongguan and Taicang base continued to be accsedited as

Green Environmental Creditable Enterprises

COMPREHENSIVE ancillary facilities

Management Discussion and Analysis

BUSINESS REVIEW

Being the largest containerboard manufacturer in Asia and one of the leading producers in the world, ND Paper primarily produces a broad variety of packaging paperboard 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 offers its customers a diversified product portfolio with various types, sizes, grades, burst indices, stacking strengths, basis weights, printability and brands in an efficient manner. Currently, our five principal categories of packaging paperboard products are available in over 60 different basis weights with over 1,000 different sizes and type specifications.

Currently, the total design production capacity of the Group is 8.82 million tpa, among which 23 packaging paperboard paper machines are operating in China. These include 4.60 million tpa for linerboard, 3.00 million tpa for high performance corrugating medium and 0.95 million tpa for coated duplex board. The Group's current total design production capacity represents an increase of approximately 22.2% compared with that as at 30 June 2008.

Currently, the total design production capacity of the Group is 8.82 million tpa, among which 23 packaging paperboard paper machines are operating in China. These include 4.60 million tpa for linerboard, 3.00 million tpa for high performance corrugating medium and 0.95 million tpa for coated duplex board

The fourth production base of the Group in Tianjin commenced production in September 2009 with an annual capacity of 0.80 million tpa, including 0.45 million tpa of linerboard and 0.35 million tpa of high performance corrugating medium. Prior to the commencement of production, our Tianjin base has already been well-equipped with the necessary facilities and ancillaries. In addition to advanced infrastructure and facilities that provide water and power supplies, steam and logistics supports, it has secured a comprehensive supply of recovered paper and an extensive sales network, enabling it to optimise cost control and flexibility in operation. In order to sharpen our competitive edges, the Group has trained up an excellent management team for the new production base, facilitating its optimisation with a view to enhancing the return of the production base especially during the initial operation period.

After the commencement of production of Tianjin base, the Group has formed a strategic geographical coverage with four focuses and further expanded its market penetration and customer base, with a more comprehensive presence in China's main manufacturing hubs. Currently, annual capacities of our four principal production bases in Dongguan, Taicang, Chongqing and Tianjin are 4.45 million tpa, 2.50 million tpa, 0.80 million tpa and 0.80 million tpa respectively.

Apart from the four principal paper production bases, the Group's 0.05 million tpa specialty paper project in Leshan, Sichuan, a market leader in specialty paper, the 0.10 million tpa packaging paperboard project in Vietnam and the 0.12 million tpa unbleached kraft pulp project in Inner Mongolia were all operating satisfactorily.

Business strategy

In the second half of 2008, the global economic crisis has dampened the growth of the global manufacturing industry. Paper manufacturing industry were under great pressure, which resulted in unprecedented challenges to ND Paper. However, the Group maintained its healthy and orderly development under such an unfavourable environment. Leveraging its advantages of diversified product mix, persistent management visions as well as prudent and flexible business strategies, the Group has consolidated its fundamentals, strengthened internal management, fortified internal and external controls and tightened risk management measures in order to enhance the overall standards of the Group and maintain its leading position amid the uncertain market conditions. With the revival of global economy, demand for paper products from various domestic sectors continuously increased. Raw material prices remained relatively less volatile in the first half of 2009 as compared with last year. While at times of economic adversities the Group has established a solid operation foundation, including adjusting its operation strategies in response to market changes and striving to achieve its targets in terms of production volume, profits, quality and management, with a wide diversity of paper products the Group has also further increased its penetration in the domestic market and maintained stable and healthy growth. It is now well-positioned to capture the opportunities arising from the economic recovery and aims at excelling its peers and maintaining its leading edges during the industry consolidation.

Standardising internal management systems

The Group has strived to improve its overall effectiveness, including the establishment of its Group General Management Office during the Year, the enhancement of its internal management systems and expanding the application of enterprise resource planning (ERP) systems. These initiatives aimed at monitoring the operations of each production base, ranging from production, recycling, sales, materials management, logistics, receivables and payables, thus enhancing the management standards of each and every department. As a result, the uncertainties in management functions will be minimised and the Group will be able to strengthen its risk management and strictly control capital expenditures through effective internal and external control processes.

Successful production commencement of paper machines and well equipped production bases with ancillary facilities

A total of six paper machines commenced production in mid-2008, namely PM18 and PM19 in Dongguan base, PM20 and PM21 in Taicang base and PM22 and PM23 for the first phase of Chongqing base, bringing to the Group an additional design capacity of 2.40 million tpa. Tianjin base, the fourth production base of the Group, also commenced production in September 2009. The two paper machines in Tianjin base, PM25 and PM26, feature a design capacity totaling 0.80 million tpa. As such, the Group's total design capacity increased to 8.82 million tpa. Tianjin base has a sizable scale since its initial stage of operation, enabling it to meet the buoyant demand from the surrounding markets with economies of scale, bringing new momentum to the Group's revenue growth.

Paper machines which commenced operation in 2008

Paper Machine	Location	Product	Design Capacity
PM18	Dongguan	Light weight high performance corrugating medium	350,000 tpa
PM19	Dongguan	Linerboard	450,000 tpa
PM20	Taicang	Linerboard	450,000 tpa
PM21	Taicang	Light weight high performance corrugating medium	350,000 tpa
PM22	Chongqing	Linerboard	450,000 tpa
PM23	Chongqing	High performance corrugating medium	350,000 tpa

Paper machines which commenced operation in 2009

Paper Machine	Location	Product	Design Capacity
PM25	Tianjin	Linerboard	450,000 tpa
PM26	Tianjin	High performance corrugating medium	350,000 tpa

The Group's packaging paperboard design capacity in China

(Breakdown by product category)

	06/2007	06/2008	06/2009	09/2009
('000 tpa)				
Linerboard	1,500	3,700	4,150	4,600
High performance corrugating medium	2,050	2,300	2,650	3,000
Coated duplex board	950	950	950	950
Total	4,500	6,950	7,750	8,550

(Distribution by product category)

	06/2007	06/2008	06/2009	09/2009
Linerboard	33.3%	53.2%	53.5%	53.8%
High performance corrugating medium	45.6%	33.1%	34.2%	35.1%
Coated duplex board	21.1%	13.7%	12.3%	11.1%
Total	100.0%	100.0%	100.0%	100.0%

(Distribution by location)

	06/2007	06/2008	06/2009	09/2009
Dongguan	63.3%	64.0%	57.4%	52.0%
Taicang	36.7%	36.0%	32.3%	29.2%
Chongqing	—	—	10.3%	9.4%
Tianjin	—	—	—	9.4%
Total	100.0%	100.0%	100.0%	100.0%

No. of packaging paperboard machines in China

(Geographical breakdown by location of production base)

(Units)	06/2007	06/2008	06/2009	09/2009
Dongguan	9	13	13	13
Taicang	4	6	6	6
Chongqing	—	—	2	2
Tianjin	—	—	—	2
Total	13	19	21	23

Adjusting capacity expansion according to market conditions

During the Year, although the paper industry has bottomed out, there are still uncertainties in general economic conditions. The Group has been focusing on the operations of existing paper machines and strengthening its existing businesses. Besides, the Group maintained flexibility in its expansion plans, and has adjusted the commencement schedules of the four paper machines under construction (PM27-30) according to the economic recovery progress. The Group maintained its development in line with market changes so as to capture the expected demand growth as the economy recovers. In the light of the current development of the PRC market, the Group decided that these paper machines were to be scheduled to commence operation before the end of December in 2010. This will enable the Group to be ahead of its peers in capturing market opportunities emerging during the economic recovery, further expanding market penetration and consolidating the leading position of ND Paper in the paper manufacturing industry.

Diversified capacity expansion plan

The Group emphasises quality management and adjusts its production plans according to the market demand. Through improvement of sales mix and strengthening of the sensitivity towards changing market demands and creativity in product design, the Group produces a wide range of products to meet the demand from customers in various industries. Accordingly, the Group plans to upgrade PM3 and PM20 to manufacture white top linerboard and coated white top linerboard so as to meet the unsatisfied demand of the market and bring potential for profit enhancement. After upgrading, the total design capacity of these two paper machines will increase from 850,000 tpa to 950,000 tpa by August 2010.

In respect of the new paper machines scheduled to commence production by the end of 2010, PM27 in Dongguan base for the production of linerboard will be modified for the production of coated duplex board, food grade white board and de-inked recycled duplex board with white back. The design capacity will also be increased from 450,000 tpa to 600,000 tpa. The modification will enhance our product mix for meeting market demands. It will also increase our market share in high end products as well as profit. PM28 for the production of light weight high performance corrugating medium with a design capacity of 350,000 tpa will be built in Dongguan base and PM29 and PM30 for the production of linerboard and light weight high performance corrugating medium with design capacities of 450,000 tpa and 350,000 tpa respectively will be built in Taicang base as planned.

Maintaining high utilisation rate of paper machines

Besides offering a diversified product mix, the Group also attaches high importance to the enhancement of quality. The Group has a sizable maintenance team in each base, members of which have undergone training provided by the original equipment suppliers. The team is responsible for regular repairs and maintenance of the equipment to ensure that they are in proper working order. The Group upgrades its production equipment from time to time so as to increase their life span, enhance productivity and ensure product quality. The Group endeavours to maintain high utilisation rate of its paper machines, so that the Group's entire production can achieve economies of scale and ensure satisfactory returns. During the Year, the average utilisation rate of the Group's paper machines was approximately 94.6%. The Group also maintained its ISO 9001 quality standard accreditation.

Controlling costs, strengthening inventory control and diversifying sources of supplies

During the Year, the Group has strengthened the synergy and coordination among its procurement function, sales function and internal production lines. Inventory turnover of raw materials was approximately 36 days, while inventory turnover of finished products was approximately 15 days. By keeping inventory turnover of raw materials and finished products at a relatively low level, no excessive raw materials will be stored. A low inventory level also enables the Group to flexibly adjust its production plans according to the requirements of different customers, helping to enhance its overall profitability.

(1) Supply of recovered paper

Recovered paper is our largest raw material component and experienced significant price volatility during the Year. The Group made bulk purchase from suppliers with stable raw materials and recovered paper supply and has been developing more domestic sources of quality recovered paper. In addition to sourcing from major markets including USA, Europe, Japan and Australia, the Group has increased the proportion of domestic purchase of quality recovered paper to approximately 20%. Such proportion will be adjusted according to the prices of quality recovered paper in the domestic and overseas markets.

The Group and ACN entered into ACN Supply Agreements in relation to the supply of recovered paper from ACN to members of the Group for the 3 years ending 30 June 2011. In selecting other suppliers, the Group's procurement department compares the quality and prices of their recovered paper with those offered by major suppliers and also considers their ability to satisfy our volume and delivery requirements. The primary criteria are cost and customer needs.

(2) Supply of kraft pulp

Kraft pulp is also a major raw material of the Group other than recovered paper. The Group uses both bleached and unbleached kraft pulp in the production of its products to increase the consistency of product appearance and strength. The two projects, the 0.05 million tpa specialty paper project in Leshan, Sichuan, a market leader in specialty paper, together with the 0.12 million tpa unbleached kraft pulp project in Inner Mongolia, supply kraft pulp to the Group's paper manufacturing bases. Apart from these projects, the Group will also diversify the sources of kraft pulp supply to meet its needs arising from capacity expansion upon economic recovery in the future.

Investing in infrastructure facilities to achieve economies of scale

(1) Power resources

To support large-scale, stable packaging paperboard manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. Accordingly, the Group has set up central coal-fired cogeneration power plants in Dongguan, Taicang, Chongqing and Tianjin with an aggregate installed capacity of 1,014 MW. In the Chongqing base, which commenced production in 2008, electricity generated by the steam and electricity cogeneration facilities are sufficient for the whole base. The Group has also built power generating facilities in Tianjin base, which commenced production this year, with an aggregate installed capacity of 159 MW. These power plants provide stable electric power for all of its paper machines. Simultaneously, they provide steam for use in the drying process in production. The cogeneration of steam and electricity helps to save energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, by using electric power from the Group's own cogeneration plants, it can effectively reduce costs as compared to purchasing power from third parties.

The Group's sourcing strategy for coal is to purchase from suppliers that provide a stable and reliable supply at the lowest cost. To lower its coal expenses, the Group purchases all of its coal required directly from coal distributors and arranges its own transportation. The Group takes delivery of coal at Xinsha Port in Dongguan, and at its self-owned piers in Taicang and Chongqing. The Group has also invested in a new fully automated and enclosed coal storage dome in Dongguan, which increases efficiency, reduces wastage as well as improves the environmental protection standards of the Group.

(2) Land resources

In line with the increasing number of production bases and production scale, the Group has to maintain sufficient land reserves for its existing operations and future development. Sufficient land reserve enables the Group to grasp the opportunities emerging during economic recovery and industry consolidation. As of 30 June 2009, the Group has secured land use rights of land plots of 8.53 million sq.m in aggregate.

(3) Transportation infrastructure

In order to reduce port handling 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 is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the piers for its own use and to offer loading and unloading services to third parties. The berths operated by the Group have total annual loading and unloading capacity of 2.7 million tonnes and are mainly used for receiving coal deliveries. Given that the Group can take direct delivery from the major coal ports on China's coast, unloading charges can be eliminated thus reducing costs significantly. In addition, Chongqing production base has a container pier and a bulk cargo wharf with an annual throughput capacity of 4.0 million tonnes, ensuring logistics support for the production base. There is also a railway spur connected to the production base. These ancillary facilities enhance the operating efficiency of the base and increase its flexibility in transportation services.

Emphasis on environmental protection

The international communities call for higher demands in environmental protection and energy saving, and the PRC government has strengthened its regulatory enforcements on environmental issues of enterprises to achieve international standards. Well before the industrial communities are concerned about energy saving and discharge reduction, ND Paper, being highly aware of its social responsibilities, had always adhered to its philosophy of "No environment, no paper" as its principle of operation and development. The Group's production bases in Dongguan and Taicang were granted the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau respectively, and continued to obtain ISO 14001 certification. The Dongguan base has passed the energy saving assessment by the Economic and Trade Commission of Guangdong Province and attained the energy saving targets. The Taicang base has also passed the annual inspection by the State Ministry of Environmental Protection and was granted an award under the environmental project fund of the Jiangsu provincial government. The recognition and endorsement of the Group's environmental protection efforts and social responsibility commitment from various government bodies and community groups boosted our philosophy of sustainable development of ND Paper. The Group will continue to put emphasis on environmental protection and the commitment to contribute to society, maintaining a healthy and sustainable growth for the corporation.

Opportunities from industry consolidation

During the Year, owing to stricter regulation over environmental protection imposed by the PRC government and impacts of the financial crisis, many small and medium paper producers faced extreme difficulties in their operations, and were forced to suspend or close their business. As a result, industry consolidation took place at a faster pace. Being the leading enterprise in the PRC paper industry, ND Paper has the most advanced equipment and diversified product portfolio with more and better choices for customers. In view of the strong domestic demand for paper products, the Group expects to excel among its peers in the course of industry consolidation, further strengthening its leading position.

Emphasis on a people-oriented strategy

The Group adheres to the corporate principle of a "people-oriented" strategy, with the belief that only human resources of excellence can enhance the overall competitiveness and cohesive spirit of the Group. The Group obtained OHSAS 18001 certification for its occupational health and safety management system in March 2005. As at 30 June 2009, the Group had approximately 10,800 full-time staff in Hong Kong and mainland China. Expenses related to employees (including directors' emoluments) for the Year amounted to approximately RMB453.2 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 has adopted a share option scheme for employees, refined its incentive bonus program and endeavoured to implement various continuous staff development programs, such as regular training and promotion opportunities. The Group also actively drives the interaction between staff and enterprise development, and cultivate diversified employee communication channels, in order to increase the staff's satisfaction and sense of belonging towards the enterprise, so as to attract and retain capable talents.

High-Tech Enterprises recognition brings tax advantage

In 2009, Dongguan Nine Dragons Paper Industries Co., Ltd., Dongguan Sea Dragon Paper Industries Co., Ltd and Nine Dragons Paper Industries (Taicang) Co., Ltd., which are the major subsidiaries of the Group, were recognised as High-Tech Enterprises by the state. Such recognition will enable the above mentioned subsidiaries of the Group to enjoy a preferential tax rate of 15% in future. Certain other subsidiaries of the Group are also expected to receive similar recognition after their respective existing tax holidays expire.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB13,128.6 million for FY2009, representing a decrease of approximately 7.0% as compared with the last financial year. The major contributor of the Group's revenue was still its paper business which accounted for approximately 97.2% of the revenue, with the remaining revenue generated from its pulp business.

The Group's revenue for FY2009 decreased by approximately 7.0% as compared with the last financial year, as a result of substantial drop on average selling price of its packaging paperboard products while the Group's sales volume maintained a significant increase. Revenue of linerboard, high performance corrugated medium and coated duplex board for the Year accounted for approximately 48.9%, 27.1% and 19.7% respectively of the total revenue, compared to 47.2%, 27.7% and 23.4% respectively in the last financial year.

The Group's annual design production capacity in packaging paperboard as at 30 June 2009 was 7.85 million tpa, comprising 4.25 million tpa of linerboard, 2.65 million tpa of high performance corrugating medium and 0.95 million tpa of coated duplex board. In FY2009, the Group's total sales volume of packaging paperboard products reached approximately 5,268,000 tonnes, representing an increase of approximately 23.7% as compared to that of the last financial year. The Group's total sales volume of kraft pulp products increased to approximately 119,000 tonnes from approximately 56,000 tonnes in FY2008, representing an increase of approximately 112.5%. The increase of sales volume of packaging paperboard was supported by the newly introduced PM18, PM19, PM20, PM21, PM22 and PM23, which commenced their commercial operation in January 2009 after optimisation period, with an additional production capacity of 2.4 million tpa. The total sales volume of packaging paperboard products contributed by these 6 new PMs reached approximately 796,000 tonnes since their commencement of commercial operation in January 2009.

The sales volume of linerboard, high performance corrugated medium and coated duplex board for FY2009 increased by approximately 33.3% and 25.5% and decreased by approximately 2.8% respectively.

The decrease of selling price in the Group's products led to the decrease in revenue. The average selling prices of linerboard, high performance corrugated medium and coated duplex board for FY2009 decreased by approximately 27.7%, 27.6% and 19.2% respectively. The majority of the Group's sales continued to be realised from the domestic market, in particular from the corrugating medium and coated duplex board sectors. For FY2009, revenue related to domestic consumption represented approximately 80.2% of the Group's total revenue, while the remaining revenue are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2009, sales to the Group's top five customers in aggregate accounted for approximately 4.2% of the Group's revenue, with that to the single largest customer accounted for approximately 1.3%. The corresponding percentages for the financial year ended 30 June 2008 were 8.2% and 2.0% respectively.

Gross profit

The gross profit for FY2009 was approximately RMB2,348.4 million, a decrease of approximately RMB523.9 million or 18.2% as compared with the RMB2,872.3 million in the last financial year. The gross margin increased from 12.6% in first half to approximately 22.9% in the second half of FY2009, though overall gross margin for the Year decreased from 20.4% to approximately 17.9%. The decrease in gross profit margin was mainly due to the substantial decrease in selling price while the raw materials (main cost of recovered paper and coal) maintained at a very high level during the first half of FY2009.

Other gains — net

Other gains, net, of the Group decreased to approximately RMB100.2 million in FY2009 from RMB228.8 million in the last financial year. The decrease was mainly due to the substantial drop in sales of scrap materials and electricity in FY2009 and net negative goodwill recognised in the last financial year.

Selling expenses and marketing costs

Selling and marketing costs were approximately RMB382.7 million in FY2009, compared with RMB335.5 million in FY2008. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.4% in the last financial year to approximately 2.9% in FY2009, which was a result of the larger sales volume and wider geographical coverage.

Administrative expenses

Administrative expenses decreased from RMB499.8 million in the last financial year to approximately RMB320.9 million in FY2009. The amount of administrative expenses as a percentage of group revenue decreased from 3.5% in FY2008 to approximately 2.4% in FY2009. The decrease during the Year was mainly a result of write-back from the share option expenses of approximately RMB94.1 million, optimal level of management and administrative costs incurred after the launch of new paper machines.

Operating profit

The operating profit for FY2009 was approximately RMB1,744.9 million, a decrease by approximately 23.0% over the last financial year. The operating profit margin increased from 16.1% in FY2008 to approximately 17.8% in the second half of FY2009.

Gain on repurchase of senior notes

Senior notes with principal amount of USD181.4 million (equivalent to approximately RMB1,241.0 million) were repurchased by the Company at discounted prices and net gains of approximately RMB594.0 million were recognised.

Finance costs

Finance costs increased by approximately 392.8% to approximately RMB502.2 million in FY2009 from RMB101.9 million in the last financial year. The increase of finance costs was mainly due to the increase of the average bank borrowings for FY2009 as compared with the last financial year and the small portion of the exchange gains which due to the relatively slow appreciation of RMB in FY2009, amounted to approximately RMB0.2 million in FY 2009, as compared with RMB221.3 million in FY2008.

Net profit

The profit attributable to equity holders for FY2009 was approximately RMB1,661.1 million, a decrease of approximately RMB215.8 million as compared with the last financial year.

The net profit margin of second half in FY2009 excluding the gains on the repurchase of senior notes, which amounted to approximately RMB508.0 million, was approximately 12.2% as compared to 3.8% and 13.3% of the first half in FY2009 and FY2008 respectively.

Dividend

No interim dividend for the first half of FY2009 was paid to shareholders (for the first half FY2008 RMB1.68 cents per share).

For FY2009, the directors have proposed a final dividend of RMB3.50 cents per share, which will aggregate to approximately RMB151.7 million. The total dividend for the Year amounted to RMB3.50 cents per share, representing a decrease of RMB1.68 cents per share as compared with last financial year.

Taxation

Income tax charged for the Year amounted to approximately RMB175.5 million and decreased by approximately RMB87.6 million as compared with the last financial year.

In FY2009, the Group's average effective tax rate decreased substantially from 12.2% in FY2008 to approximately 9.6% in FY2009.

Working capital

The inventories decreased by approximately RMB1,317.6 million for FY2009 and amounted to approximately RMB1,500.9 million as at 30 June 2009, representing a decrease of approximately 46.7% from that of the last financial year. Inventories mainly comprise recovered paper, spare parts (mainly for repair and maintenance of related paper machines) and kraft pulp of approximately RMB1,049.0 million and finished goods of approximately RMB451.9 million.

The decrease in raw materials and finished goods were primarily the result of reduced raw materials cost and the reduction of stock up period.

As a result, during FY2009, inventory turnover days decreased to approximately 51 days as compared to 92 days for FY2008.

Trade receivables and bills receivable decreased by approximately RMB583.8 million for FY2009 and amounted to approximately RMB1,408.0 million, representing a decrease of approximately 29.3% from that of the last financial year. During FY2009, the turnover days of trade receivables and bills receivable were approximately 39 days as compared to 52 days for FY2008.

Trade payables and bills payable decreased by approximately RMB362.5 million for FY2009 and amounted to approximately RMB1,924.0 million, representing a decrease of approximately 15.9% from that of the last financial year. Trade payables and bills payable turnover days were approximately 65 days for FY2009 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 RMB1,395.8 million in FY2008 to approximately RMB3,929.3 million in FY2009, representing an increase of approximately 181.5%. The increase was attributable primarily to the changes in working capital, mainly the decrease in inventories and trade and other receivables. In terms of available financial resources as at 30 June 2009, the Group had total undrawn borrowing facilities of approximately RMB7,337.5 million and cash and bank balances of approximately RMB1,508.5 million. As at 30 June 2009, the shareholders' funds were approximately RMB14,693.3 million, an increase of approximately RMB1,421.8 million from that of the last financial year. The shareholders' fund per share increased by approximately 10.8% from RMB3.06 to approximately RMB3.39.

Debts management

The Group's outstanding borrowings decreased by RMB1,134.2 million from RMB14,961.9 million as at 31 December 2008 to approximately RMB13,827.7 million as at 30 June 2009. In the meantime, the net borrowings to total equity ratio of the Group decreased from 102.7% as at 31 December 2008 to approximately 82.4% as at 30 June 2009, due to the repayment of bank loans and the repurchase of senior notes.

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 compares the loan margin spread under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

(b) Minimise currency risk

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings. As at 30 June 2009, total foreign currency borrowings amounted to the equivalent of approximately RMB4,725.7 million and loans denominated in RMB amounted to approximately RMB9,102.0 million, representing approximately 34.2% and 65.8% of the Group's borrowings respectively.

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

Cost of borrowing

Average borrowing cost in FY2009 dropped to approximately 4.871% and 3.490% per annum from 6.493% and 5.528% per annum in FY2008 for long-term bank borrowings and short-term bank borrowings respectively due to the Group's prudent use of fixed and floating rate debt. The gross interest and finance charges (including interest capitalised but before interest income and impact from derivative financial instruments) increased to approximately RMB973.0 million in FY2009 from RMB611.6 million in FY2008.

Capital expenditures

For FY2009, the Group invested approximately RMB4,277.6 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 machineries of approximately RMB2,393.3 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the construction of PM27/28 and PM29/30 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 FY2009, the Group had no material contingent liabilities.

THE GROUP IN THE LAST FIVE YEARS

In millions of RMB

	For the year ended 30 June				
Consolidated Income Statement	**2009**	**2008**	**2007**	**2006**	**2005**
Sales	13,128.6	14,113.6	9,837.7	7,902.2	4,825.4
Cost of goods sold	(10,780.2)	(11,241.3)	(7,308.8)	(6,041.3)	(4,064.9)
Gross profit	2,348.4	2,872.3	2,528.9	1,860.9	760.5
Other gains — net	100.2	228.8	311.2	357.0	24.1
Selling and marketing costs	(382.7)	(335.5)	(195.4)	(172.8)	(91.5)
Administrative expenses	(320.9)	(499.7)	(351.3)	(233.9)	(135.0)
Operating profit	1,745.0	2,265.9	2,293.4	1,811.2	558.1
Gain on repurchase of senior notes	594.0	—	—	—	—
Finance costs	(502.2)	(101.9)	(131.4)	(294.8)	(179.8)
Profit before income tax	1,836.8	2,164.0	2,162.0	1,516.4	378.3
Income tax expense	(175.5)	(263.2)	(101.7)	(116.3)	(60.4)
Profit for the year	1,661.3	1,900.8	2,060.3	1,400.1	317.9
Profit attributable to:					
Equity holders of the Company	1,661.1	1,876.9	2,003.4	1,374.8	303.7
Minority interests	0.2	23.9	56.9	25.3	14.2

	For the year ended 30 June				
Consolidated Cash Flow Statement	**2009**	**2008**	**2007**	**2006**	**2005**
Net cash generated from operating activities	3,929.3	1,395.8	756.1	1,067.1	1,063.0
Net cash used in investing activities	(3,739.3)	(9,809.4)	(5,524.0)	(1,454.1)	(1,537.3)
Net cash (used in)/generated from financing activities	(236.4)	8,270.2	3,727.0	2,556.0	681.4
Net (decrease)/increase in bank and cash balances	(46.4)	(143.4)	(1,040.9)	2,169.0	207.1

In millions of RMB

Consolidated Balance Sheet	As at 30 June 2009	2008	2007	2006	2005
Total assets	33,526.2	32,612.9	20,362.4	14,872.6	11,700.3
Inventories	1,500.9	2,818.5	1,502.5	932.0	998.2
Trade receivables and bills receivable	1,378.0	1,940.9	1,770.4	1,312.4	763.3
Prepayments and other receivables	662.3	911.3	417.7	246.6	233.7
Derivative financial instruments	0.4	—	24.9	—	—
Bank and cash balances	1,552.7	1,956.0	1,748.2	3,017.3	1,310.9
Total current assets	5,094.3	7,626.7	5,463.7	5,508.3	3,306.1
Property, plant and equipment	27,011.4	23,536.6	13,802.7	8,625.5	7,640.0
Land use rights	1,185.8	1,185.4	949.3	592.1	607.5
Intangible assets	234.7	238.3	146.7	146.7	146.7
Derivative financial instruments	—	25.9	—	—	—
Total non-current assets	28,431.9	24,986.2	14,898.7	9,364.3	8,394.2
Total liabilities	18,633.9	19,067.8	8,726.4	7,236.3	9,292.8
Trade payables and bills payable	1,924.0	2,286.5	1,068.5	1,516.8	2,167.7
Other payables	1,750.4	1,552.3	698.1	476.7	646.7
Current income tax liabilities	161.3	72.4	21.4	67.4	44.5
Derivative financial instruments	—	1.7	7.4	—	—
Short-term borrowings	1,103.2	2,295.5	2,543.1	2,176.9	2,431.6
Total current liabilities	4,938.9	6,208.4	4,338.5	4,237.8	5,290.5
Long-term borrowings	12,724.5	12,389.9	4,088.9	2,743.9	3,817.3
Deferred income tax liabilities	558.7	452.4	281.8	226.8	169.8
Other payables	397.9	—	—	—	15.2
Deferred government grants	13.9	17.1	17.2	27.8	—
Total non-current liabilities	13,695.0	12,859.4	4,387.9	2,998.5	4,002.3
Net current assets/(liabilities)	155.4	1,418.3	1,125.2	1,270.5	(1,984.4)
Total assets less current liabilities	28,587.3	26,404.5	16,023.9	10,634.8	6,409.8
Capital and reserves attributable to equity holders of the Company	14,693.3	13,271.5	11,512.9	7,541.4	2,321.9
Minority interests	199.0	273.6	123.1	94.9	85.6

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 emphasise 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 FY2009. 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.

Despite the removal of the requirement for a qualified accountant in the Main Board Listing Rules effective 1 January 2009, the Group continues to maintain a team of qualified accountants to oversee its financial reporting and other accounting-related issues in accordance with the relevant laws, rules 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.

Biographical details of the Directors, showing a good balance of professional expertise and diverse range of experience among them, are set out on pages 56 to 58 of this Annual Report.

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 of the Directors of the Company are appointed for a specific term. In accordance with the Company's Bye-laws, at each annual general meeting, all the Directors shall retire from office but shall be eligible for re-election.

The Board held five meetings in FY2009 and meetings attended by each of Directors were as follows:

Name of Directors	**Number of Meetings attended/eligible to attend**
Executive Directors	
Ms. Cheung *(Chairlady)*	4/5
Mr. Liu *(Deputy Chairman and Chief Executive Officer)*	4/5
Mr. Zhang *(Deputy Chief Executive Officer)*	5/5
Mr. Zhang Yuanfu* *(Chief Financial Officer)*	5/5
Mr. Lau Chun Shun△	3/5
Ms. Gao Jing	5/5
Independent Non-Executive Directors	
Ms. Tam Wai Chu, Maria	5/5
Mr. Chung Shui Ming, Timpson	4/5
Dr. Cheng Chi Pang	5/5
Mr. Wang Hong Bo	5/5

* Mr. Zhang Yuanfu was appointed a Director on 8 October 2008.

△ Mr. Lau Chun Shun was re-designated from Non-Executive Director to Executive Director on 3 August 2009.

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 FY2009, 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 FY2009, 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 66 and 67.

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 FY2009, and also set out details of the share options to the Directors and the employees on pages 40 to 44 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

During the FY2009, three Remuneration Committee 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)*	3/3
Mr. Chung Shui Ming, Timpson	1/3
Dr. Cheng Chi Pang	3/3
Mr. Liu	2/3
Mr. Zhang	3/3

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 FY2009, set out on pages 45 to 46 of this Annual Report.

During the FY2009, six 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)*	6/6
Ms. Tam Wai Chu, Maria	6/6
Mr. Chung Shui Ming, Timpson	5/6
Mr. Wang Hong Bo	6/6

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 2008 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 FY2008 (99.99%).
- Approval of a final dividend for the FY2008 (99.99%).
- All Directors were re-elected and elected as Directors (95.49% to 99.77% in respect of each individual resolution).
- Fix the remuneration of the Directors (99.99%).
- Re-appointment of PricewaterhouseCoopers as the external auditor of the ND Holdings (99.99%).
- Grant of a general mandate to Directors to issue additional shares in the Company (89.16%), repurchase by the Company of its own Shares (99.99%), extension of the general mandate regarding issue of additional Shares (89.75%).

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 FY2009

During the FY2009, the Remuneration Committee held 3 meetings. The following is a summary of the major tasks completed by the Remuneration Committee during the year.

- reviewed the remuneration level for Directors and recommended to keep the remuneration level unchanged for FY2009;
- recommended the Board to approve the fee of the Directors and senior management;
- reviewed the remuneration of Directors;
- reviewed and approved the remuneration packages and service contracts of Directors;
- recommended a salary freeze for FY2009; 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.

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.

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

		Number of share options					Approximate
Grantees		**Balance as at 1 July 2008**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Balance as at 30 June 2009**	**percentage of shareholding**
i)	**Directors**						
	Ms. Cheung (Note 3)	13,538,652	—	—	—	13,538,652	0.312%
	Mr. Liu (Note 3)	13,531,348	—	—	—	13,531,348	0.312%
	Mr. Zhang	7,088,893	—	—	—	7,088,893	0.164%
	Ms. Gao Jing	300,000	—	—	—	300,000	0.007%
	Ms. Tam Wai Chu, Maria	700,002	—	—	—	700,002	0.016%
	Mr. Chung Shui Ming, Timpson	700,002	—	—	—	700,002	0.016%
	Dr. Cheng Chi Pang	700,002	—	—	—	700,002	0.016%
	Sub-total:	36,558,899	—	—	—	36,558,899	0.843%
ii)	**Employees and others** (Note 4)	28,517,402	(3,292,600)	—	(11,212,800)	14,012,002	0.323%
	Total	**65,076,301**	**(3,292,600)**	**—**	**(11,212,800)**	**50,570,901**	**1.166%**

* The issued share capital of the Company was 4,335,304,699 as at 30 June 2009

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) Each of the grantees to whom options have been conditionally granted under the Pre-Listing 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/her on 1 January 2006 ("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 Pre-Listing Share Option Scheme.

(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$5.43.

Save as disclosed above, no option was granted, cancelled or lapsed under the Pre-Listing Share Option Scheme during the FY2009.

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.

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:

Grantees	Balance as at 1 July 2008	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2009	Approximate percentage of shareholding
	Number of share options						
i) **Directors**							
Ms. Cheung (Notes 1 & 2)	33,200,000	—	—	—	—	33,200,000	0.766%
Mr. Liu (Notes 1 & 2)	33,200,000	—	—	—	—	33,200,000	0.766%
Mr. Zhang (Notes 1 & 2)	33,200,000	—	—	—	—	33,200,000	0.766%
Mr. Zhang Yuanfu (Note 3 & 5)	—	4,000,000	—	—	—	4,000,000	0.092%
Sub-total:	99,600,000	4,000,000	—	—	—	103,600,000	2.390%
ii) **Employees and others** (Note 4)	—	22,352,286	(1,150,000)	(3,961,143)	(700,000)	16,541,143	0.382%
Total:	**99,600,000**	**26,352,286**	**(1,150,000)**	**(3,961,143)**	**(700,000)**	**120,141,143**	**2.772%**

* The issued share capital of the Company was 4,335,304,699 as at 30 June 2009.

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 is 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.

3. Details of the options granted to Mr. Zhang Yuanfu are as follows:

Date of grant ("Grant Date")	Exercise Price HK$	Exercise Period	Balance as at 1 July 2008	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2009	Closing price immediately before Grant Date HK$
			Number of share options						
25 August 2008	4.310	25 August 2009 to 24 August 2013	—	1,000,000	—	—	—	1,000,000	4.20
28 October 2008	0.894	28 October 2009 to 27 October 2013	—	2,000,000	—	—	—	2,000,000	0.72
10 November 2008	1.590	11 November 2009 to 10 November 2013	—	1,000,000	—	—	—	1,000,000	1.44
Total:				**4,000,000**	**—**	**—**	**—**	**4,000,000**	

4. Details of the options granted to Employees and others are as follows:

Date of grant ("Grant Date")	Exercise Price HK$	Exercise Period	Number of share options: Balance as at 1 July 2008	Granted during the year	(Note 6) Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2009	Closing price immediately before Grant Date HK$
21 July 2008 (Note 5)	6.094	21 July 2009 to 20 July 2013	—	1,640,958	—	(1,640,958)	—	—	5.60
25 August 2008 (Note 5)	4.310	25 August 2009 to 24 August 2013	—	3,020,185	—	(2,320,185)	(700,000)	—	4.20
28 October 2008 (Note 5)	0.894	29 October 2009 to 28 October 2013	—	5,561,143	—	—	—	5,561,143	0.72
28 October 2008	0.894	29 October 2008 to 28 October 2013	—	10,530,000	(1,150,000)	—	—	9,380,000	0.72
7 April 2009 (Note 5)	3.320	8 April 2010 to 7 April 2014	—	1,600,000	—	—	—	1,600,000	3.40
Total:				**22,352,286**	**(1,150,000)**	**(3,961,143)**	**(700,000)**	**16,541,143**	

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. The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$1.69.

Save as disclosed above, no any other options were granted, cancelled or lapsed under the 2006 Share Option Scheme during the FY2009.

VALUE OF SHARE OPTIONS

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

	Pre-Listing Share Option Scheme	2006 Share Option Scheme					
Date of Grant:	1 January 2006	17 November 2006	21 July 2008	25 August 2008	28 October 2008	10 November 2008	7 April 2009
Model:	Binominal Valuation	Black-Scholes	Binominal Valuation	Binominal Valuation	Binominal Valuation	Binominal Valuation	Binominal Valuation
Risk-free rate:	Yield of 5-year Exchange Fund Notes	3.75%–3.81%	3.354%	2.897%	2.154%	1.798%	1.733%
Expected dividend yield:	5%	per annum	per annum	per annum	per annum	per annum	per annum
		1.00%–4.50%	1.013%	1.373%	7.356%	3.706%	1.800%
Expected volatility of the market price of the Company's Shares:	25%	28%	60%	61%	62%	62%	82%
Fair value (approximately):	HK$70,000,000	HK$364,000,000	HK$4,000,000	HK$8,000,000	HK$3,000,000	HK$1,000,000	HK$3,000,000

The Models require 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 2009 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 24 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

The Board adopted a new terms of reference in accordance with the changes of the Listing Rules with effective from 1 January 2009. 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 FY2009

The Audit Committee holds regular meetings, at least 4 times a year, and organizes additional meetings if and when necessary. During FY2009, the committee held 6 meetings. The following is a summary of the tasks completed by the Audit Committee during FY2009:

- reviewed the financial statements for the FY2008 and for the six months ended 31 December 2008 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 FY2008 external audit fees;
- reviewed the "Continuing Connected Transactions" set forth on pages 49 to 51 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 newly amended Corporate Governance Code which took effect on 1 January 2009, 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 2009 AGM, PricewaterhouseCoopers be re-appointed as the Company's external auditor for 2010.

For the FY2009, the external auditor of the Company received approximately RMB5.9 million for audit services and RMB0.1 million for tax and other 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.

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 FY2009 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 2.5% 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 reporting and announcement requirements of the Listing Rules.

(a) Longteng Purchase Agreement

Dongguan Longteng is a company which is held as to 70% by Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung. On 26 June 2008, Dongguan Longteng and the Company entered into a purchase agreement ("Longteng Purchase Agreement"). Pursuant to the Longteng Purchase Agreement, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2008 to 30 June 2011.

During the FY2009, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB52.2 million and RMB173 million respectively.

(b) Longteng Supply Agreement

On 26 June 2008, Dongguan Longteng and the Company entered into a supply agreement ("Longteng Supply Agreement"). Pursuant to the Longteng Supply Agreement, Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group from 1 July 2008 to 30 June 2011.

During the FY2009, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB74.6 million and RMB126 million respectively.

(c) Forestry Supply Agreement

ND Xing An is owned as to 55% by the Company and 45% owned by China Inner Mongolia Forestry. On 26 June 2008, ND Xing An and China Inner Mongolia Forestry, which is a substantial shareholder of ND Xing An, entered into the Forestry 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 2008 to 30 June 2011.

During the FY2009, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB66.5 million and RMB156 million respectively.

(d) Taicang Purchase Agreement

Taicang Packaging is a company which is held as to 100% by Mr. Zhang. On 26 June 2008, the Company and Taicang Packaging entered into a purchase agreement ("Taicang Purchase Agreement"), whereby Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group for a period of one year commencing on 1 July 2008 and ended on 30 June 2009.

During the FY2009, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB74.9 million and RMB241 million respectively.

(e) ACN Supply Agreement

ACN is indirectly wholly owned by Ms. Cheung. On 26 June 2008, the Company and ACN entered into a supply agreement ("ACN Supply Agreement") pursuant to which ACN agreed to supply recovered paper to members of the Group from 1 July 2008 to 31 July 2008.

(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are each of sizes that exceed 2.5% 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 and 14A.38 of the Listing Rules.

(a) Renewal Taicang Purchase Agreement

On 30 June 2008, the Company and Taicang Packaging entered into a renewed Taicang Purchase Agreement ("Renewal Taicang Purchase Agreement), pursuant to which Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group for a term of two years commencing on 1 July 2009 and ending on 30 June 2011. The terms of the Taicang Purchase Agreement are similar to those of the Renewal Taicang Purchase Agreement.

(b) Renewal ACN Supply Agreement

On 30 June 2008, the Company and ACN entered into a renewed ACN Supply Agreement ("Renewal ACN Supply Agreement"), pursuant to which ACN agreed to supply recovered paper to members of the Group for a term of commencing on 1 August 2008 and ending on 30 June 2011. The terms of the ACN Supply Agreement are similar to those of the Renewal ACN Supply Agreement.

During the FY2009, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB3,574 million and RMB11,241 million respectively.

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.

The auditor of the Company has performed certain agreed-upon procedures in respect of the continuing connected transactions mentioned above, and on a sample basis with respect to items (ii) and (iii) below in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Pursuant to Rule 14A.38 of the Listing Rules, the auditor has, based on the work performed, provided a letter to the Board stating that the continuing connected transactions:

(i) have been approved by the Board;

(ii) were in accordance with the pricing policies of the Group if the continuing connected transactions involve provision of goods or services by the Group;

(iii) were entered into in accordance with the relevant agreements governing the continuing connected transactions; and

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

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 never been charged for material violation of any environmental laws or regulations, or subject to any fine in respect thereof.

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 granted the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau respectively. The Group's production bases have obtained 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.

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. We have adopted additional treatment process for our newly-constructed wastewater treatment facilities which will further reduce the water pollutants through the addition of water purification agents.

				Parameter								
		PRC government	ND Paper	Before treatment				Average parameter after treatment				
	Unit	approved level	standards	2006	2007	2008	2009	2006	2007	2008	2009
COD_{CR}	mg/l	≤100	80	2500	2500	3000	3000	<100	80	80	80
BOD_5	mg/l	≤20	20	1000	1000	1300	1300	<20	10	10	10
SS	mg/l	≤70	30	2000	2000	2800	2800	<70	28	28	28
PH		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 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 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.

				Parameter								
		PRC government	ND Paper	Before treatment				Average parameter after treatment				
	Unit	approved level	standard	2006	2007	2008	2009	2006	2007	2008	2009
SO_2	mg/m^3	≤400	100	2360	2520	2800	2700	<55	60	80	88
Dust	mg/m^3	≤50	50	24600	25400	25400	25400	<29	30	30	30
NO_x	mg/m^3	≤450	450	—	—	—	—	<356	339	333	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 desulphurisation facilities. Monitoring devices are installed for real-time monitoring.

To enhance our overall utilisation of solid waste, we also incinerate all solid waste for steam production and thereby reduce coal consumption.

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 technical 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.

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, ND Paper 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. The Group has organised charity fund raising activities promptly after the outbreaks of tsunami in South Asia in 2004 and Sichuan earthquake in 2008. The Group has also contributed to the society by making donations to local charity groups.

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 South China University of Technology 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 6 years and a total of 422 participants have joined ND Paper.

Directors and Senior Management

PROFILE OF EXECUTIVE DIRECTORS

Ms. Cheung Yan, 52, has been the Chairlady of the Company since 2006. 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 13 years of experience in paper manufacturing and over 23 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, vice chairman of China Federation of Overseas Chinese Entrepreneurs, executive vice president of the Guangdong Overseas Chinese Enterprises Associations, vice chairman of Chamber of Commerce of Guangdong province and honorary chairman of US-China Federal Association of Business Councils. Ms. Cheung is also 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. Ms. Cheung is the wife of Mr. Liu, the elder sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 47, has been the Deputy Chairman and Chief Executive Officer of the Company since 2006. 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 18 years of experience in international trade and over 10 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 Nineth 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, 41, has been the Executive Director and Deputy Chief Executive Officer of the Company since 2006. 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 15 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.

Mr. Zhang Yuanfu, 46, has been an Executive Director of the Company since 2008. He also serves as the Group's Chief Financial Officer and the Qualified Accountant 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 23 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, 28, 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. Mr. Lau is the son of Ms. Cheung and Mr. Liu and the nephew of Mr. Zhang.

Ms. Gao Jing, 46, has been an Executive Director of the Company since 2006. She joined the Group in June 1996 and has 13 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 deputy general manager of the Group in charge of engineering.

PROFILE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, GBS, JP, 63, has been an Independent Non-Executive Director of the Company since 2006. 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, 57, has been an Independent Non-Executive Director of the Company since 2006. Mr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited and Miramar Hotel and Investment Company, Ltd., companies whose shares are listed on The Stock Exchange of Hong Kong Limited. He is an independent non-executive director of China State Construction Engineering Corporation Limited, a company whose shares are listed on The Shanghai Stock Exchange. In addition, Mr. Chung is a member of the National Committee of the 11th Chinese People's Political Consultative Conference.

Mr. Chung was previously an executive director of Hantec Investment Holdings Limited and Shimao International Holdings Limited, an independent non-executive director of Stockmartnet Holdings Limited and Tai Shing International (Holdings) Limited, the Chairman of the Hong Kong Housing Society, the Council of the City University of Hong Kong and the Fund Management Sub-Committee of the Hong Kong Housing Authority. Mr. Chung obtained a bachelor degree in Science from the University of Hong Kong and a master degree in Business Administration from the Chinese University of Hong Kong. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Dr. Cheng Chi Pang, 52, has been an Independent Non-Executive Director of the Company since 2006. 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 28 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, 55, has been an Independent Non-Executive Director of the Company since 2006. 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. Wu, Chung-Sheng, Johnson, 42, joined as the Group and President of Dongguan Nine Dragons Paper Industries Co., Ltd. in charge of group management and operations since April, 2009. He has more than 15 years of manufacturing experience in Taiwan and mainland China. Prior to joining the Group, Mr. Wu served as General Manager in Perlos (Guangzhou) Ltd. (a Finnish company), Hi-P (Tianjin) (a Singaporean company), and Taiwan Formosa LED, Inc.. Mr. Wu holds a master degree from National Tsing Hua University in Taiwan.

Mr. Jehng Naii-jia, Stephen, 49, joined as President of Nine Dragons Paper Industries (Taicang) Co., Ltd. in charge of operation and management since July, 2008. He has more than 20 years of progressive hands-on global experience in numerous aspects from manufacturing management, project management, supply chain management and operations management in USA to general management in China. Prior to joining the Group, Mr. Jehng served as a General Manager in TPO Displays (Nanjing) Ltd, Senior Director of Operations in Phillips Electronics, General Manager in Flash Electronics, INC. (China) and Operations Director in Solectron Corporation, USA. Mr. Jehng earned his master degree in Engineering Management from University of Southwestern Louisiana, USA. He received his bachelor degree in Industrial Engineering from TungHai University in Taiwan.

Mr. Wang Le Xiang, 42, has served as the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. in charge of supervision and management since March 2007. Mr. Wang has over 17 years experience in production, technology and management in the paper manufacturing industry. He graduated from Tianjin Institute of Light Industry with a bachelor degree in Stock Preparation and Paper Manufacturing Technology.

Mr. Zhou Chuan Hong, 48, has joined the Group since 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 21 years in equipment installment, 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). He is an engineer.

Mr. Li Jing Hong, 43, has joined the Group since 1998. He has served as the General Manager of Cheng Yang Paper Mill Co. Ltd. in charge of supervision and management in Vietnam base since June 2008. Mr. Li has over 20 years experience in production, technology and management in the paper manufacturing industry. He graduated from Dalian Light Industry College with a bachelor degree in Stock Preparation and Paper Manufacturing Technology.

Mr. Li Jian Bo, 43, has served as the General Manager of Nine Dragons Pulp and Paper (Leshan) Co., Ltd. in charge of supervision and management since August 2008. Prior to joining the Group, he worked as the General Manager of Sichuan Rui Song Paper Co. Ltd. Mr. Li has over 20 years experience in production, technology and management in the 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. Wang Yin Long, 46, has served as the General Manager of ND Xing An in charge of supervision and management since July 2009. Prior to joined the Group, he played divers senior management roles in Inner Mongolia companies. Mr. Wang has over 25 years experience in infrastructure design, operation and management. He graduated from Inner Mongolia Broadcasting Television University. He is a senior engineer and holds the qualification of China Business Manager.

Mr. Ng Kwok Fan, Benjamin, 53, has served as the Group's Deputy General Manager and Assistant to Chairman in charge of corporate administration and investor relations since February 2006. Before joining the Group, he worked in several international marketing communications groups and public companies listed in Hong Kong and overseas. Mr. Ng has extensive experience in advertising, marketing and corporate finance. He graduated from the University of Hong Kong and is a member of the Certified General Accountants Association of Canada.

Mr. Chu Yiu Kuen, Ricky, 38, has served as the Group's Deputy Chief Financial Officer in charge of financial operation since October 2008. Mr Chu has more than 15 years of experience in auditing, accounting and finance. Prior to joining the Group, Mr. Chu had worked in one of the major international accounting firms for over 8 years and the Listing Division of the Stock Exchange for over 2 years where he accumulated experience in floatation and business advisory of a wide variety of business. He obtained a bachelor degree in Economics and is a member of both Certified Public Accountants of Australia and of Hong Kong Institute of Certified Public Accountants.

Mr. Zhang Chuang, 42, has served as Chief Information Officer of the Group in charge of corporate information system since September 2008. Before 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, Mr. Zhang has 16 years IT management experience in manufacturing industry. He holds a bachelor degree in Electronic Engineering and a master degree and an MBA of Queens' University, Canada in Computer Science.

Directors' Report

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for the FY2009.

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 through a subsidiary, and produces unbleached kraft pulp through its joint venture subsidiary, which the Group uses as raw material for its own production as well as sells to third parties.

RESULTS AND APPROPRIATIONS

The results of the Group for the FY2009 are set out in the accompanying financial statements on page 68.

No interim dividend for the six-month ended 31 December 2008 was paid to Shareholders (six-month ended 31 December 2007: RMB1.68 cents per Share).

The Directors recommend the payment of a final dividend of RMB3.50 cents (equivalent to approximately HK3.97 cents) per share for the FY2009, which is expected to be payable on 16 December 2009 subject to the approval of the 2009 AGM. 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 27 November 2009. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.88102 as at 14 September 2009 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 32 to 33.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2009 are set out in note 9 to the financial statements.

FIXED ASSETS

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 19 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 15 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 16 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the FY2009, the five largest customers of the Group accounted for approximately 4.2% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group account for approximately 49.0% of its aggregate purchases.

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 (appointed on 8 October 2008)
Mr. Lau Chun Shun (re-designated as an executive director on 3 August 2009)
Ms. Gao Jing

Non-Executive Director

Mr. Law Wang Chak, Waltery (appointed on 1 August 2008 and resigned on 8 October 2008)

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 Clause 87 of the Company's Bye-laws, all Directors should retire at the forthcoming Annual General Meeting and, being eligible, 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 2009, 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 2009.

		Number of Shares held			Number of underlying Shares (in respect of share options) held			
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	30,552,106	13,562,836	2,992,120,000	46,738,652	46,731,348	3,129,704,942	72.19%
Mr. Liu	Long Position	13,562,836	30,552,106	2,992,120,000	46,731,348	46,738,652	3,129,704,942	72.19%
Mr. Zhang	Long Position	13,025,928	—	—	40,288,893	—	53,314,821	1.23%
Mr. Zhang Yuanfu	Long Position	—	—	—	4,000,000	—	4,000,000	0.09%
Ms. Gao Jing	Long Position	200,000	467,000	—	300,000	1,200,000	2,167,000	0.05%
Ms. Tam Wai Chu, Maria	Long Position	516,668	—	—	700,002	—	1,216,670	0.03%
Mr. Chung Shui Ming, Timpson	Long Position	709,494	—	—	700,002	—	1,409,496	0.03%
Dr. Cheng Chi Pang	Long Position	—	—	—	700,002	—	700,002	0.02%

Note:

(1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held as to approximately 29.706% by The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee, of YC 2006 Family Irrevocable Trust, as to approximately 7.367% by Ms. Cheung and as to approximately 37.053% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

(2) Details of the share options granted under the Pre-Listing Share Options Scheme and 2006 Share Option Scheme are set out on pages 40 to 44 in the section of Remuneration Committee.

(B) Interests in Associated Corporation — Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficiary Owner	7,367	7.367%
Mr. Liu	Long Position	Beneficiary of a trust	37,053	37.053%
Mr. Zhang	Long Position	Beneficiary of a trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of a trust	14,853	14.853%

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 2009, 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2009, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executives of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in the Shares or underlying Shares of the Company:

Name of Shareholder	Long Position/ Short Position	Capacity	Number of Shares held (Note)	Approximate percentage of total issued Shares
Best Result (Note)	Long Position	Beneficial Owner	2,992,120,000	69.02%
The Northern Trust Company of Delware	Long Position	Trustee of YC2006 Family Irrevocable Trust	2,992,120,000	69.02%
Bank of the West (Note)	Long Position	Trustee of MCL Living Trust	2,992,120,000	69.02%

Note:

Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held as to approximately 29.706% by The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee, of YC 2006 Family Irrevocable Trust, as to approximately 7.367% by Ms. Cheung and as to approximately 37.053% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

Save as disclosed above, as 30 June 2009, as far as the Company is aware of, there was no other person (other than the above-mentioned Director and the chief executive of the Company) who had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

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

During the year, the Group donated a total of approximately RMB100,000 for charitable purposes.

POST BALANCE SHEET DATE EVENT

Details of post balance sheet date event of a material nature are set out in note 34 to the financial statements.

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 2009.

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 34, in which the details of the Company's corporate governance compliance are set out;

(b) "Remuneration Committee" on page 39, in which the scope of duties and activities of the Remuneration Committee during the year are set out;

(c) "Audit Committee" on page 45 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 47, 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 49, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 52, 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 32 to the financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

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.

AUDITOR

The Group's financial statements for the FY2009 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 2009 AGM.

On behalf of the Board
Cheung Yan
Chairman

Hong Kong, 14 September 2009

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 68 to 134, which comprise the consolidated and company balance sheets as at 30 June 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NINE DRAGONS PAPER (HOLDINGS) LIMITED *(CONTINUED)*
(incorporated in Bermuda with limited liability)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

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 2009 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, 14 September 2009

Balance Sheets

	Note	Consolidated 30 June 2009 RMB'000	Consolidated 30 June 2008 RMB'000	Company 30 June 2009 RMB'000	Company 30 June 2008 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**27,011,394**	23,536,557	**2,293**	2,638
Land use rights	7	**1,185,815**	1,185,424	**—**	—
Intangible assets	8	**234,647**	238,284	**—**	—
Investments in subsidiaries	9	**—**	—	**2,414,955**	2,414,156
Derivative financial instruments	12	**—**	25,923	**—**	25,923
		28,431,856	24,986,188	**2,417,248**	2,442,717
Current assets					
Inventories	10	**1,500,869**	2,818,476	**—**	—
Trade and other receivables	11	**2,040,339**	2,852,233	**7,952,250**	8,735,675
Derivative financial instruments	12	**441**	—	**—**	—
Restricted cash	13	**44,171**	393,175	**—**	—
Bank and cash balances	14	**1,508,542**	1,562,873	**27,210**	44,410
		5,094,362	7,626,757	**7,979,460**	8,780,085
Total assets		**33,526,218**	32,612,945	**10,396,708**	11,222,802
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	**6,539,269**	6,526,986	**6,539,269**	6,526,986
Other reserves	16	**1,250,050**	1,233,201	**2,139,718**	2,234,946
Retained earnings					
— Proposed final dividend	29	**151,736**	151,580	**151,736**	151,580
— Unappropriated retained earnings		**6,752,267**	5,359,735	**639,321**	255,864
		14,693,322	13,271,502	**9,470,044**	9,169,376
Minority interests		**199,043**	273,648	**—**	—
Total equity		**14,892,365**	13,545,150	**9,470,044**	9,169,376

		Consolidated		Company	
	Note	**30 June 2009 RMB'000**	30 June 2008 RMB'000	**30 June 2009 RMB'000**	30 June 2008 RMB'000
LIABILITIES					
Non-current liabilities					
Other payables	17	**397,905**	—	**—**	—
Deferred government grants	18	**13,870**	17,039	**—**	—
Borrowings	19	**12,724,507**	12,389,923	**801,671**	2,023,226
Deferred income tax liabilities	20	**558,695**	452,421	**—**	—
		13,694,977	12,859,383	**801,671**	2,023,226
Current liabilities					
Derivative financial instruments	12	**—**	1,730	**—**	—
Trade and other payables	17	**3,674,389**	3,838,793	**124,993**	30,200
Current income tax liabilities		**161,246**	72,374	**—**	—
Borrowings	19	**1,103,241**	2,295,515	**—**	—
		4,938,876	6,208,412	**124,993**	30,200
Total liabilities		**18,633,853**	19,067,795	**926,664**	2,053,426
Total equity and liabilities		**33,526,218**	32,612,945	**10,396,708**	11,222,802
Net current assets		**155,486**	1,418,345	**7,854,467**	8,749,885
Total assets less current liabilities		**28,587,342**	26,404,533	**10,271,715**	11,192,602

Ms. Cheung Yan
Chairman

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 73 to 134 are an integral part of these financial statements.

Consolidated Income Statement

	Note	For the year ended 30 June 2009 RMB'000	2008 RMB'000
Sales	21	**13,128,585**	14,113,586
Cost of goods sold		**(10,780,233)**	(11,241,250)
Gross profit		**2,348,352**	2,872,336
Other gains — net	22	**100,180**	228,780
Selling and marketing costs		**(382,742)**	(335,482)
Administrative expenses		**(320,853)**	(499,778)
Operating profit		**1,744,937**	2,265,856
Gain on repurchase of senior notes	19(a)	**594,039**	—
Finance costs	25	**(502,214)**	(101,884)
Profit before income tax		**1,836,762**	2,163,972
Income tax expense	26	**(175,491)**	(263,145)
Profit for the year		**1,661,271**	1,900,827
Profit attributable to:			
Equity holders of the Company		**1,661,122**	1,876,850
Minority interests		**149**	23,977
		1,661,271	1,900,827
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
— basic	28	**0.3835**	0.4354
— diluted	28	**0.3822**	0.4249
Dividends	29	**151,736**	223,720

The notes on pages 73 to 134 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 15)	Other reserves RMB'000 (Note 16)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 July 2007	6,179,161	1,056,189	4,277,584	11,512,934	123,084	11,636,018
Profit for the year	—	—	1,876,850	1,876,850	23,977	1,900,827
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	71,021	71,021
2007 final and 2008 interim dividends paid to equity holders of the Company	—	—	(501,543)	(501,543)	—	(501,543)
Appropriation to other reserves	—	141,576	(141,576)	—	—	—
Acquisition of subsidiaries	—	—	—	—	57,336	57,336
Partial disposal of equity interests in certain subsidiaries to minority shareholders	—	—	—	—	1,879	1,879
Share options granted to directors and employees	—	98,974	—	98,974	—	98,974
Repurchase of shares of the Company	(6,507)	—	—	(6,507)	—	(6,507)
Exercise of share options	354,332	(78,583)	—	275,749	—	275,749
Currency translation differences	—	(17,256)	—	(17,256)	(3,649)	(20,905)
Cash flow hedge reserve	—	32,301	—	32,301	—	32,301
Balance at 30 June 2008	6,526,986	1,233,201	5,511,315	13,271,502	273,648	13,545,150
Balance at 1 July 2008	**6,526,986**	**1,233,201**	**5,511,315**	**13,271,502**	**273,648**	**13,545,150**
Profit for the year	**—**	**—**	**1,661,122**	**1,661,122**	**149**	**1,661,271**
Capital contribution from minority shareholders of subsidiaries	**—**	**—**	**—**	**—**	**33,876**	**33,876**
Dividend paid to a minority shareholder	**—**	**—**	**—**	**—**	**(34,918)**	**(34,918)**
2008 final dividend paid to equity holders of the Company	**—**	**—**	**(151,580)**	**(151,580)**	**—**	**(151,580)**
Appropriation to other reserves	**—**	**116,854**	**(116,854)**	**—**	**—**	**—**
Repayment of capital to a minority shareholder	**—**	**—**	**—**	**—**	**(70,021)**	**(70,021)**
Share option expense written back	**—**	**(102,709)**	**—**	**(102,709)**	**—**	**(102,709)**
Share options granted to directors and employees	**—**	**14,880**	**—**	**14,880**	**—**	**14,880**
Exercise of share options	**12,283**	**(2,510)**	**—**	**9,773**	**—**	**9,773**
Currency translation differences	**—**	**(4,777)**	**—**	**(4,777)**	**(3,691)**	**(8,468)**
Cash flow hedge reserve	**—**	**(4,889)**	**—**	**(4,889)**	**—**	**(4,889)**
Balance at 30 June 2009	**6,539,269**	**1,250,050**	**6,904,003**	**14,693,322**	**199,043**	**14,892,365**

The notes on pages 73 to 134 are an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	For the year ended 30 June **2009** **RMB'000**	 2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**4,940,394**	2,061,312
Income tax paid		**(40,089)**	(106,328)
Receipt of prepaid income tax		**69,657**	—
Interest paid		**(1,040,622)**	(559,198)
Net cash generated from operating activities		**3,929,340**	1,395,786
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,725,003)**	(9,428,598)
Proceeds from disposals of property, plant and equipment	30	**3,762**	2,044
Payment for acquisition of land use rights		**(28,872)**	(173,839)
Proceeds from disposals of land use rights	30	**—**	4,179
Acquisition of subsidiaries, net of cash acquired		**—**	(223,917)
Interest received		**10,819**	10,647
Cash receipt from repayment of cash advance to a related party		**—**	76
Net cash used in investing activities		**(3,739,294)**	(9,809,408)
Cash flows from financing activities			
Repurchase of shares of the Company		**—**	(6,507)
Exercise of share options		**9,773**	275,749
Proceeds from borrowings		**11,700,329**	15,893,788
Repayments of borrowings		**(11,982,229)**	(7,580,185)
Tax refund received from government for purchase of property, plant and equipment	6	**174,538**	117,918
Dividend paid to a minority shareholder		**(27,016)**	—
Dividend paid to equity holders of the Company		**(151,580)**	(501,543)
Proceeds from capital contribution from minority shareholders of subsidiaries		**33,876**	71,021
Repayment of capital to a minority shareholder		**(70,021)**	—
Cash received from termination of cross currency swap		**75,936**	—
Net cash (used in)/generated from financing activities		**(236,394)**	8,270,241
Net decrease in bank and cash balances		**(46,348)**	(143,381)
Bank and cash balances at beginning of the year		**1,562,873**	1,748,224
Exchange losses on bank and cash balances		**(7,983)**	(41,970)
Bank and cash balances at end of the year	14	**1,508,542**	1,562,873

The notes on pages 73 to 134 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 engages in the manufacture and sale of packaging paperboard products and unbleached kraft pulp 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 on 14 September 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 ("HKFRS"). They 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. 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) Amendments and interpretations effective during the year ended 30 June 2009 but not relevant to the Group's operation.

- Amendments to HKAS 39 and HKFRS 7 — reclassification of financial assets
- HK(IFRIC) — Int 12, 'Service concession arrangements'
- HK(IFRIC) — Int 13, 'Customer loyalty programmes'
- HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009)
- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009)
- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009)
- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' — 'Eligible hedged items' (effective from 1 July 2009)
- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009)
- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009)
- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009)
- HKFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective from 1 January 2009)
- HK(IFRIC) — Int 9 (Amendment), 'Reassessment of Embedded Derivatives' and HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2009)
- HK(IFRIC) — Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)
- HK(IFRIC) — Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008)
- HK(IFRIC) — Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009)
- HK(IFRIC) — Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009)

In addition, the Hong Kong Institute of Certified Public Accountants ("HKICPA") has also issued improvements to HKFRSs which sets out amendments to HKAS1, HKAS7, HKAS8, HKAS10, HKAS16, HKAS17, HKAS18, HKAS19, HKAS20, HKAS23, HKAS27, HKAS28, HKAS29, HKAS31, HKAS34, HKAS36, HKAS38, HKAS39, HKAS40, HKAS41, HKFRS2, HKFRS5, HKFRS7, HKFRS8, HK(IFRIC) 9 and HK(IFRIC) 16, primarily with a view to remove inconsistencies and clarify wordings. Amendments to HKAS38, HKFRS2, HKFR5, HK(IFRIC) 9 and HK(IFRIC) 16 are effective for the accounting periods on or after 1 July 2009. Amendments to HKAS1, HKAS7, HKAS17, HKAS36, HKAS39 and HKFRS8 are effective for the accounting periods on or after 1 January 2010. Other amendments are effective for accounting periods beginning on or after 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKFRS 8, HKAS 1 (Revised) and HKFRS 7 (Amendment) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies.

HKFRS 8, 'Operating segments' (effective from 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 impact is still being assessed in detail by management.

HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 July 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

HKFRS 7 (Amendment), 'Financial instruments: Disclosures'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements ending 30 June 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

HKFRS 3 (Revised) "Business combinations" (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 continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 July 2009.

HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 July 2009.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2009.

(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, plus costs directly attributable to the acquisition. 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 minority interest. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(continued)*

(a) Subsidiaries *(continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. 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 less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

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.

(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 are presented in the consolidated income statement within 'finance costs'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains — net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Foreign currency translation *(continued)*

(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 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 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 shareholders' equity. 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.

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 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Property, plant and equipment *(continued)*

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.

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 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 that are expected to benefit from the business combination in which the goodwill arose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Intangible assets *(continued)*

(b) Other intangible assets arising from business combinations

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. They represent trademark, patent and customer relationship.

Intangible assets 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. Intangible assets arising from business combinations with definite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with definite useful lives is provided on a straight-line basis over their estimated useful lives, as follows:

Patent	8 years
Customer relationship	10 years

2.9 Impairment of investments in subsidiaries and 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

2.10.1 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 determine the classification of its financial assets at initial recognition.

(a) 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', 'bank balances' and "restricted cash" in the balance sheet (Notes 2.11 and 2.14).

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

Financial assets at fair value through profit or loss are derivative financial instruments. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Financial assets *(continued)*

2.10.2 Recognition and measurement

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 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 fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 2.11.

2.11 Trade and other receivables

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. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 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 remeasured 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.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements on the hedging reserve in shareholders' equity are shown in Note 16. 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.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. 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 recycled in 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 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.

2.14 Cash

Cash includes cash in hand, deposits held at call with banks.

2.15 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.

2.16 Trade and other payables

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

2.17 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.18 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.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax.

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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

2.20 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.20 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 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.

2.22 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 collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Sales of scrap materials and electricity

Sales of scrap materials are recognised when the Group has delivered the materials to the customer, the customer has accepted the materials and collectibility of the related receivables is reasonably assured. Sales of electricity are recognised when electricity is generated and transmitted to the power grids operated by the provincial electricity power company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 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.

2.24 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.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group'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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk *(continued)*

At 30 June 2009, if RMB had weakened/strengthened by 0.5%, 0.5% and 10.0% against US$, HK$ and Euro respectively, with all other variables held at constant, net profit for the year would be as follows:

	Weakened by 0.5%	Strengthened by 0.5%	Weakened by 0.5%	Strengthened by 0.5%
	Increase/(decrease) in net profit for the year ended 30 June			
	2009	**2009**	2008	2008
	RMB'000	**RMB'000**	RMB'000	RMB'000
Denominated in US$				
Bank and cash balances	**871**	**(871)**	1,969	(1,969)
Trade and other receivables (excluding prepayments)	**114**	**(114)**	322	(322)
Trade and other payables (excluding deposits from customers)	**(4,270)**	**4,270**	(7,425)	7,425
Borrowings	**(3,191)**	**3,191**	(11,014)	11,014
	(6,476)	**6,476**	(16,148)	16,148

	Weakened by 0.5%	Strengthened by 0.5%	Weakened by 0.5%	Strengthened by 0.5%
	Increase/(decrease) in net profit for the year ended 30 June			
	2009	**2009**	2008	2008
	RMB'000	**RMB'000**	RMB'000	RMB'000
Denominated in HK$				
Bank and cash balances	**1,030**	**(1,030)**	1,617	(1,617)
Trade and other receivables (excluding prepayments)	**416**	**(416)**	2,244	(2,244)
Trade and other payables (excluding deposits from customers)	**(17)**	**17**	(10)	10
Borrowings	**(1,339)**	**1,339**	(4,461)	4,461
	90	**(90)**	(610)	610

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk *(continued)*

	Weakened by 10.0%	Strengthened by 10.0%	Weakened by 10.0%	Strengthened by 10.0%
	Increase/(decrease) in net profit for the year ended 30 June			
	2009	**2009**	2008	2008
	RMB'000	**RMB'000**	RMB'000	RMB'000
Denominated in EUR				
Bank and cash balances	**321**	**(321)**	105	(105)
Trade and other payables (excluding deposits from customers)	**(49,786)**	**49,786**	(766)	766
Borrowings	**—**	**—**	(5,146)	5,146
	(49,465)	**49,465**	(5,807)	5,807

(b) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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 2009, if interest rates on borrowings had been 175 basis points higher/lower with all other variables held constant, net profit for the year would have been RMB80,196,000 (2008: RMB57,481,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(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 2009.

Counterparties with external credit rating (Note)

	30 June 2009 RMB'000	30 June 2008 RMB'000
A1	**1,140,543**	1,524,735
Baa1	**130,233**	25,812
Baa2	**42,157**	—
Baa3	**32,258**	142,661
Ba2	**12,046**	30,745
others	**194,239**	230,086
	1,551,476	1,954,039

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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(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 19) and bank and cash balances (Note 14) 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.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 30 June 2009				
Borrowings	**1,756,656**	**8,250,882**	**4,006,599**	**1,364,412**
Trade and other payables	**3,674,389**	**397,905**	**—**	**—**
At 30 June 2008				
Borrowings	3,146,239	5,501,853	7,491,773	1,012,549
Derivative financial instruments	1,730	—	—	—
Trade and other payables	3,838,793	—	—	—
Company				
At 30 June 2009				
Borrowings	**79,995**	**79,995**	**956,701**	**—**
Trade and other payables	**124,993**	**—**	**—**	**—**
At 30 June 2008				
Borrowings	159,329	159,329	2,475,022	—
Trade and other payables	30,200	—	—	—

Note: Interest on borrowings is calculated on borrowings held as at 30 June 2009 and 2008. Floating-rate interest is estimated using the current interest rate as at 30 June 2009 and 2008 respectively.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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 rate 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 capital and reserves attributable to the Company's equity holders.

The gearing ratio is calculated as follows:

	30 June 2009 RMB'000	30 June 2008 RMB'000
Total borrowings (Note 19)	**13,827,748**	14,685,438
Less: Cash and restricted cash (Notes 13 and 14)	**(1,552,713)**	(1,956,048)
Net debt	**12,275,035**	12,729,390
Capital and reserves attributable to the Company's equity holders	**14,693,322**	13,271,502
Gearing ratio	**84%**	96%

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including bank and cash balances, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less impairment provision for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of derivative financial instruments is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 2009 would be an estimated RMB160,820,000 (2008: RMB113,509,000) higher or RMB196,558,000 (2008: RMB138,733,000) 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 2009 would be an estimated RMB71,247,000 lower or RMB18,740,000 lower. The corresponding impact to the net profit for the year ended 30 June 2008 was RMB46,203,000 lower or RMB16,165,000 higher.

(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 2009, the carrying amounts of property, plant and equipment were RMB27,011,394,000 (2008: RMB23,536,557,000).

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 2009, the carrying amounts of inventories were RMB1,500,869,000 (2008: RMB2,818,476,000).

(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 16.

For the year ended 30 June 2009, 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 RMB1,488,000 (2008: RMB9,897,000).

(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 the balance sheet date. As at 30 June 2009, the carrying amounts of trade receivables were RMB1,003,130,000 (2008: RMB1,620,392,000).

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

The export sales of the Group are 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.

The Group's principal market is the PRC and its sales to overseas customers contributed less than 10% of the revenues, results and total assets of the Group. Accordingly, no geographical segment is presented.

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles, transportation and logistic	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2007						
Cost	2,108,223	9,260,342	128,407	238,223	3,304,069	15,039,264
Accumulated depreciation	(268,258)	(858,433)	(38,672)	(71,174)	—	(1,236,537)
Net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
Year ended 30 June 2008						
Opening net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
Optimisation on construction in progress (Note a)	—	—	—	—	382,261	382,261
Additions	19,061	80,316	99,231	59,877	9,255,541	9,514,026
Acquisition of subsidiaries	43,886	293,196	626	3,123	9,102	349,933
Transfer	754,064	1,925,022	85,905	3,467	(2,768,458)	—
Disposals (Note 30)	(3,380)	(579)	(6,102)	(2,089)	—	(12,150)
Depreciation (Note 23)	(82,382)	(358,585)	(21,892)	(24,241)	—	(487,100)
Exchange differences	(2,697)	(10,190)	(38)	(186)	(29)	(13,140)
Closing net book amount	2,568,517	10,331,089	247,465	207,000	10,182,486	23,536,557
At 30 June 2008						
Cost	2,920,442	11,579,690	307,270	296,541	10,182,486	25,286,429
Accumulated depreciation	(351,925)	(1,248,601)	(59,805)	(89,541)	—	(1,749,872)
Net book amount	2,568,517	10,331,089	247,465	207,000	10,182,486	23,536,557
Year ended 30 June 2009						
Opening net book amount	**2,568,517**	**10,331,089**	**247,465**	**207,000**	**10,182,486**	**23,536,557**
Optimisation on construction in progress (Note a)	**—**	**—**	**—**	**—**	**381,368**	**381,368**
Additions	**3,572**	**83,210**	**1,831**	**59,859**	**3,720,466**	**3,868,938**
Transfer	**1,209,133**	**6,862,185**	**1,127**	**3,124**	**(8,075,569)**	**—**
Disposals (Note 30)	**(686)**	**(963)**	**(837)**	**(2,337)**	**—**	**(4,823)**
Depreciation (Note 23)	**(161,828)**	**(523,328)**	**(33,897)**	**(40,796)**	**—**	**(759,849)**
Exchange differences	**(2,303)**	**(8,313)**	**(26)**	**(104)**	**(51)**	**(10,797)**
Closing net book amount	**3,616,405**	**16,743,880**	**215,663**	**226,746**	**6,208,700**	**27,011,394**
At 30 June 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**

(a) The amount represents cost of testing for the plant and machinery under construction after deducting the net proceeds from selling items produced during the testing period.

6. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000
Year ended 30 June 2008			
Opening net book amount	—	—	—
Additions	63	2,750	2,813
Depreciation	(8)	(167)	(175)
Closing net book amount	55	2,583	2,638
At 30 June 2008			
Cost	63	2,750	2,813
Accumulated depreciation	(8)	(167)	(175)
Net book amount	55	2,583	2,638
Year ended 30 June 2009			
Opening net book amount	**55**	**2,583**	**2,638**
Depreciation	**(12)**	**(333)**	**(345)**
Closing net book amount	**43**	**2,250**	**2,293**
At 30 June 2009			
Cost	**63**	**2,750**	**2,813**
Accumulated depreciation	**(20)**	**(500)**	**(520)**
Net book amount	**43**	**2,250**	**2,293**

Certain property, plant and equipment of the Group with carrying values of approximately RMB155,554,000 as at 30 June 2009 (2008: RMB185,642,000) had been pledged for bank borrowings of the Group (Note 19).

During the year, the Group has received tax benefit of RMB174,538,000 (2008: RMB117,918,000) 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.

6. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Depreciation was expensed in the following category in the consolidated income statement:

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Cost of goods sold	**644,661**	396,603
Other gains — net	**2,488**	4,390
Administrative expenses	**60,755**	33,413
Selling and marketing costs	**46,107**	33,268
Capitalised in construction in progress	**10,114**	—
Total depreciation expense	**764,125**	467,674
Add: change of depreciation capitalised in finished goods	**(4,276)**	19,426
	759,849	487,100

7. LAND USE RIGHTS — GROUP

The Group's interests in land use rights represent net book value of prepaid operating lease payments for land use rights held outside Hong Kong on leases of between 30 years to 50 years. The net book value are analysed as follows:

	30 June 2009	30 June 2008
	RMB'000	RMB'000
Opening	**1,185,424**	949,259
Additions	**27,270**	149,871
Acquisition of subsidiaries	**—**	113,244
Amortisation of prepaid operating lease payments (Note 23)	**(24,195)**	(20,160)
Disposals (Note 30)	**—**	(3,698)
Exchange differences	**(2,684)**	(3,092)
	1,185,815	1,185,424

As at 30 June 2009, 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 RMB86,650,000 (2008: RMB178,626,000). 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.

8. INTANGIBLE ASSETS — GROUP

	Goodwill	Trademark	Patent	Customer relationship	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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	75,136	56,357	4,524	30,709	166,726
Impairment charge (Note 22)	(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 amortisation and impairment charge	(75,136)	—	—	—	(75,136)
Net book amount	146,694	56,357	4,524	30,709	238,284
Year ended 30 June 2009					
Opening net book amount	**146,694**	**56,357**	**4,524**	**30,709**	**238,284**
Amortisation (Note 23)	**—**	**—**	**(566)**	**(3,071)**	**(3,637)**
Closing net book amount	**146,694**	**56,357**	**3,958**	**27,638**	**234,647**
At 30 June 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**

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)	20.0%
Long-term growth rate (Note ii)	1.0%
Discount rate (Note iii)	16.8%

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 is 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 2009 based on the impairment assessment performed.

If the gross margin during the ten-year period 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

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.

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.

8. INTANGIBLE ASSETS – GROUP *(CONTINUED)*

(b) Impairment test for trademark *(continued)*

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

Revenue growth rate (Note i)	2.0%
Royalty rate (Note ii)	2.0%
Long-term growth rate (Note iii)	2.0%
Discount rate (Note iv)	14.9%

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 is 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 2009 based on the impairment assessment performed.

If the royalty rate during the ten-year period had decreased by 10% or the discount rate applied in the valuation increased by 10%, the recoverable amount of trademark will be decreased by approximately RMB8,105,000 or RMB8,722,000 respectively.

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

Amount represents investments in unlisted shares which are stated at cost.

The following is a list of the principal subsidiaries as at 30 June 2009:

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:				
Zhang's Enterprises Co., Ltd.	Hong Kong, limited liability company	Investment holdings/ Hong Kong	HK$1,220,064	100%
ND Finance Limited	BVI, limited liability company	Financing activities/ Hong Kong	US$1	100%
Nine Dragons Worldwide Investment Limited	Hong Kong, limited liability company	Investment holdings/ PRC	HK$1	100%
Nine Dragons Machinery Supplies Limited	Hong Kong, limited liability company	Financing activities/ Hong Kong	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$238,024,000	99.9%
Dongguan Sea Dragon Paper Industries Company Limited[2]	PRC, limited liability company	Manufacture of paper/PRC	US$193,300,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$164,040,000	99.9%
Nine Dragons Paper Industries (Taicang) Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$254,965,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$152,982,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$118,560,000	99.9%

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
Indirectly held: (continued)				
Sea Dragon Paper Industries (Chongqing) Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$4,500,000	99.9%
Nine Dragons Terminal (Chongqing) Company Limited[1]	PRC, limited liability company	Provision for loading services/PRC	US$7,690,000	100%
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%
Dongguan Nine Dragons Transportation Company Limited[3]	PRC, limited liability company	Provision for transportation services/PRC	RMB5,000,000	90%
Nine Dragons Transportation (Taicang) Company Limited[3]	PRC, limited liability company	Provision for transportation services/PRC	RMB2,000,000	89.6%
Wah Da (Macao Commercial Offshore) Company Limited	Macao, limited liability company	Offshore business/ PRC	Macao Pataca 100,000	100%
Best Shine International Development (Cayman V) Ltd. ("Best Shine")	Cayman Islands, limited liability company	Investment holdings/ Vietnam	US$12,010,000	100%
Cheng Yang Paper Mill Co., Ltd.	Vietnam, limited liability company	Manufacture of paper/Vietnam	US$30,000,000	60%
Nine Dragons Pulp and Paper (Leshan) Co., Ltd.[3]	PRC, limited liability company	Manufacture of paper/PRC	RMB50,000,000	99.9%
Nine Dragons Paper Industries (Tianjin) Co., Ltd.[2]	PRC, limited liability company	Manufacture of paper/PRC	US$60,100,000	99.9%

9. INVESTMENTS IN SUBSIDIARIES — COMPANY *(CONTINUED)*

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] Wholly foreign owned enterprise

[2] Sino-foreign equity joint venture enterprise

[3] Domestic enterprise

10. INVENTORIES — GROUP

	30 June 2009	30 June 2008
	RMB'000	RMB'000
At cost:		
Raw materials	**1,049,010**	1,814,744
Finished goods	**451,859**	1,003,732
	1,500,869	2,818,476

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB10,720,453,000 (2008: RMB11,241,250,000).

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables due from:				
— third parties	**1,024,289**	1,550,758	**—**	—
— related parties (Note 32)	**8,865**	120,581	**—**	—
	1,033,154	1,671,339	**—**	—
Less: provision for impairment of receivables (Note g)	**(30,024)**	(50,947)	**—**	—
Trade receivables — net	**1,003,130**	1,620,392	**—**	—
Bills receivable	**374,878**	320,463	**—**	—
Prepayments	**379,787**	527,316	**—**	—
Amounts due from subsidiaries (Note b)	**—**	—	**7,951,020**	8,730,480
Other receivables	**282,544**	384,062	**1,230**	5,195
	2,040,339	2,852,233	**7,952,250**	8,735,675

(a) As at 30 June 2009, the fair value of trade and other receivables approximate their carrying amounts after provision for impairment.

(b) The amounts due 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) As at 30 June 2009, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
0–30 days	**738,405**	1,139,493
31–60 days	**279,940**	394,480
61–90 days	**11,883**	97,610
Over 90 days	**2,926**	39,756
	1,033,154	1,671,339

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.

11. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) 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 any trade disputes with the debtors.

Trade receivables, including those under amounts due from third parties and related parties, are analysed below:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
Fully performing under credit term	**991,958**	1,602,238
Past due but not impaired	**41,196**	48,178
Past due and impaired	**—**	20,923
Total trade receivables	**1,033,154**	1,671,339
Less: provision for impairment of receivables	**(30,024)**	(50,947)
Trade receivables — net	**1,003,130**	1,620,392

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

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 2009	30 June 2008
	RMB'000	RMB'000
0–30 days	**4,138**	—
31–60 days	**30,618**	—
61–90 days	**5,774**	15,102
Over 90 days	**666**	33,076
	41,196	48,178

11. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Trade receivables past due and impaired mainly relate to customers who have recent history of default in payments or are in significant financial difficulties. Impairment provision is made to the extent that the amount is not expected to be recovered. The ageing analysis of these receivables is as follows:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
0–30 days	**—**	5,936
31–60 days	**—**	5,978
61–90 days	**—**	3,353
Over 90 days	**—**	5,656
	—	20,923

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

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
RMB	**1,779,534**	2,179,537
US$	**124,595**	118,296
Others	**136,210**	554,400
	2,040,339	2,852,233

(g) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
Beginning of the year	**50,947**	—
Provision for impairment of trade receivables (Note 23)	**—**	50,947
Reversal for impairment of trade receivables (Note 23)	**(20,923)**	—
End of the year	**30,024**	50,947

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	30 June 2009		30 June 2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cross currency interest rate swaps (Note a)	**441**	**—**	—	1,730
Cross currency swaps — cash flow hedge (Note 16(c))	**—**	**—**	25,923	—
Total financial instruments	**441**	**—**	25,923	1,730
Less: non-current portion	**—**	**—**	(25,923)	—
Current portion	**441**	**—**	—	1,730

Company

	30 June 2009		30 June 2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Non-current:				
Cross currency swaps — cash flow hedge	**—**	**—**	25,923	—

(a) The notional amounts of the outstanding cross currency interest rate swaps at 30 June 2009 were US$250 million (2008: US$350 million).

13. RESTRICTED CASH

As 30 June 2009, the restricted cash of RMB26,388,000 (2008: RMB393,175,000) has been pledged as securities for bank borrowings (Note 19), which will be released within 1 year. It earns an interest rate of 1.98% per annum. The rest portion of RMB17,783,000 (2008: Nil) is marginal deposit without interest earned.

14. BANK AND CASH BALANCES

	Group		Company	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,494,380**	1,348,503	**27,210**	2,726
Short-term time deposits	**14,162**	214,370	**—**	41,684
	1,508,542	1,562,873	**27,210**	44,410
Denominated in:				
RMB	**1,085,698**	777,261	**—**	—
HK$	**214,008**	347,123	**11,119**	1,614
US$	**180,957**	422,803	**16,091**	42,796
Others	**27,879**	15,686	**—**	—
	1,508,542	1,562,873	**27,210**	44,410
Maximum exposure to credit risk	**1,507,305**	1,560,864	**27,210**	44,410

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash 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 requirements of the Group, and earn interest at the respective short term deposit rates.

15. SHARE CAPITAL

Movements were:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
			HK$'000	RMB'000	RMB'000	RMB'000
Issued and fully paid						
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161
Repurchase of shares of the Company		(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
Exercise of share options	16(b)	4,442,600	444	392	11,891	12,283
At 30 June 2009		**4,335,304,699**	**433,530**	**449,214**	**6,090,055**	**6,539,269**

The total authorised number of ordinary shares as at 30 June 2009 is 8,000,000,000 shares (2008: 8,000,000,000 shares) with a par value of HK$0.1 per share (2008: HK$0.1 per share).

16. OTHER RESERVES

Group

	Contributed surplus RMB'000 (Note a)	Capital reserve RMB'000	Share options 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
As at 1 July 2007	660,542	98,980	107,554	188,583	530	—	1,056,189
Transfer from net profit	—	—	—	141,576	—	—	141,576
Share options granted to directors and employees	—	—	98,974	—	—	—	98,974
Exercise of share options	—	—	(78,583)	—	—	—	(78,583)
Currency translation differences	—	—	—	—	(17,256)	—	(17,256)
Cash flow hedge reserve							
— Fair value gains (Note 12)	—	—	—	—	—	25,923	25,923
— Amount released to set off the impact of hedged items that affected the income statement	—	—	—	—	—	6,378	6,378
As at 30 June 2008	660,542	98,980	127,945	330,159	(16,726)	32,301	1,233,201
Transfer from net profit	**—**	**—**	**—**	**116,854**	**—**	**—**	**116,854**
Share option expense written back	**—**	**—**	**(102,709)**	**—**	**—**	**—**	**(102,709)**
Share options granted to directors and employees	**—**	**—**	**14,880**	**—**	**—**	**—**	**14,880**
Exercise of share options	**—**	**—**	**(2,510)**	**—**	**—**	**—**	**(2,510)**
Currency translation differences	**—**	**—**	**—**	**—**	**(4,777)**	**—**	**(4,777)**
Cash flow hedge reserve							
— Fair value gains change up to termination date	**—**	**—**	**—**	**—**	**—**	**50,013**	**50,013**
— Amount released to set off the impact of hedged items that affected the income statement (Note 25)	**—**	**—**	**—**	**—**	**—**	**(54,902)**	**(54,902)**
As at 30 June 2009	**660,542**	**98,980**	**37,606**	**447,013**	**(21,503)**	**27,412**	**1,250,050**

16. OTHER RESERVES *(CONTINUED)*

Company

	Contributed surplus RMB'000 (Note e)	Share options reserve RMB'000 (Note b)	Cash flow hedge reserve RMB'000 (Note c)	Total RMB'000
As at 1 July 2007	2,074,700	107,554	—	2,182,254
Share options granted to directors and employees	—	98,974	—	98,974
Exercise of share options	—	(78,583)	—	(78,583)
Cash flow hedge reserve				
— Fair value gains (Note 12)	—	—	25,923	25,923
— Amount released to set off the impact of hedged items that affected the income statement	—	—	6,378	6,378
As at 30 June 2008	2,074,700	127,945	32,301	2,234,946
Share option expense written back	**—**	**(102,709)**	**—**	**(102,709)**
Share options granted to directors and employees	**—**	**14,880**	**—**	**14,880**
Exercise of share options	**—**	**(2,510)**	**—**	**(2,510)**
Cash flow hedge reserve				
— Fair value gains change up to termination date	**—**	**—**	**50,013**	**50,013**
— Amount released to set off the impact of hedged items that affected the income statement (Note 25)	**—**	**—**	**(54,902)**	**(54,902)**
As at 30 June 2009	**2,074,700**	**37,606**	**27,412**	**2,139,718**

(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 40 to 44.

16. OTHER RESERVES *(CONTINUED)*

(c) During the year ended 30 June 2009, cross currency swap contracts were terminated before maturity with counterparties. Fair value change of approximately RMB50,013,000 arose up to the termination date and net gains of approximately RMB75,936,000 were received from the termination. The cash flow hedge accounting was discontinued and cumulative gains existing at the termination date remained in equity. The remaining balance in equity will be recognised when the hedged items that previously designated affected income statement. During the year ended 30 June 2009, an amount of approximately RMB54,902,000 has been released to the consolidated income statement following the repurchase of senior notes and the interest payment on senior notes.

(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.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables due to:				
— third parties	**1,226,406**	832,368	**—**	—
— related parties (Note 32)	**542,551**	1,284,309	**—**	—
	1,768,957	2,116,677	**—**	—
Bills payable, secured	**155,030**	169,796	**—**	—
Deposits from customers	**493,184**	188,448	**—**	—
Amounts due to subsidiaries (Note a)	**—**	—	**105,736**	—
Other payables (Note b)	**1,502,377**	1,143,702	**1,982**	1,842
Staff welfare benefits payable	**51,154**	82,793	**—**	—
Accrued expenses	**101,592**	137,377	**17,275**	28,358
	4,072,294	3,838,793	**124,993**	30,200
Less:				
Other long term payables (Note b)	**(397,905)**	—	**—**	—
	3,674,389	3,838,793	**124,993**	30,200

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

(b) Other payables mainly represent payables for acquisition of property, plant and equipment. Payables to be settled after one year are classified as long-term liabilities. The carrying values of long-term liabilities approximate their fair values.

(c) The ageing analysis of trade payables as at 30 June 2009 is as follows:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
0–90 days	**1,638,160**	2,039,363
91–180 days	**75,846**	41,167
181–365 days	**25,081**	17,149
Over 365 days	**29,870**	18,998
	1,768,957	2,116,677

18. DEFERRED GOVERNMENT GRANTS

Movements on the deferred government grants are as follows:

	Group	
	30 June 2009	30 June 2008
	RMB'000	RMB'000
Beginning of the year	**17,039**	17,215
Utilisation	**(3,169)**	(176)
End of the year	**13,870**	17,039

In prior years, the Group had received grants from the government authority as assistance to the Group for purchases, construction or otherwise for acquisition of plant and buildings.

19. BORROWINGS

Group

	30 June 2009	30 June 2008
	RMB'000	RMB'000
Non-current		
— Long-term bank borrowings	**9,549,560**	6,463,692
— Syndicated term loans	**2,373,276**	3,903,005
— Senior notes (Note a)	**801,671**	2,023,226
	12,724,507	12,389,923
Current		
— Short-term bank borrowings	**132,581**	1,190,768
— Current portion of long-term bank borrowings	**637,373**	64,678
— Current portion of syndicated term loans	**333,287**	240,069
— Short-term financing bills	**—**	800,000
	1,103,241	2,295,515
Total borrowings	**13,827,748**	14,685,438

19. BORROWINGS *(CONTINUED)*

Group *(continued)*

(a) The senior notes recognised in the balance sheet are calculated as follows:

	RMB'000
For the year ended 30 June 2008	
Carrying amount as at the date of issuance	2,061,260
Amortisation of issue cost	1,176
Exchange gains	(39,210)
Carrying amount as at 30 June 2008	2,023,226
For the year ended 30 June 2009	
Carrying amount as at 1 July 2008	**2,023,226**
Repurchase of senior notes	**(1,240,950)**
Amortisation of issue cost	**26,097**
Exchange gains	**(6,702)**
Carrying amount as at 30 June 2009	**801,671**

Senior notes with principal amount of USD181,427,000 (equivalent to approximately RMB1,240,950,000) were repurchased by the Company at discounted prices and net gains of approximately RMB594,039,000 were recognised (2008: Nil).

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

	30 June 2009			
	Bank borrowings	**Syndicated term loans**	**Senior notes**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	**769,954**	**333,287**	**—**	**1,103,241**
Between 1 and 2 years	**6,531,534**	**1,414,429**	**—**	**7,945,963**
Between 2 and 5 years	**1,722,141**	**958,847**	**801,671**	**3,482,659**
Wholly repayable within 5 years	**9,023,629**	**2,706,563**	**801,671**	**12,531,863**
Over 5 years	**1,295,885**	**—**	**—**	**1,295,885**
	10,319,514	**2,706,563**	**801,671**	**13,827,748**

19. BORROWINGS *(CONTINUED)*

Group *(continued)*

(b) The maturity of the borrowings is as follows: *(continued)*

	30 June 2008				
	Bank borrowings RMB'000	Short-term financing bills RMB'000	Syndicated term loans RMB'000	Senior notes RMB'000	Total RMB'000
Within 1 year	1,255,446	800,000	240,069	—	2,295,515
Between 1 and 2 years	4,304,747	—	547,940	—	4,852,687
Between 2 and 5 years	1,208,740	—	3,355,065	2,023,226	6,587,031
Wholly repayable within 5 years	6,768,933	800,000	4,143,074	2,023,226	13,735,233
Over 5 years	950,205	—	—	—	950,205
	7,719,138	800,000	4,143,074	2,023,226	14,685,438

(c) The effective interest rates as at 30 June 2009 are as follows:

	30 June 2009			
	RMB	**HK$**	**US$**	**Others**
Long-term bank borrowings	**5.5067%**	**2.6300%**	**3.4272%**	**—**
Syndicated term loans	**—**	**1.4053%**	**1.6769%**	**—**
Senior notes	**—**	**—**	**9.8750%**	**—**
Short-term bank borrowings	**5.3869%**	**—**	**3.6037%**	**9.2892%**

	30 June 2008			
	RMB	HK$	US$	Others
Long-term bank borrowings	6.9560%	2.8090%	3.8444%	—
Syndicated term loans	—	2.7781%	2.9140%	—
Senior notes	—	—	7.8750%	—
Short-term bank borrowings	6.6038%	5.0307%	5.1636%	4.1944%
Short-term financing bills	5.5750%	—	—	—

19. BORROWINGS *(CONTINUED)*

Group *(continued)*

(d) As at 30 June 2009, borrowings of RMB13,033,948,000 (2008: RMB11,630,072,000) are secured by certain assets of the Group, and guarantees given by subsidiaries within the Group which are detailed as follows:

	30 June 2009 RMB'000	30 June 2008 RMB'000
Borrowings secured by certain assets of the Group*	**103,671**	485,172
Borrowings guaranteed by subsidiaries within the Group	**12,930,277**	11,144,900
	13,033,948	11,630,072

* The above borrowings are secured by the Group's property, plant and equipment (Note 6) and restricted cash (Note 13).

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

	30 June 2009 RMB'000	30 June 2008 RMB'000
6 months or less	**8,942,013**	11,068,685
6–12 months	**891,291**	414,066
1–5 years	**3,994,444**	3,202,687
	13,827,748	14,685,438

(f) The carrying amounts of short-term bank borrowings, current portion of long-term bank borrowings, current portion of syndicated term loans and short-term financing bills approximate their fair values.

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

	30 June 2009 RMB'000	30 June 2008 RMB'000
Carrying amounts	**12,724,507**	12,389,923
Fair values	**12,770,928**	12,389,287

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.

19. BORROWINGS *(CONTINUED)*

Group *(continued)*

(g) The carrying amounts of all the Group's borrowings as at 30 June 2009 are denominated in the following currencies:

	30 June 2009 RMB'000	30 June 2008 RMB'000
RMB	**9,102,000**	7,287,615
US$	**3,321,133**	5,098,815
HK$	**1,394,237**	2,064,992
Other currency	**10,378**	234,016
	13,827,748	14,685,438

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

	30 June 2009 RMB'000	30 June 2008 RMB'000
Floating rate:		
— expiring within one year	**5,141,925**	2,346,193
— expiring beyond one year	**2,195,559**	1,904,655
	7,337,484	4,250,848

Company

On 30 June 2009, borrowings of the Company represented senior notes of RMB801,671,000 (2008: RMB2,023,226,000), which are denominated in US$.

20. DEFERRED INCOME TAX — GROUP

	30 June 2009 RMB'000	30 June 2008 RMB'000
Deferred income tax liabilities to be payable within 12 months	**2,142**	—
Deferred income tax liabilities to be payable after more than 12 months	**556,553**	452,421
	558,695	452,421

20. DEFERRED INCOME TAX — GROUP *(CONTINUED)*

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

	30 June 2009 **RMB'000**	30 June 2008 RMB'000
Beginning of the year	**452,421**	281,746
Acquisition of subsidiaries	**—**	56,201
Exchange differences	**(350)**	(401)
Recognised in the consolidated income statement (Note 26)	**106,624**	114,875
End of the year	**558,695**	452,421

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000 (Note a)	**Fair value gains** RMB'000 (Note b)	**Total** RMB'000
At 1 July 2007	281,746	—	281,746
Acquisition of subsidiaries	—	56,201	56,201
Exchange differences	—	(401)	(401)
Charged to the consolidated income statement	114,875	—	114,875
At 30 June 2008	396,621	55,800	452,421
Exchange differences	—	(350)	(350)
Charged to the consolidated income statement	108,766	(2,142)	106,624
At 30 June 2009	505,387	53,308	558,695

(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 in accordance with HKAS 12.

(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.

20. DEFERRED INCOME TAX — GROUP *(CONTINUED)*

(c) 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 RMB41,611,000 (2008: RMB16,150,000) in respect of tax losses amounting to RMB237,116,000 (2008: RMB87,371,000) as at 30 June 2009 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 2009, the tax losses carried forward are as follows:

	30 June 2009 RMB'000	30 June 2008 RMB'000
2012	**2,563**	2,563
2013	**18,381**	18,381
2014	**110,690**	—
Tax loss with no expired date	**105,482**	66,427
	237,116	87,371

(d) Apart from as disclosed in Note c, the Group has no significant unprovided deferred tax assets as at 30 June 2008 and 2009.

21. SALES

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2009 RMB'000	2008 RMB'000
Sales of packaging paper	**12,570,910**	13,877,089
Sales of pulp	**361,146**	211,809
Sales of high value specialty board products	**196,529**	24,688
	13,128,585	14,113,586

22. OTHER GAINS — NET

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Gains from sales of scrap materials and electricity (net of cost)	**99,985**	138,247
Interest income	**10,819**	10,647
Net foreign exchange losses	**(26,141)**	(4,918)
Net gain/(loss) arising from change in fair value of derivative financial instruments	**7,927**	(20,108)
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	**—**	(1,879)
Negative goodwill	**—**	181,178
Goodwill impairment (Note 8)	**—**	(75,136)
Loss on disposal of derivative financial instruments	**(10,735)**	—
Others	**18,325**	749
	100,180	228,780

23. 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	
	2009	2008
	RMB'000	RMB'000
Depreciation (Note 6)	**759,849**	487,100
Less: amount charged to other gains — net	**(2,488)**	(4,390)
Less: amount charged to construction in progress	**(10,114)**	—
	747,247	482,710
Amortisation of intangible assets (Note 8)	**3,637**	—
Employee benefit expense (Note 24)	**453,157**	659,859
Changes in finished goods	**551,873**	(720,622)
Raw materials and consumables used (net of claims)	**9,016,334**	10,817,218
Transportation	**189,414**	110,717
Operating leases		
— Land use rights (Note 7)	**24,195**	20,160
— Buildings	**2,415**	1,760
Auditor's remuneration	**5,900**	5,593
Non-deductible value added tax for indirect export sales	**117,837**	262,492
(Reversal)/provision for impairment of trade receivables (Note 11)	**(20,923)**	50,947
Other expenses	**392,742**	385,676
	11,483,828	12,076,510

24. EMPLOYEE BENEFIT EXPENSE

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Wages and salaries	**501,456**	534,615
(Reversal of share option expense)/share options granted to directors and employees (Notes 16 and a)	**(87,829)**	98,974
Pension costs — defined contribution plans (Note b)	**24,785**	17,830
Medical benefits	**7,861**	4,919
Other allowances and benefits	**6,884**	3,521
	453,157	659,859

(a) Performance conditions are attached to share options granted on 17 November 2006 under the 2006 Share Options Scheme. The performance condition for the year ended 30 June 2009 was 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. Share option expense of approximately RMB94,091,000 related to these share options that previously charged to income statement was reversed during the year ended 30 June 2009 (2008: RMB57,297,000).

(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	
	2009	2008
	RMB'000	RMB'000
Gross scheme contributions	**24,785**	17,830

24. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(c) Directors' and senior management's emoluments

The remuneration of every director for the year ended 30 June 2009 is set out below:

Name of director	Fees	Salary	Discretionary bonus	Share options	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Ms. Cheung Yan ("Ms. Cheung") (Note (i))	1,815	—	—	1,501	—	3,316
Mr. Liu Ming Chung ("Mr. Liu") (Note (i))	3,226	—	—	1,500	—	4,726
Mr. Zhang Cheng Fei ("Mr. Zhang") (Note (i))	3,019	—	—	1,048	—	4,067
Mr. Zhang Yuanfu*	993	1,752	—	931	9	3,685
Ms. Gao Jing	100	373	—	67	6	546
Non-executive director						
Mr. Lau Chun Shun	—	—	—	—	—	—
Mr. Law Wang Chak*	118	—	—	108	—	226
Independent non-executive directors						
Ms. Tam Wai Chu, Maria	423	—	—	103	—	526
Mr. Chung Shui Ming, Timpson	423	—	—	103	—	526
Dr. Cheng Chi Pang	423	—	—	103	—	526
Mr. Wang Hong Bo	240	—	—	—	—	240
	10,780	2,125	—	5,464	15	18,384

* Mr. Zhang Yuanfu was appointed as executive director of the Company with effect from 8 October 2008.

* Mr Law Wang Chak was appointed as non-executive director of the Company with effect from 1 August 2008, and resigned with effect from 8 October 2008.

24. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

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

The remuneration of every director for the year ended 30 June 2008 is set out below:

Name of director	Fees 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 (Note (i))	1,767	—	—	50,022	—	51,789
Mr. Liu (Note (i))	3,269	—	—	50,020	—	53,289
Mr. Zhang (Note (i))	2,956	—	—	49,245	—	52,201
Ms. Gao Jing	480	—	200	70	—	750
Non-executive director						
Mr. Lau Chun Shun	—	—	—	—	—	—
Independent non-executive directors						
Ms. Tam Wai Chu, Maria	448	—	109	177	—	734
Mr. Chung Shui Ming, Timpson	448	—	109	177	—	734
Dr. Cheng Chi Pang	448	—	109	177	—	734
Mr. Wang Hong Bo	240	—	—	—	—	240
	10,056	—	527	149,888	—	160,471

(i) During the year ended 30 June 2009, share option expense of approximately RMB94,091,000 (2008: RMB57,297,000) related to 2006 Share Option Scheme that previously charged to income statement has been reversed and is not disclosed in above analysis.

(ii) 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.

24. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2009 include three (2008: three) directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining two (2008: two) individual during the year are as follows:

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Pension costs	**—**	24
Salaries, share options, other allowances and benefits in kind	**9,241**	6,721
	9,241	6,745

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2009	2008
RMB2,000,001 to RMB4,000,000	**—**	2
RMB4,000,001 to RMB6,000,000	**2**	—

25. FINANCE COSTS

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Interest on borrowings		
— wholly repayable within five years	**852,224**	487,246
— not wholly repayable within five years	**33,691**	24,570
	885,915	511,816
Less: interest capitalised	**(415,719)**	(288,446)
	470,196	223,370
Bills discount charge	**57,978**	92,122
Other incidental borrowing cost	**29,106**	7,696
Exchange gains on borrowings	**(164)**	(221,304)
Hedge reserve released (Note 16)	**(54,902)**	—
	502,214	101,884

The capitalisation interest rate applied to funds borrowed generally and used for the development of construction in progress is 5.699% for the year ended 30 June 2009 (2008: 5.350%).

26. INCOME TAX EXPENSE

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current tax		
— Hong Kong profits tax (Note a)	**—**	—
— PRC enterprise income tax (Note b)	**68,867**	148,270
	68,867	148,270
Deferred income tax (Note 20)	**106,624**	114,875
	175,491	263,145

26. 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	
	2009	2008
	RMB'000	RMB'000
Profit before taxation	**1,836,762**	2,163,972
Calculated at tax rates applicable to profits in the respective jurisdictions	**328,489**	761,455
Effect of tax holidays	**(185,078)**	(502,604)
Add:		
Tax losses for which no deferred income tax asset was recognised	**25,461**	12,493
Expense not deductible	**9,956**	15,024
Less:		
Income not subject to tax	**(3,337)**	(23,148)
Utilisation of previously unrecognised tax losses	**—**	(75)
Income tax expense	**175,491**	263,145

(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 2009 (2008: Nil).

(b) PRC enterprise 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 enterprise 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% and 15%.

27. RETAINED EARNINGS OF THE COMPANY

	30 June 2009 RMB'000	30 June 2008 RMB'000
Beginning of the year	**407,444**	823,968
Profit for the year (Note a)	**535,193**	85,019
Dividends	**(151,580)**	(501,543)
End of the year	**791,057**	407,444
Representing		
— Proposed final dividend	**151,736**	151,580
— Unappropriated retained earnings	**639,321**	255,864

(a) The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB535,193,000 (2008: RMB85,019,000).

28. EARNINGS PER SHARE

— Basic

	For the year ended 30 June 2009	2008
Profit attributable to equity holders of the Company (RMB'000)	**1,661,122**	1,876,850
Weighted average number of ordinary shares in issue (shares in thousands)	**4,331,725**	4,310,918
Basic earnings per share (RMB per share)	**0.3835**	0.4354

28. 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	
	2009	2008
Profit attributable to equity holders of the Company (RMB'000)	**1,661,122**	1,876,850
Weighted average number of ordinary shares in issue (shares in thousands)	**4,331,725**	4,310,918
Adjustments for share options (shares in thousands)	**14,461**	105,946
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	**4,346,186**	4,416,864
Diluted earnings per share (RMB per share)	**0.3822**	0.4249

29. DIVIDENDS

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Interim dividend, nil (2008: RMB1.68 cents) per ordinary share	**—**	72,140
Final dividend, proposed, of RMB3.50 cents (2008: RMB3.50 cents) per ordinary share	**151,736**	151,580
	151,736	223,720

The directors recommend the payment of a final dividend of RMB3.50 cents per ordinary share, totaling approximately RMB151,736,000. Such final dividend is to be approved by the shareholders at the annual general meeting on 3 December 2009. These financial statements do not reflect this final dividend payable.

30. CASH GENERATED FROM OPERATIONS

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the year	**1,661,271**	1,900,827
Adjustments for		
Income tax expense (Note 26)	**175,491**	263,145
Depreciation	**754,011**	467,674
Amortisation (Notes 7 and 8)	**27,832**	20,160
(Reversal)/Provision for impairment of trade receivables (Note 11(g))	**(20,923)**	50,947
(Reversal of share option expense)/Share options granted to directors and employees (Note 16)	**(87,829)**	98,974
Loss on sale of property, plant and equipment (see below)	**1,061**	10,106
Gain on disposal of land use rights (see below)	**—**	(481)
Negative goodwill (Note 22)	**—**	(181,178)
Goodwill impairment (Note 22)	**—**	75,136
Loss on disposal of equity interests in certain subsidiaries to minority shareholders (Note 22)	**—**	1,879
Net (gain)/loss arising from change in fair value of derivative financial instruments (Note 22)	**(7,927)**	20,108
Interest income (Note 22)	**(10,819)**	(10,647)
Finance cost (Note 25)	**502,214**	101,884
Gain on repurchase of senior notes (Note 19(a))	**(594,039)**	—
Exchange losses on bank and cash balance	**7,983**	41,970
	2,408,326	2,860,504
Changes in working capital		
Inventories	**1,313,331**	(1,181,663)
Trade and other receivables before provision for impairment	**1,181,821**	(1,049,155)
Derivative financial instruments after fair value changes	**5,756**	5,483
Trade and other payables	**31,160**	1,426,143
Cash generated from operations	**4,940,394**	2,061,312

30. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

In the cash flow statement, proceeds comprise:

	30 June 2009 RMB'000	30 June 2008 RMB'000
Sale of property, plant and equipment		
Net book amount (Note 6)	**4,823**	12,150
Loss on sale of property, plant and equipment	**(1,061)**	(10,106)
Proceeds from sale of property, plant and equipment	**3,762**	2,044
Disposal of land use rights		
Net book amount (Note 7)	**—**	3,698
Gain on disposal of land use rights	**—**	481
Proceeds from disposal of land use rights	**—**	4,179

31. COMMITMENTS

(a) Capital commitments

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

	30 June 2009 RMB'000	30 June 2008 RMB'000
Contracted but not provided for		
Not later than one year	**938,418**	2,066,350
Later than one year and not later than five years	**1,454,847**	2,447,868
	2,393,265	4,514,218
Authorised but not contracted for		
Not later than one year	**604,500**	307,974
Later than one year and not later than five years	**1,490,818**	527,520
	2,095,318	835,494
	4,488,583	5,349,712

31. 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 2009 RMB'000	30 June 2008 RMB'000
Not later than one year	**2,929**	986
Later than one year and not later than five years	**3,117**	2,125
Later than five years	**20,153**	20,721
	26,199	23,832

32. 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 Mr. Zhang, an executive director of the Company

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Transactions with related parties

For the year ended 30 June 2009, 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	
	2009	2008
	RMB'000	RMB'000
Sales of goods:		
Taicang Packaging	**74,942**	202,468
Sales of utilities:		
Taicang Packaging	**6,927**	6,378
Purchase of recovered paper (net of claims and returns):		
ACN	**3,573,655**	4,916,525
Taicang Packaging	**6,469**	8,856
	3,580,124	4,925,381
Agent fee of direct export sales:		
ACN	**—**	5,698

(c) Key management compensation

Other than compensation for directors as disclosed in Note 24, compensation for other key management is as follows:

	For the year ended 30 June	
	2009	2008
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**18,130**	29,517
Termination benefits	**—**	3,625
Share options	**2,238**	4,799
	20,368	37,941

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Balances with related parties

	30 June 2009 RMB'000	30 June 2008 RMB'000
Trade balances due from:		
Related parties:		
— Taicang Packaging	**8,865**	120,581

The amount is unsecured, interest free, and has a credit period of 60 days.

	30 June 2009 RMB'000	30 June 2008 RMB'000
Trade balances due to:		
Related parties:		
— ACN	**539,713**	1,279,040
— Taicang Packaging	**2,838**	5,269
	542,551	1,284,309

The amounts are unsecured, interest free, and repayable within 90 days.

33. ULTIMATE HOLDING COMPANY

The directors of the Company regard Best Result Holdings Limited ("Best Result"), a company incorporated in the British Virgin Islands, 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.

34. SUBSEQUENT EVENT

On 9 July 2009, the Company commenced a tender offer to purchase for cash any and all of its outstanding senior notes due 29 April 2013 at cost. By the end of 6 August 2009, US$70,998,000 (approximately RMB485,051,000) of the principal amount of the senior notes, representing approximately 60% of the total principal amount of notes outstanding, had been validly tendered. Following the purchase of the senior notes and settlement of the tender, US$47,575,000 (approximately RMB325,028,000), representing approximately 16% of the US$300,000,000 (approximately RMB2,049,570,000) principal amount of the notes remains outstanding.

Investor Relations and Communications with Shareholders

ND Paper has adopted a variety of channels and methods to ensure effective communication 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, frequent press releases and the annual and interim reports provides 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 forum 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.

FINANCIAL CALENDAR

FY2009 interim results	Announcement published on 18 February 2009
FY2009 annual results	Announcement published on 14 September 2009
Closure of register of members	30 November 2009 to 3 December 2009 (both dates inclusive)
2009 AGM	3 December 2009
Distribution of FY2009 final dividend#	16 December 2009

subject to Shareholders' approval of the final dividend at 2009 AGM

SHARE INFORMATION

Shares listing

The Shares of ND Paper are listed on the Main Board of the Stock Exchange (Stock Code: 2689.HK).

Index Constituent

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

Ordinary shares

Issued Shares as at 30 June 2009:	4,335,304,699 Shares
Nominal Value:	HK$0.1 per Share
Broad lot:	1,000 Shares

Dividends

Dividends per Share for the year ended 30 June 2009

— Interim dividend	Nil
— Final dividend	RMB3.50 cents per Share

Investor Relations and Communications with Shareholders

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
2009 AGM	Annual General Meeting to be held on 3 December 2009
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

Definition

Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
MCL Living Trust	a living trust set up by Mr. Liu as the settlor and Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee. The object of the trust is Mr. Liu
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
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
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 2009
%	per cent

Glossary

coated duplex board	a type of duplex board with a glossy coated surface on one side for superior printability, including coated duplex board with grey back
containerboard	the paperboard components used to manufacture corrugated containers. Containerboard primarily includes linerboard and corrugating medium and can also include coated duplex board
corrugating medium	a paperboard used to form the corrugated or fluted component sandwiched between the linerboard
kraft pulp	pulp produced by the kraft or sulphate chemical process. The kraft process is the predominant chemical pulping process used globally, and involves cooking (digesting) wood chips in an alkaline solution for several hours during which time the chemicals attack the lignin in the wood. The dissolved lignin is later removed leaving behind the cellulose fibers (the primary constituent of pulp)
kraftlinerboard	a high grade of linerboard manufactured wholly or partially from kraft pulp
recovered paper	used paper and board separately collected for re-use as fiber raw material in containerboard manufacture
testlinerboard	linerboard made entirely from recovered paper
white top linerboard	a type of linerboard comprising a multiple-ply sheet composed of one bleached layer with the remaining layer(s) unbleached

This 2008/09 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at **http://www.ndpaper.com.**

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 who for any reason have difficulty in receiving or 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.

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