玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

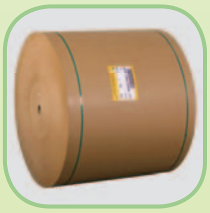
Stock Code : 2689

Please use more Recycled Paper

2009/2010
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 of 100% recovered paper. It meets certain customers requirements for lower cost and environmentally-friendly purpose. The Group markets this product under the "Sea Dragon" brand.

White Top Linerboard

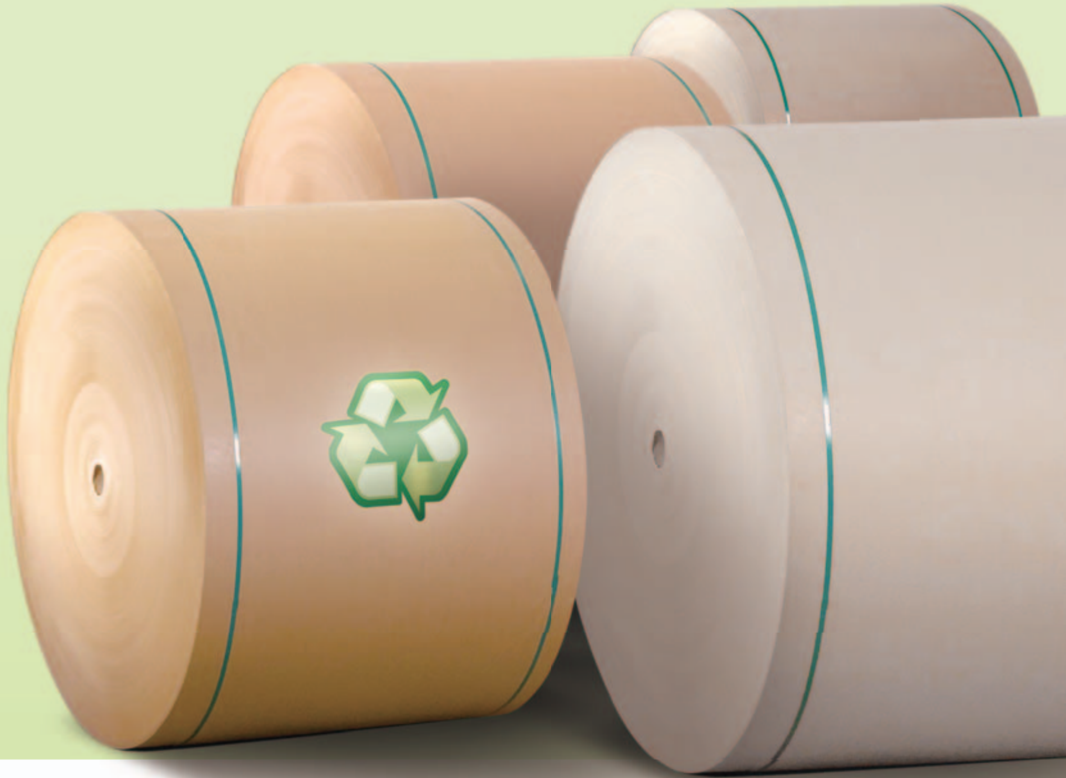
White top linerboard is a three-ply sheet of which one layer is bleached, and caters to customers that require a white surface for appearance or superior printability. The Group markets this product under the "Nine Dragons" and "Sea Dragon" brands.

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", "Sea Dragon" and "Land Dragon" brands.

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", "Sea Dragon" and "Land 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*

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AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

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

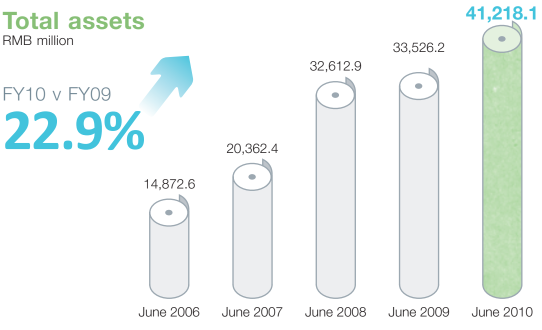
PRINCIPAL BANKERS

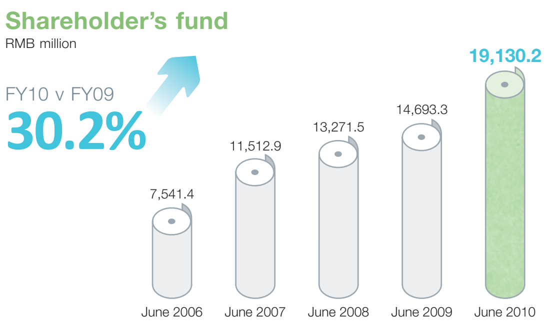
Bank of China Limited
Bank of China (Hong Kong) Limited
Agricultural Bank of China
Bank of Communications
China Merchants Bank
China Development Bank

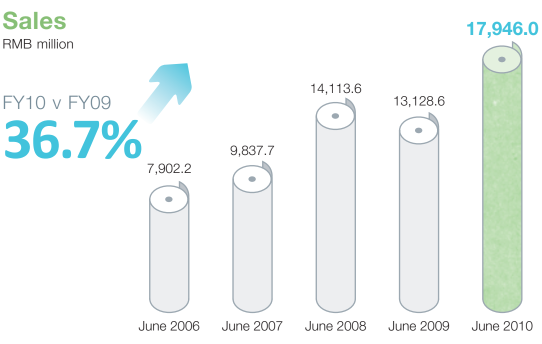
Financial highlights

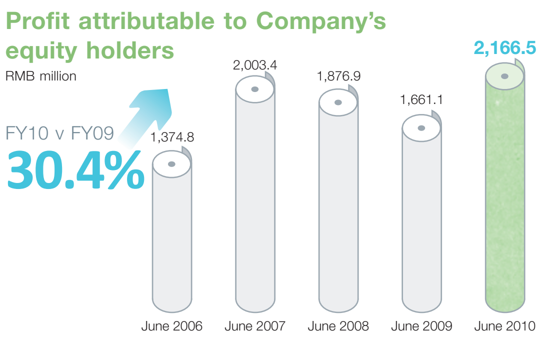
For the year ended 30 June	2010	2009	Change
Operating results (RMB million)			
Sales	17,946.0	13,128.6	36.7%
Gross profit	3,912.6	2,441.5	60.3%
Operating profit	3,120.0	1,744.9	78.8%
Profit before taxation	2,578.9	1,836.8	40.4%
Profit attributable to Company's equity holders	2,166.5	1,661.1	30.4%
Financial position (RMB million)			
Cash (used in)/generated from operations	(81.1)	3,929.3	(102.1%)
Net debt	14,318.7	12,275.0	16.6%
Shareholders' funds	19,130.2	14,693.3	30.2%
Per share data (RMB cents)			
Earnings per share — basic	47.92	38.35	25.0%
Earnings per share — diluted	47.46	38.22	24.2%
Dividend per share			
— Interim	2.00	–	N/A
— Final	10.00	3.50	185.7%
Other data (RMB million)			
Capital expenditures	4,359.5	4,277.6	1.9%
Key ratios (%)			
Gross profit margin	21.8	18.6	3.2 pts
Operating profit margin	17.4	13.3	4.1 pts
Net profit margin	12.1	12.7	(0.6 pts)
EBITDA/ratio	22.3	23.9	(1.6 pts)
Return on capital employed	7.5	5.5	2.0 pts

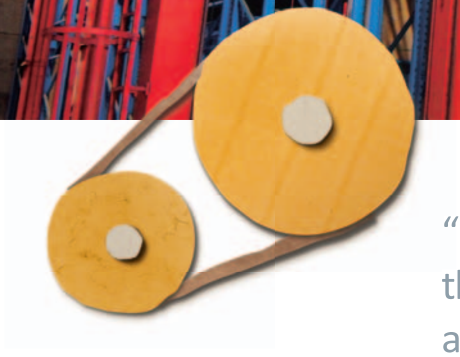
- Group revenue increased by 36.7% to RMB17,946.0 million
- Profit for the year increased by 30.4% to RMB2,166.5 million
- Net profit margin less 0.6 percentage points to 12.1%



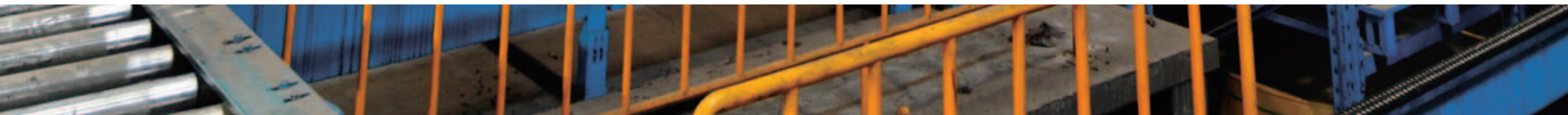








"Being the leading enterprise of China's paper industry, the Group has the most advanced production equipments and a diversified product portfolio, hence it can offer more varieties of quality paper according to the customers' choices as compared to its peers. Under an environment of strong domestic demand for paper, the Group will definitely stand out in the industry consolidation, further consolidating the leading position of the Group."



Chairlady's statement

"As the largest containerboard manufacturer in Asia. ND Paper has grasped opportunities arising from the industry recovery and recorded progressive growth in its business results and steady operations by leveraging on its robust strength and visionary development strategies"

Dear Shareholders,

On behalf of Nine Dragons Paper (Holdings) Limited and its subsidiaries, I hereby present the annual results for the 12 months ended 30 June 2010 (the "Year"). On behalf of the Board, I would also like to express my heartfelt gratitude to all shareholders and friends from various communities for their care extended to the Group.

Reviewing the past year, as a result of the gradual recovery of the global economy, the paper industry also recovered from its trough at the end of 2008 but was faced with the European sovereign credit crisis and the PRC tightening property measures during the second quarter of 2010. Although such two factors did not have a direct impact on the domestic demand for packaging paperboard products in China, the market became cautious and conservative in the short term, which caused a small impact on the Group's sales volume. Nevertheless, driven by the continuous efforts of the PRC government to stimulate domestic demand and the continued improvement of standards of living among PRC people, the demand for packaging paperboard products from various sectors will remain increasingly buoyant. As the largest containerboard manufacturer in Asia, ND Paper has grasped opportunities arising from the industry recovery and recorded progressive growth in its business results and steady operations by leveraging on its robust strength and visionary development strategies. It also actively expanded its production capacity to fulfill the increasing products demand from various market regions in order to fully unleash its future profit potential. At present, the Group has a total design production capacity of 8.82 million tpa. Domestic sales continued to grow steadily, accounting for 83.9% of the total sales. It is expected that the total design production capacity of the Group will exceed 10 million tpa by June 2011, making it the largest packaging paperboard manufacturer in the world, which represents a new milestone in the course of the Group's development.

In face of the fluctuations in recovered paper prices in the international market, the Group maintained its recovered paper inventory at reasonably low levels which was enabled by the close cooperation among its procurement, logistics and production functions. At the same time, the Group accelerated and increased the purchase volume of domestic recovered paper. As a result, the Group has strengthened its ability of passing recovered paper price fluctuations to its customers in a timely manner, and achieved steady profit growth. During the Year, domestic recovered paper accounted for approximately 23% of the Group's recovered paper purchase, with Taicang base achieving 27% and over 50% in Chongqing and Tianjin bases already. As the market continues to mature and domestic demand growth is sustained, the purchase volume of domestic recovered paper will be increased each year according to the prices between domestic and imported recovered paper. It is expected that the proportion of domestic recovered paper purchased by the Group will exceed 30% by the end of 2010.

For exports, due to the temporary slowdown in the economic recovery in Europe and the US and market uncertainties, the Group will adopt a prudent but positive attitude, making use of its leading industry position to seize market opportunities, in order to further enhance the Group's performance when improvements in the export market become more apparent.

FOCUS ON ENVIRONMENTAL PROTECTION AND THE OPPORTUNITIES ARISING FROM INDUSTRY CONSOLIDATION

While our scale continues to expand and our leading position is becoming increasingly solid, the Group has been actively pursuing its environmental protection endeavour. China attached high importance to environmental protection, energy conservation and emission reduction. The targets of phasing out over 4 million tpa of non-compliant paper production capacity by the end of September 2010, and carbon emission reduction by 40%-45% by 2020 have been clearly stated by the government. A series of measures have been adopted to encourage the integration of enterprises and the closure of non-compliant medium- and small-sized paper manufacturers so as to improve the overall disciplines of the industry. Owing to the government's determination to implement various energy-saving, emission reduction and production restriction measures, market consolidation is expected to accelerate significantly. The substantial sales volume increase of the Group observed in July and August 2010 reflected the effects of such market consolidation driven by the environmental policies of the PRC government.

Under its persistent commitment on sustainable development and the strengthening of enterprise environmental protection management, all of the Group's key environmental indicators outperformed industry averages. Being an enterprise highly conscious of its social responsibilities, ND Paper has always adhered to its philosophy of "no environment, no paper" and consecutively received environmental protection awards and accolades, gaining the recognition and endorsement from the government and the community. For example, Dongguan base passed the state energy saving assessment again and received a range of government incentives. It was consecutively granted the "Green Enterprise Management Award". In addition, it was named as the "Harmonious Labor Relations Enterprise in the PRC Paper Industry" and "Top 10 Enterprises in the PRC Light Industry – Paper Sector for 2009" by China Paper Association. Besides, it was also accredited as "National High and New-tech Enterprise" and "Guangdong Famous Brand", reinforcing its community image as an enterprise of excellence.

CONTINUED TO MAINTAIN A SOUND FINANCIAL POSITION

During the Year, the Group continued to maintain a healthy and stable financial position, with sales, gross profit and profit attributable to shareholders all broken their records in past financial years. Sales amounted to approximately RMB17.95 billion, representing an increase of approximately 36.7% compared with the last financial year. Gross profit amounted to approximately RMB3.91 billion, representing an increase of approximately 60.3% compared with the last financial year. Profit attributable to shareholders of the Group was approximately RMB2.17 billion, and basic earnings per share were approximately RMB0.48. The board of directors has resolved to recommend a final dividend of RMB10.0 cents per share.

With respect to capital management, the Group successfully completed a share placing in October 2009, further strengthening its financial position, providing strong support for the Group's business development and increasing its ability to capture future market opportunities. As at 30 June 2010, the Group had bank and cash balances of approximately RMB2.34 billion. At the same time, the Group actively optimized its debt portfolio, with undrawn bank credit facilities of over RMB14.02 billion. This not only demonstrates the support from the banking sector on ND Paper, it also reflects the full understanding and positive attitude of the banking sector on the Group's development prospects and future potentials, which further endorses the Group's leading position in the paper industry.

As at 30 June 2010, the Group's net debt to total equity ratio was approximately 73.9%, which was substantially lower than the ratio of 82.4% as at 30 June 2009.

COMPREHENSIVE AND PROACTIVE EXPANSION PLAN

Over the years, the Group has actively seized market opportunities and implemented targeted measures effectively to achieve profit growth. The Group emphasied on the balance between resources allocation and return, making use of its available resources to maximize investment returns, whilst persisted to enhance production efficiency. Currently, the Group has expansion and upgrading plans in its bases in Dongguan, Taicang, Chongqing, Tianjin and Leshan. In addition to further expanding production scale, consolidating its existing leading position and enlarging markets shares, these plans can also significantly increase product diversification and the proportion of high margin products, including coated duplex board, coated linerboard, white board and recycled printing and writing paper. This will not only substantially enhance its profitability in the future, but also strengthen the Group's ability of risk resistance in times of market adversity. Besides, the Group has decided to set up a new paper manufacturing base in Quanzhou, Fujian Province. Meanwhile, the Group also plans to develop in the Hunan and northeastern markets to capture the market opportunities from the increasingly matured local manufacturing supply chain and fast growing packaging paperboard demand in these regions. It is expected that, by 2012, the Group will have a total design production capacity of over 12 million tpa. Our target is to become the world's largest paper manufacturer by 2014 to 2015.

SOUND CORPORATE CULTURE AND HUMANISTIC MANAGEMENT CONCEPT

Enjoying the advantages of an industry leader, ND Paper has been growing steadily over the years leveraging on its sound corporate culture and humanistic management philosophy. The Group is not just a trusted partner of its suppliers and customers, it is also a big warm family for its employees, as fully reflected in its humanistic corporate management concept. At the same time, the Group is committed to fulfilling its social responsibilities and emphasis has always been placed on giving back to the community. For example, the Group donated RMB10 million for earthquake disaster relief in Yushu, Qinghai Province and pledged RMB10.2 million on the first "fundraising day for the underprivileged" in Guangdong. The effective implementation of the above has not only fostered the Group's industry leading position in terms of scale, but also made the Group a role model in the industry.

OUTLOOK & ACKNOWLEDGEMENT

Looking ahead, the recovery of the global economy and the promulgation of state policies to stimulate domestic demand and environmental protection will bring vast opportunities to large-scale paper manufacturers, which are believed to exhibit more strongly in 2011, further boosting our confidence. The Group will, based on demand and actual circumstances in the market, continue to utilize the solid foundation of our four major strategic bases in Dongguan, Taicang, Chongqing and Tianjin, extensive management experience and abundant financial resources to implement plans for new products, new capacities and new bases in a flexible and prudent manner, enabling our investors to visualize the strengths that have been established by the Group over the years and the future development potential. At the same time the Group will continue to put heavy emphasis on employee development, maintaining the excellent tradition and diligent spirit of "Nine Dragons People" and focus on our industry, building a "Brand of Perpetuity" for Nine Dragons Paper. On behalf of the Board, I would like to take this opportunity to extend my heartfelt gratitude to our management, all our staff, governments at all levels, investors, banks and our business partners who have been supporting us all the time!

Cheung Yan
Chairlady

Hong Kong, 27 September 2010

Chief Executive Officer's operation review and outlook

"The Group will continue to uphold its passion for the paper manufacturing industry, pursue its development in a focused manner and attain core values that clearly stand out from its industry peers."

Dear Shareholders,

I am delighted to share with you our annual results for the 12 months ended 30 June 2010.

REVIEW OF OPERATIONS

In spite of the European sovereign debt crisis in the external market and the austerity measures in respect of the property market in China over the past half year, which brought about some uncertainties to the economic recovery process, the economy of China continued to maintain its stable long-term growth momentum, generating valuable opportunities to enterprises of all sizes which support sustainable economic development. Benefiting from the state policies and continuous domestic demand growth, the Group fully capitalized on the market opportunities and developed proactively to maintain our leading position in the paper manufacturing industry and steady growth of our business. During the Year, sales volume of the Group's packaging paperboard products recorded its historical high, representing an increase of approximately 22.5% to approximately 6.43 million tonnes from the last corresponding year. Approximately 3.54 million tonnes of linerboard, approximately 2.06 million tonnes of high performance corrugating medium and approximately 0.83 million tonnes of coated duplex board were sold, generating a revenue of approximately RMB17.5 billion to the Group. Apart from the four major production bases of the Group in Dongguan, Taicang, Chongqing and Tianjin, the operations of the projects in Leshan of Sichuan, Inner Mongolia and Vietnam were all delivering satisfactory performance.

The Group's total design production capacity now aggregates to 8.82 million tpa. In addition to firmly securing its position as the largest containerboard manufacturer in Asia, the Group was also active in product diversification and geographical coverage expansion. In order to better regulate the operations and performance of various production bases and business functions, the Group timely seized the opportunity arising from the economic downturn as a result of the financial tsunami and was able to procure favorable terms in engaging SAP, a service provider with ample experience, to establish an advanced and comprehensive management system platform for the Group, thus providing a solid foundation for its ongoing expansion in terms of scale and number of production bases in future. In particular, the enterprise resource planning (ERP) system has been implemented in Taicang and Chongqing bases in August and September 2010 respectively, whereas implementation in Dongguan and Tianjin bases is expected to complete within 2010. The Group's aim is to informationize and unify the management of the operational data of various bases including production, recycling, sales, procurement, materials management, logistics, receivables and payables in order to enhance the overall management standards and efficiency of the various departments under the Group. This can build a solid foundation for the Group's further developments and efficiency enhancement in future. Meanwhile, the Group will continue to adhere to environmentally friendly production as the norm for its employees' everyday work routine and culture, adopt international management disciplines, and enhance its environmental and safety standards. The Group has been granted ISO9001, ISO14001 and OHSAS18001 certifications consecutively.

Over the years, the Group has endeavored to fulfill its social responsibilities and support environmental protection by persistently adhering to energy conservation and emission reduction in the course of production, with emphasis on the "3R manufacturing" concept in operational management, i.e. reduce, reuse and recycle. The Group has made remarkable performance in environmental projects such as chemical oxygen demand (COD) control, wastewater treatment, sludge dewatering for use as a fuel and power generation by the combustion of desulfurized methane. It has also introduced the concept of "only misplaced resources, no useless waste" in various production bases and advocated the establishment of the attitude of "turning wastes into valuables" among all staff, combining our environmental management and production efficiency enhancement efforts to generate complementary synergies. We believe that it is only by sharing these environmentally friendly concepts and achievements with our industry peers will the paper manufacturing industry pursue a better and greener path for the benefit of our society. At the same time, in strong adherence to the corporate philosophy of "people-oriented, fair and just", the Group endeavored to implement continuous development plans for its employees by providing occupational training and promotion opportunities. This not only creates a platform for further career growth prospects, but also equips the Group with quality human resources for the future, thereby creating a win-win relationship for the Group and its employees.

DEVELOPMENT PLANS

PM29 and PM30 in the Group's Taicang base are under construction. Their respective design capacities are 400,000 tpa in kraftlinerboard and 300,000 tpa in light weight high performance corrugating medium, and will commence production on schedule before the end of December 2010.

Our Tianjin base, which commenced production in September 2009, has achieved its operational targets and performed satisfactorily. Currently, the base has three new paper machines under construction, including PM31 and PM32 that are expected to commence production before the end of June 2011 for the production of products in the linerboard category with a design production capacity of 400,000 tpa each, and PM34 that is expected to commence production before the end of October 2011 for the production of coated duplex board and food grade and pharmaceutical grade white board with a design production capacity of 550,000 tpa, filling the supply gap for such high-end products in the northern market. In expanding the base's production capacity and significantly enhancing its economies of scale, the Group has also optimized its product mix, taking a big step towards achieving the objective of diversification and high-end product development.

Save as our Tianjin base, PM27 in Dongguan and PM33 in Chongqing that are expected to commence production before the end of June 2011 and before the end of March 2012 respectively, will also produce coated duplex board and food grade and pharmaceutical grade white board with a design production capacity of 550,000 tpa each. By then, the Group's total production capacity of this high margin product will reach 2.6 million tpa, which is significantly higher than the current capacity scale of 0.95 million tpa. As for machinery upgrade and optimization of product mix, PM3 in Donguang and PM20 in Taicang will produce coated linerboard, and PM21 in Taicang will produce recycled printing and writing paper after upgrade completion before the end of June 2011, December 2010 and February 2011 respectively, with a production capacity of 400,000 tpa, 430,000 tpa and 200,000 tpa respectively. Our new PM28 in Dongguan for the production of recycled printing and writing paper will, after commencement of production before the end of June 2011, have a production capacity of 250,000 tpa.

The Group has decided to build a new medium-sized paper manufacturing base in Quanzhou, Fujian with a planned total design production capacity scale up to 2 million tpa. Phase 1 will comprise two paper machines expected to commence production before the end of June 2012, including PM35 for the production of kraftlinerboard and PM36 for the production of testlinerboard with a design production capacity of 350,000 tpa and 300,000 tpa respectively. At the same time, the Group also plans to develop medium-sized bases in the Hunan and northeastern markets to cater for the local market needs.

With persistent determination the Group continues to grow steadily and maintains a clear industry leadership position, with product sales volumes continually breaking its own records. By June 2011, the Group's total design production capacity is expected to exceed 10 million tpa, coupled with the launch of a number of new products. This represents a historically important milestone for the Group in its gradual development to become a diversified leading international paper manufacturer. By 2012, the total design production capacity of the Group will exceed 12 million tpa.

OUTLOOK

In face of a macro environment with continually strong domestic demand and active environmentally friendly policies promulgated by the government to maintain the sustainable development of the economy, in fully capitalizing on the unique advantages of its four major bases and its flexible operating strategies, the Group continues to seize the market opportunities through the progressive launch of new products to achieve product and market diversification concurrent with the elevation of its production capacity. Through strengthening internal control, consolidating financial position, enhancing product quality and adhering to environmental beliefs, the Group can maximize the return on its invested resources, boost the confidence of its customers and suppliers and create a harmonious environment for the growth of its employees. The Group will continue to uphold its passion for the paper manufacturing industry, pursue its development in a focused manner and attain core values that clearly stand out from its industry peers. At the same time, the Group will use its best endeavors in energy conservation and emission reduction in the establishment of benchmarks for the industry. It is believed that, with the concerted efforts of everyone in Nine Dragons, we will, step by step, build ourselves into an enterprise that would thrive for a century!

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 27 September 2010

Management discussion and analysis

"In order to meet market demand, the Group's existing bases in Donggnan, Taicang, Chongqing, Tianjin and Leshan all have plans for capacity expansion and upgrading, aiming at further increase of the scale of production capacity and increase in market share."

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.

At present, the Group's total design production capacity has reached 8.82 million tpa, among which 23 packaging paperboard production lines of advanced international standards 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 total sales volume of packaging paperboard products has set a new record in the Year, hitting 6.43 million tonnes, representing a year-on-year increase of 22.5%. During the Year, Tianjin base commenced production in September 2009 and went through its ramp-up process smoothly. It has achieved its operational targets and performed satisfactorily.

Currently, the Group has four major paper production bases – Dongguan base in Pearl River Delta, Taicang base in Yangtze River Delta, Chongqing base in western China and Tianjin base in Bohai Economic Rim. These have given the Group a China market coverage far ahead of its peers. Apart from the four major paper production bases, the Group's projects in Leshan of Sichuan, Inner Mongolia and Vietnam were all delivering satisfactory performance.

The Group's sales related to domestic consumption continued to grow steadily, accounting for approximately 83.9% of the total sales. As for exports, as there is still a lack of firm indication on the recovery pace of the USA and European countries, the Group adopts a prudent but positive attitude.

Business strategy

With the gradual recovery of the global economy, the paper industry has also recovered from its trough at the end of 2008. However, the occurrence of the European sovereign debt crisis and the austerity measures in respect of the property market in China in the second quarter of 2010, though bearing no direct impact on the domestic demand for packaging paperboard products in China, have brought forth some uncertainties to the economic recovery, making the market become prudent and conservative in the short term. The Group's sales volume was slightly affected. Nevertheless, on the back of a macro environment in which domestic demand is continuously being fostered by the Chinese government and the people's living standards are continuously improving, the demand for packaging paperboard products from various sectors will remain increasingly buoyant. Being the top containerboard manufacturer in Asia, ND Paper firmly seizes the opportunity of the industry's recovery and adopts a prudent and flexible business strategy by strengthening internal management, increasing production capacity and thoroughly incorporating environmental consciousness in production, truly demonstrating the paradigm of a leading enterprise in the development of all disciplines of the industry. With the support of its robust strength and visionary development strategies, the Group has recorded progressive growth in its business results and stable operations. The Group also fully captures market opportunities arising from the industry's consolidation, standing out from its peers in accomplishing its promising roadmap for sustainable development at a steady pace.

Optimization of resources allocation and production capacity scale expansion to meet market demand

In order to achieve product diversification with more high-end products, the Group proactively adjusts its product mix, including a significant increase in the proportion of products offering higher profit margins, e.g. coated duplex board, coated linerboard, white board, recycled printing and writing paper, etc. These will not only substantially enhance the Group's profitability in future, they will also strengthen the Group's capability of risk resistance at times of market adversity.

In order to meet market demand, the Group's existing bases in Dongguan, Taicang, Chongqing, Tianjin and Leshan all have plans for capacity expansion and upgrading, aiming at further increase of the scale of production capacity and increase in market share. Persisting on its beliefs and a dedicated and diligent attitude towards the paper industry, the Group has not only targeted at the maintenance of its leading position in the domestic paper industry, but also aspires to becoming the world's largest paper manufacturer. It is expected that the Group's total design capacity will reach over 10 million tpa by 2011, bringing it to the position as the largest packaging paperboard manufacturer in the world. By 2012, the Group's total design capacity will exceed 12 million tpa. Meanwhile, the Group has decided to set up a new medium-sized paper production base at Quanzhou, Fujian Province, and plans to develop the markets in Hunan Province and north-eastern china as well, in order to capture market opportunities of the increasingly matured supply chain of local manufacturing industries and hence rapid growth in demand for packaging paperboard products.

Paper machines planned for completion of construction or upgrading and production commencement in 2010

Paper machine	Location	Product	Design capacity	Completion date
PM29 (new)	Taicang	Kraftlinerboard	400,000 tpa	Before end of Dec
PM30 (new)	Taicang	Light weight high performance corrugating medium	300,000 tpa	Before end of Dec
PM20 (upgrade)	Taicang	Coated linerboard	430,000 tpa	Before end of Dec

Paper machines planned for completion of construction or upgrading and production commencement in 2011

Paper machine	Location	Product	Design capacity	Completion date
PM21 (upgrade)	Taicang	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	200,000 tpa	Before end of Feb
PM27 (new)	Dongguan	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Jun
PM28 (new)	Dongguan	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	250,000 tpa	Before end of Jun
PM31 (new)	Tianjin	Testlinerboard	400,000 tpa	Before end of Jun
PM32 (new)	Tianjin	Kraftlinerboard	400,000 tpa	Before end of Jun
PM3 (upgrade)	Dongguan	Coated linerboard	400,000 tpa	Before end of Jun
PM34 (new)	Tianjin	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Oct

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

Paper machine	Location	Product	Design capacity	Completion date
PM33 (new)	Chongqing	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of Mar
PM35 (new)	Quanzhou	Kraftlinerboard	350,000 tpa	Before end of Jun
PM36 (new)	Quanzhou	Testlinerboard	300,000 tpa	Before end of Jun

Design capacities of the Group's five major bases in China

(Breakdown by product category)

(million tpa/year)	Jun 2010	Dec 2010	Jun 2011	Jun 2012
Linerboard	4.60	4.55	4.95	5.60
Corrugating medium	3.00	3.30	2.95	2.95
Coated linerboard*	–	0.43	0.83	0.83
Coated duplex board*	0.95	0.95	1.50	2.60
Recycled printing and writing paper*	–	–	0.45	0.45
*High margin products sub-total	0.95	1.38	2.78	3.88
Total	8.55	9.23	10.68	12.43

(Capacity mix by product category)

	Jun 2010	Dec 2010	Jun 2011	Jun 2012
Linerboard	53.8%	49.3%	46.3%	45.1%
Corrugating medium	35.1%	35.7%	27.7%	23.7%
Coated linerboard*	–	4.7%	7.8%	6.7%
Coated duplex board*	11.1%	10.3%	14.0%	20.9%
Recycled printing and writing paper*	–	–	4.2%	3.6%
*High margin products sub-total	11.1%	15.0%	26.0%	31.2%
Total	100.0%	100.0%	100.0%	100.0%

(Distribution by location)

	Jun 2010	Dec 2010	Jun 2011	Jun 2012
Dongguan	52.0%	48.2%	49.2%	42.2%
Taicang	29.2%	34.4%	28.3%	24.4%
Chongqing	9.4%	8.7%	7.5%	10.9%
Tianjin	9.4%	8.7%	15.0%	17.3%
Quanzhou	–	–	–	5.2%
Total	100.0%	100.0%	100.0%	100.0%

No. of paper machines in the Group's five major bases in China (Distribution by location)

(No. of machines)	Jun 2010	Dec 2010	Jun 2011	Jun 2012
Dongguan	13	13	15	15
Taicang	6	8	8	8
Chongqing	2	2	2	3
Tianjin	2	2	4	5
Quanzhou	–	–	–	2
Total	23	25	29	33

In addition, there will be a new bamboo pulp production line in our Leshan base, with a design capacity of 100,000 tpa planned for commencement of production before the end of June 2012.

Standardizing the Group's management systems

In order to better regulate the operations and performance of the Group's various bases and business functions, the Group timely seized the opportunity arising from the economic downturn as a result of the financial tsunami and was able to procure favourable terms in engaging SAP, a service provider with ample experience, to establish an advanced and comprehensive management systems platform for the Group, of which the enterprise resource planning (ERP) system has been successfully implemented in Taicang and Chongqing bases in August and September respectively whereas implementation in Dongguan and Tianjin bases is expected to be completed within 2010. The aim is to informationize and unify the management of the operational data of various bases including production, recycling, sales, procurement, materials control, logistics, receivables and payables, in order to enhance the overall management standards and efficiency of the various departments under the Group. This can build a solid foundation for the Group's further developments and efficiency enhancement in future. During the Year, the Group continued to obtain ISO9001 certification on its quality management system.

Controlling costs and diversifying sources of supplies

The Group actively strengthens close cooperation among various departments such as procurement, logistics and production and regularly maintains the inventory of its key raw material – recovered paper at reasonably low levels. In order to maximize the utilization of resources, the concept of "only misplaced resources, no useless waste" is introduced in various production bases, implementing "3R manufacturing" in operational management, i.e. reduce, reuse and recycle, so as to elevate the Group's economic and social effectiveness.

Meanwhile, in face of the fluctuations in recovered paper prices in the international market, the Group significantly increased the purchase volume of domestic recovered paper, thus strengthening its ability of passing through recovered paper price fluctuations to its customers in a timely manner, achieving steady profit growth. Domestic recovered paper accounted for approximately 23% of the Group's total recovered paper procurement in the Year, with Taicang base achieving approximately 27%, and over 50% in Chongqing and Tianjin bases already. As the market continues to mature and domestic demand growth is sustained, the Group will further strengthen its domestic recovered paper procurement according to the price differences between domestic and imported recovered paper. It is expected that the proportion of domestic recovered paper purchased by the Group will exceed 30% by the end of 2010.

Invest in infrastructure facilities to achieve economies of scale

(1) Power resources

To support large-scale and stable paper manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. Accordingly, the Group has set up its own central coal-fired cogeneration power plants in its Dongguan, Taicang, Chongqing and Tianjin bases with an aggregate installed capacity of 1,014 MW to provide adequate and stable electricity power for the Group. Simultaneously, these plants can provide steam for use in the drying process in paper production. Ancillary facilities of the paper machines for cogeneration of steam and electricity help to save on energy costs and valuable land resources. Given its high thermal efficiency and low coal consumption, using electric power produced from the Group's own power plants can effectively reduce costs as compared to purchasing power from third parties.

As coal is a major material for power generation, the Group actively endeavours to lower its coal costs by purchasing the required coal directly from coal distributors and arranging for its own transportation of coal using larger vessels. In the Taicang and Chongqing bases, the Group receives the coal shipments directly at its self-owned piers. It has also invested in the construction of fully automated and enclosed coal storage domes across its bases, which help increase efficiency, reduce wastage as well as greatly enhance the environmental standards of the Group.

(2) Land resources

Along with production scale expansion, the Group must have adequate land reserves in order to accommodate its existing operations and prepare for future business development. As of 30 June 2010, the Group has secured land use rights for land plots aggregating 9.28 million sq.m.

(3) Transportation infrastructure

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group has constructed a self-owned pier at each of Taicang and Chongqing. The pier in Taicang base is capable of accommodating oceangoing vessels of up to 50,000 tonnes, which is mainly used for receiving coal deliveries now, with an annual loading/unloading capacity of 2.7 million tonnes. Phase 3 of the pier is now under construction. The Chongqing base has a container pier and a bulk cargo wharf with an annual throughput capacity of 4 million tonnes, ensuring logistics support for the production base. There is also a railway spur connected to the production base, which helps enhance the operating efficiency of the base and provide more flexibility to its transportation services.

Continue to place high emphasis on environmental protection

Being an enterprise with a high sense of social responsibility, ND Paper continued to strive actively for environmental protection and persistently adhere to energy conservation and emission reduction in the course of production. Through environmental projects including the control of chemical oxygen demand (COD), wastewater treatment, sludge dewatering for use as a fuel and power generation by the combustion of desulfurized methane, the Group's environmental management and cost efficiency are seamlessly integrated to achieve complementary synergies.

ND Paper has always adhered to the philosophy of "no environment, no paper", with all of the Group's key environmental indicators outperforming industry averages. It has received environmental awards and accolades many times, gaining the recognization and endorsement from the government and the community. For example, Dongguan base was consecutively granted the "Green Enterprise Management Award", and was named both the "Harmonious Labour Relations Enterprise in the PRC Paper Industry" and "Top 10 Enterprises in the PRC Light Industry – Paper Sector for 2009" by the China Paper Association. It was also named as the "National High and New-Tech Enterprise" and "Guangdong Famous Brand". During the Year, the Group continued to obtain ISO14001 environmental management certification.

Opportunities brought forth by industry consolidation

China attaches high importance to environmental protection, energy conservation and emission reduction. The targets of phasing out over 4 million tonnes of inferior paper production capacities by the end of September 2010, and the reduction of carbon emission by 40-45% by 2020 have been clearly stated by government. A series of measures have been adopted to encourage the scaling up and strengthening of large enterprises and the closure of non-compliant medium and small-sized paper-making factories, so as to improve overall disciplines of the industry. Given that the government increases the intensity of control in respect of environmental protection and vigorously drives the closedown of inferior production capacities, the speed of industry consolidation is accelerated. Being the leading enterprise of China's paper industry, the Group has the most advanced production equipments and a diversified product portfolio, hence it can offer more varieties of quality paper according to the customers' choices as compared to its peers. Under an environment of strong domestic demand for paper, the Group will definitely stand out in the industry consolidation, further consolidating the leading position of the Group.

Emphasis on a people-oriented strategy

The Group adheres to the corporate philosophy of "people-oriented, fair and just", with the belief that only human resources of excellence can enhance the overall competitiveness and cohesive spirit of the Group. As of 30 June 2010, the Group had approximately 12,900 full-time staff in Hong Kong and mainland China. Expenses related to employees (including directors' emoluments) for the Year amounted to approximately RMB585.3 million. The Group places emphasis on personnel training and strives to implement continuous staff development programs. It provides occupational training and promotion opportunities, building a larger platform for the staff to develop their career whilst reserving future talents for the Group for meeting the personnel requirement arising from the Group's product diversification, increase in the number of bases and an increasingly extensive customer network, thus achieving a mutually beneficial win-win model for the Group and its staff. In the Year, the Group continued to have OHSAS 18001 certification for its occupational health and safety management system.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB17,946.0 million for the Year, representing an increase of approximately 36.7% as compared with the last financial year. The major contributor of the Group's revenue was still its paper packaging business which accounted for approximately 97.3% of the revenue, with the remaining revenue of approximately 2.7% generated from its pulp and high value special paper products business.

The Group's revenue for the Year increased by approximately 36.7% as compared with the last financial year, as a result of both increase on average selling price and increase in sales volume of its packaging paperboard products. Revenue of linerboard, high performance corrugating medium and coated duplex board for the Year accounted for approximately 54.5%, 27.0% and 15.8% respectively of the total revenue, compared to 48.9%, 27.1% and 19.7% respectively in the last financial year.

The Group's annual design production capacity in packaging paperboard as at 30 June 2010 was 8.65 million tpa, comprising 4.70 million tpa of linerboard, 3.00 million tpa of high performance corrugating medium and 0.95 million tpa of coated duplex board. In FY2010, the Group's total sales volume of packaging paperboard products reached approximately 6.43 million tonnes, representing an increase of approximately 22.5% as compared to the last financial year. The increase of sales volume of packaging paperboard was supported by the contribution from the newly introduced PM25 and PM26 in Tianjin, which commenced their commercial operation in January 2010, and the substantial enhancement in production efficiency of the existing paper production lines.

The sales volume of linerboard and high performance corrugating medium for FY2010 increased by approximately 32.7% and 20.2% respectively while the coated duplex board decreased slightly by approximately 4.3% due to the relative weak export market in FY2010.

The increase of the average selling prices in the Group's products also contributed to the increase in revenue. The average selling prices of linerboard, high performance corrugating medium and coated duplex board for FY2010 increased by approximately 14.7%, 13.3% and 14.2% respectively. The majority of the Group's sales continued to be realised from the domestic market, in particular from the linerboard and high performance corrugating medium sectors. For FY2010, revenue related to domestic consumption represented approximately 83.9% of the Group's total revenue, while the remaining revenue of approximately 16.1% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

For FY2010, sales to the Group's top five customers in aggregate accounted for approximately 5.1% (FY2009: 4.2%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.8% (FY2009: 1.3%).

Gross profit

The gross profit for FY2010 was approximately RMB3,912.6 million, an increase of approximately RMB1,471.1 million or increased by approximately 60.3% as compared with the RMB2,441.5 million in the last financial year. The gross margin increased from approximately 18.6% in FY2009 to approximately 21.8% in FY2010. The increase in gross profit margin was mainly due to the stable economic growth since the financial tsunami.

Other gains – net

Other gains (net) of the Group increased to approximately RMB42.4 million in FY2010 from RMB7.0 million in the last financial year. The increase was mainly due to the net foreign exchange gain arisen from RMB appreciation and the substantial increase in subsidies received from government in FY2010.

Selling expenses and marketing costs

Selling and marketing costs were approximately RMB355.1 million in FY2010, decreased by approximately 7.2% as compared with RMB382.7 million in FY2009. The total amount of selling and distribution costs as a percentage of the Group's revenue decreased from 2.9% in the last financial year to approximately 2.0% in FY2010, which was achieved by cost efficiency with the significant increase in the Group's scale of operations.

Administrative expenses

Administrative expenses increased by approximately 49.5% from RMB320.9 million in the last financial year to approximately RMB479.8 million in FY2010. The amount of administrative expenses as a percentage of group revenue increased slightly from 2.4% in FY2009 to approximately 2.7% in FY2010. If the write-back of the share options expenses of approximately RMB94.1 million related to 2006 Share Option Scheme in FY2009 was excluded, as a percentage of the Group's revenue, the administrative expenses would decrease from 3.2% in FY2009 to approximately 2.7% in FY2010.

Operating profit

The operating profit for FY2010 was approximately RMB3,120.0 million, an increase by approximately 78.8% over the last financial year. The operating profit margin increased from 13.3% in FY2009 to approximately 17.4% in FY2010 due to the gross margin expansion and the expenses control in FY2010.

Finance costs – net

Finance costs (net) increased by approximately 7.7% to approximately RMB541.1 million in FY2010 from RMB502.2 million in the last financial year. The slight increase was mainly due to the net result of the decrease in interest capitalised of approximately RMB220.0 million arisen from the commercial operations PM25 and PM26 in Tianjin in January 2010, and the decrease of the gross interest charges (including interest capitalised but before interest income and impact from derivative financial instruments) of approximately RMB217.3 million by the upgrading of the Group's credit profile and optimising loan portfolio mix in terms of maturity in FY2010, as compared with last financial year.

Income taxation

Income tax charged for the FY2010 amounted to approximately RMB359.3 million and increased by approximately RMB183.8 million as compared with the last financial year.

The Group's average effective tax rate increased from 9.6% in FY2009 to approximately 13.9% in FY2010. If the gain on repurchase of senior notes of RMB594.0 million in FY2009 was excluded, the average effective tax rate of the Group would remain relatively stable of approximately 14.0% in FY2009 and in FY2010.

Net profit

The profit attributable to the equity holders of the Company in FY2010 was approximately RMB2,166.5 million, representing an increase of approximately RMB1,099.4 million (excluding the gain on repurchase of senior notes of RMB594.0 million in FY2009), or increased by approximately 103.0% over the last financial year, whilst the net profit margin substantially increased from approximately 8.1% in FY2009 to approximately 12.1% in FY2010.

Dividend

In FY2010, the Group paid an interim dividend of RMB2.0 cents per share, which amounted RMB92.2 million. The directors have proposed a final dividend of RMB10.0 cents per share, which will aggregate approximately RMB463.0 million. The total dividend for the FY2010 amounted to RMB12.0 cents per share, representing an increase of RMB8.5 cents per share as compared with the last financial year. The pay out ratio has also increased from 9.1% in the last financial year to 25.6% in FY2010.

Working capital

The inventories increased by approximately RMB2,264.1 million for FY2010 and amounted to approximately RMB3,765.0 million as at 30 June 2010, representing an increase of approximately 150.8% from that of the last financial year. Inventories mainly comprise raw materials (mainly recovered paper, coal and spare parts) of approximately RMB1,727.5 million and finished goods of approximately RMB2,037.5 million.

The raw materials increased by approximately 64.7% to approximately RMB1,727.5 million in FY2010 from RMB1,049.0 million in the last financial year. The increase in raw materials balances was primarily a result of storing a stable amount of raw materials for deployment by increased production capacity.

The finished goods increased by approximately 350.9% to approximately RMB2,037.5 million in FY2010 from RMB451.9 million in the last financial year. The substantial increases in finished goods were due to the substantial increase in economies of scale and the relatively weak market in 4th quarter of FY2010.

As a result, during FY2010, raw material turnover days increased to approximately 45 days as compared to 36 days for FY2009 while the finished goods turnover days increased to approximately 53 days as compared to 15 days for FY2009.

Trade receivables and bills receivable increased by approximately RMB1,140.9 million for FY2010 and amounted to approximately RMB2,549.0 million, representing an increase of approximately 81.0% from that of the last financial year. During FY2010, the turnover days of trade receivables and bills receivable were approximately 52 days as compared to 39 days for FY2009. This is in line with credit terms of 30 days to 60 days granted by the Group to its customers.

Trade payables and bills payable increased by approximately RMB528.7 million for FY2010 and amounted to approximately RMB2,452.7 million, representing an increase of approximately 27.5% from that of the last financial year. Trade payables and bills payable turnover days were approximately 64 days for FY2010 and was in line with the credit period granted by most suppliers.

Liquidity and financial resources

The working capital and long-term funding required by the Group in FY2010 primarily comes from its operating cash flows and bank borrowings and the issue of new shares in the capital market, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's net cash inflow generated from operations decreased from RMB4,940.4 million in FY2009 to approximately RMB789.9 million in FY2010, representing a decrease of approximately 84.0%. The decrease was attributable primarily to the changes in working capital, mainly the increase in inventories and trade and other receivables due to substantial increases in economies of scale of the Group. In terms of available financial resources as at 30 June 2010, the Group had total undrawn banking facilities of approximately RMB14,024.3 million and cash and cash equivalents of approximately RMB2,341.0 million. As at the reporting date, the Group had total undrawn banking facilities of approximately RMB17,920.7 million.

As at 30 June 2010, the shareholders' funds were approximately RMB19,130.2 million, a substantial increase of approximately RMB4,436.9 million from that of the last financial year mainly due to the issue of the 264,285,000 new shares at a subscription price of HKD10.85, which generated net proceeds of approximately HKD2,809.7 million (equivalent to approximately RMB2,475.5 million). The shareholders' fund per share increased by 21.8% from RMB3.39 to approximately RMB4.13.

Debts Management

The Group's outstanding bank borrowings increased by approximately RMB2,831.9 million from RMB13,827.7 million as at 30 June 2009 to approximately RMB16,659.6 million as at 30 June 2010. The short-term and long-term borrowings amounted to approximately RMB2,055.6 million and approximately RMB14,604.0 million respectively, accounting for approximately 12.3% and approximately 87.7% of the total borrowings respectively. As at 30 June 2010, about 99.7% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 82.4% as at 30 June 2009 to 73.9% as at 30 June 2010.

On 2 February 2010, the Group, as the borrower, has entered into a facility agreement with Bank of China (Hong Kong) Limited and China Development Bank Corporation (Shenzhen branch) of which a 3-year term loan facility in an aggregate amount up to USD500 million (the "Club term loan") was made available to the borrower. On 19 March 2010, the Group has fully drawn down the club term loan with an aggregate amount of USD500 million and repaid in full the syndicated loans outstanding under the facilities agreement dated 19 September 2006 and 18 June 2007 of approximately USD396 million on the same day. The remaining balance of approximately USD104 million was used as working capital of the Group.

Treasury policies

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

The treasury policies followed by the Group aim to:

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

(b) **Minimise currency risk**
In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings. As at 30 June 2010, total foreign currency borrowings amounted to the equivalent of approximately RMB3,100.2 million and loans denominated in RMB amounted to approximately RMB13,559.4 million, representing approximately 18.6% and 81.4% of the Group's borrowings respectively.

Cost of borrowing

Average borrowing cost in FY2010 were approximately 4.444% and 4.705% per annum as compared to 4.871% and 3.490% per annum in FY2009 for long-term bank borrowings and short-term bank borrowings respectively. The gross interest and finance charges (including interest capitalised but before interest income and impact from derivative financial instruments) decreased to approximately RMB755.7 million in FY2010 from RMB973.0 million in FY2009.

Capital expenditures

For FY2010, the Group invested approximately RMB4,359.5 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 RMB5,179.0 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the construction of PM27/28, PM29/30 and PM31-34 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 FY2010, 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	**2010**	**2009**	**2008**	**2007**	**2006**
Sales	17,946.0	13,128.6	14,113.6	9,837.7	7,902.2
Cost of goods sold	(14,033.4)	(10,687.1)	(11,241.3)	(7,308.8)	(6,041.3)
Gross profit	3,912.6	2,441.5	2,872.3	2,528.9	1,860.9
Other gains — net	42.4	7.0	228.8	311.2	357.0
Selling and marketing costs	(355.1)	(382.7)	(335.5)	(195.4)	(172.8)
Administrative expenses	(479.9)	(320.9)	(499.7)	(351.3)	(233.9)
Operating profit	3,120.0	1,744.9	2,265.9	2,293.4	1,811.2
Gain on repurchase of senior notes	–	594.0	–	–	–
Finance costs	(541.1)	(502.1)	(101.9)	(131.4)	(294.8)
Profit before income tax	2,578.9	1,836.8	2,164.0	2,162.0	1,516.4
Income tax expense	(359.3)	(175.5)	(263.2)	(101.7)	(116.3)
Profit for the year	2,219.6	1,661.3	1,900.8	2,060.3	1,400.1
Profit attributable to:					
Equity holders of the Company	2,166.5	1,661.1	1,876.9	2,003.4	1,374.8
Minority interests	53.1	0.2	23.9	56.9	25.3

	For the year ended 30 June				
Consolidated Cash Flow Statement	**2010**	**2009**	**2008**	**2007**	**2006**
Net cash (used in)/generated from operating activities	(81.1)	3,929.3	1,395.8	756.1	1,067.1
Net cash used in investing activities	(4,320.2)	(3,739.3)	(9,809.4)	(5,524.0)	(1,454.1)
Net cash generated from/(used in) financing activities	5,253.1	(236.4)	8,270.2	3,727.0	2,556.0
Net increase/(decrease) in bank and cash balances	851.8	(46.4)	(143.4)	(1,040.9)	2,169.0

In millions of RMB

Consolidated Balance Sheet	2010	2009	As at 30 June 2008	2007	2006
Total assets	41,218.1	33,526.2	32,612.9	20,362.4	14,872.6
Inventories	3,765.0	1,500.9	2,818.5	1,502.5	932.0
Trade receivables and bills receivable	2,549.1	1,378.0	1,940.9	1,770.4	1,312.4
Prepayments and other receivables	866.4	662.3	911.3	417.7	246.6
Derivative financial instruments	–	0.4	–	24.9	–
Bank and cash balances	2,341.0	1,552.7	1,956.0	1,748.2	3,017.3
Total current assets	9,521.5	5,094.3	7,626.7	5,463.7	5,508.3
Property, plant and equipment	30,157.5	27,011.4	23,536.6	13,802.7	8,625.5
Land use rights	1,299.6	1,185.8	1,185.4	949.3	592.1
Intangible assets	239.5	234.7	238.3	146.7	146.7
Derivative financial instruments	–	–	25.9	–	–
Total non-current assets	31,696.6	28,431.9	24,986.2	14,898.7	9,364.3
Total liabilities	21,841.4	18,633.9	19,067.8	8,726.4	7,236.3
Trade payables and bills payable	2,452.7	1,924.0	2,286.5	1,068.5	1,516.8
Other payables	1,835.9	1,750.4	1,552.3	698.1	476.7
Current income tax liabilities	173.1	161.3	72.4	21.4	67.4
Derivative financial instruments	1.9	–	1.7	7.4	–
Short-term borrowings	2,055.6	1,103.2	2,295.5	2,543.1	2,176.9
Total current liabilities	6,519.2	4,938.9	6,208.4	4,338.5	4,237.8
Long-term borrowings	14,604.1	12,724.5	12,389.9	4,088.9	2,743.9
Deferred income tax liabilities	710.9	558.7	452.4	281.8	226.8
Other payables	–	397.9	–	–	–
Deferred government grants	7.2	13.9	17.1	17.2	27.8
Total non-current liabilities	15,322.2	13,695.0	12,859.4	4,387.9	2,998.5
Net current assets	3,002.3	155.4	1,418.3	1,125.2	1,270.5
Total assets less current liabilities	34,698.9	28,587.3	26,404.5	16,023.9	10,634.8
Capital and reserves attributable to equity holders of the Company	19,130.2	14,693.3	13,271.5	11,512.9	7,541.4
Minority interests	246.5	199.0	273.6	123.1	94.9

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 FY2010. 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 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.

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 four meetings in FY2010 and meetings attended by each of the Directors were as follows:

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

* 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 FY2010, 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 FY2010, 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 65 and 66.

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 FY2010, and also set out details of the share options to the Directors and the employees on pages 32 to 37 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

During the FY2010, two meetings were held and the attendance of each member is set out below:

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

AUDIT COMMITTEE

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

A separate report prepared by the Audit Committee which summarized its works performed during the FY2010, set out on pages 39 to 40 of this Annual Report.

During the FY2010, four 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)*	4/4
Ms. Tam Wai Chu, Maria	4/4
Mr. Chung Shui Ming, Timpson	3/4
Mr. Wang Hong Bo	4/4

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 2009 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 FY2009 (99.99%).
- Approval of a final dividend for the FY2009 (99.99%).
- All Directors were re-elected and elected as Directors (93.24% to 98.85% in respect of each individual resolution).
- Fix the remuneration of the Directors (99.99%).
- Re-appointment of PricewaterhouseCoopers as the external auditor of the Company (99.99%).
- Grant of a general mandate to Directors to issue additional shares in the Company (91.57%), repurchase by the Company of its own Shares (99.99%), extension of the general mandate regarding issue of additional Shares (92.89%).

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 FY2010

During the FY2010, the Remuneration Committee held two meetings. The following is a summary of the major tasks completed by the Remuneration Committee during the Year.

- reviewed the remuneration level for Directors and recommended an increase of the remuneration level for FY2010;
- recommended the Board to approve the fee of the Directors and senior management;
- reviewed and approved the remuneration packages and service contracts of Directors; and
- approved the grant of the share options under the 2006 Share Option Scheme.

SHARE OPTION SCHEMES

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

The principal terms of the two schemes are as follows:

Remuneration committee

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 2009	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Balance as at 30 June 2010	percentage of shareholding
i)	**Directors**						
	Ms. Cheung (Note 3)	13,538,652	(6,769,326)	–	–	6,769,326	0.146%
	Mr. Liu (Note 3)	13,531,348	(6,765,674)	–	–	6,765,674	0.146%
	Mr. Zhang	7,088,893	(2,362,963)	–	–	4,725,930	0.102%
	Ms. Gao Jing	300,000	(100,000)	–	–	200,000	0.004%
	Ms. Tam Wai Chu, Maria	700,002	(233,334)	–	–	466,668	0.010%
	Mr. Chung Shui Ming, Timpson	700,002	(230,000)	–	–	470,002	0.010%
	Dr. Cheng Chi Pang	700,002	–	–	–	700,002	0.015%
	Sub-total:	36,558,899	(16,461,297)	–	–	20,097,602	0.433%
ii)	**Employees and others**	14,012,002	(2,231,134)	–	(580,000)	11,200,868	0.242%
	Total:	**50,570,901**	**(18,692,431)**	**-**	**(580,000)**	**31,298,470**	**0.675%**

* The issued share capital of the Company was 4,629,554,167 as at 30 June 2010

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$11.79.

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

2006 Share Option Scheme

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

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

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.

Remuneration committee

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

Grantees		Number of share options						Approximate
		Balance as at 1 July 2009	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Balance as at 30 June 2010	percentage of shareholding
i)	**Directors**							
	Ms. Cheung (Notes 1 & 2)	33,200,000	–	–	–	–	33,200,000	0.717%
	Mr. Liu (Notes 1 & 2)	33,200,000	–	–	–	–	33,200,000	0.717%
	Mr. Zhang (Notes 1 & 2)	33,200,000	–	–	–	–	33,200,000	0.717%
	Mr. Zhang Yuanfu (Notes 3 & 5)	4,000,000	–	(800,000)	–	–	3,200,000	0.069%
	Mr. Lau Chun Shun (Note 3 & 5)	–	450,000	–	–	–	450,000	0.010%
	Sub-total:	103,600,000	450,000	(800,000)	–	–	103,250,000	2.230%
ii)	**Employees and others** (Notes 4)	16,541,143	4,000,000	(10,472,037)	–	(2,656,148)	7,412,958	0.160%
	Total:	**120,141,143**	**4,450,000**	**(11,272,037)**	**-**	**(2,656,148)**	**110,662,958**	**2.390%**

* The issued share capital of the Company was 4,629,554,167 as at 30 June 2010

Notes:

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

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

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

Name of Director	Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2009	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Balance as at 30 June 2010	Closing price immediately before Grant Date HK$
Zhang Yuanfu	25 August 2008	4.310	25 August 2009 to 24 August 2013	1,000,000	–	(200,000)	–	–	800,000	4.20
	28 October 2008	0.894	28 October 2009 to 27 October 2013	2,000,000	–	(400,000)	–	–	1,600,000	0.72
	10 November 2008	1.590	11 November 2009 to 10 November 2013	1,000,000	–	(200,000)	–	–	800,000	1.44
Total:				**4,000,000**	**–**	**(800,000)**	**–**	**–**	**3,200,000**	
Lau Chun Shun	1 June 2010	11.052	1 June 2011 to 30 May 2015	–	450,000	–	–	–	450,000	11.58
Total:				**–**	**450,000**	**–**	**–**	**–**	**450,000**	

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

Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2009	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Balance as at 30 June 2010	Closing price immediately before Grant Date HK$
28 October 2008 (Note 5)	0.894	29 October 2009 to 28 October 2013	5,561,143	–	(992,037)	–	(1,856,148)	2,712,958	0.72
28 October 2008	0.894	29 October 2008 to 28 October 2013	9,380,000	–	(9,180,000)	–	–	200,000	0.72
7 April 2009 (Note 5)	3.320	8 April 2010 to 7 April 2014	1,600,000	–	(300,000)	–	–	1,300,000	3.40
22 July 2009 (Note 5)	7.030	23 July 2010 to 22 July 2014	–	200,000	–	–	(200,000)	–	6.94
18 September 2009 (Note 5)	10.544	18 September 2010 to 17 September 2014	–	600,000	–	–	(600,000)	–	10.54
19 November 2009 (Note 5)	13.520	19 November 2010 to 18 November 2014	–	800,000	–	–	–	800,000	13.66
26 November 2009 (Note 5)	13.980	26 November 2010 to 25 November 2014	–	300,000	–	–	–	300,000	14.00
14 December 2009 (Note 5)	13.060	14 December 2010 to 13 December 2014	–	300,000	–	–	–	300,000	12.90
7 January 2010 (Note 5)	13.600	7 January 2011 to 6 January 2015	–	400,000	–	–	–	400,000	13.64
8 April 2010 (Note 6)	14.220	8 April 2010 to 7 April 2015	–	1,100,000	–	–	–	1,100,000	14.28
24 May 2010 (Note 5)	11.488	24 May 2011 to 23 May 2015	–	300,000	–	–	–	300,000	10.52
Total:			**16,541,143**	**4,000,000**	**(10,472,037)**	**–**	**(2,656,148)**	**7,412,958**	

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

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

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

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

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

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

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

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

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

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

(7) The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$11.04.

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

VALUE OF SHARE OPTIONS

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

(i) Pre-Listing Share Option Scheme

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

(ii) 2006 Share Option Scheme

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

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

DIRECTORS' SERVICES CONTRACTS

None of the Directors who are proposed for re-election at the 2010 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 23 to the financial statements.

Audit committee

MEMBERS

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

TERMS AND REFERENCE

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

SUMMARY OF MAJOR WORK DONE IN FY2010

The Audit Committee holds regular meetings, at least four times a year, and organizes additional meetings if and when necessary. During FY2010, the committee held four meetings. The following is a summary of the tasks completed by the Audit Committee during FY2010:

- reviewed the financial statements for the FY2009 and for the six months ended 31 December 2009 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 FY2009 external audit fees;
- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor;

- reviewed the "Continuing Connected Transactions" set forth on pages 43 to 45 of this Annual Report;

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

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

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

FINANCIAL REPORTS

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

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

REVIEW OF THE GROUP'S ACCOUNTING AND FINANCIAL REPORTING FUNCTION

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

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee recommended to the Board that, subject to Shareholders' approval at the 2010 AGM, PricewaterhouseCoopers be re-appointed as the Company's external auditor for FY2011.

For the FY2010, the external auditor of the Company received approximately RMB5.9 million for audit services and RMB1.1 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 FY2010 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

(1) EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

(a) 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, pursuant to which Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2008 to 30 June 2011.

During the FY2010, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB119 million and RMB207 million respectively.

(b) Longteng Supply Agreement

On 26 June 2008, Dongguan Longteng and the Company entered into a supply agreement, pursuant to which 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 FY2010, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB134 million and RMB151 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 a 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 FY2010, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB54 million and RMB156 million respectively.

(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

(a) Taicang Purchase Agreement

Taicang Packaging is a company which is held as to 100% by Mr. Zhang. On 30 June 2008, the Company and Taicang Packaging entered into a 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.

During the FY2010, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB330 million and RMB340 million respectively.

(b) ACN Supply Agreement

ACN is indirectly wholly owned by Ms. Cheung. On 30 June 2008, the Company and ACN entered into a 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.

During the FY2010, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB6,693 million and RMB13,000 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.

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 always followed all the environmental laws or regulations.

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

"ENERGY CONSERVATION AND CONSUMPTION REDUCTION" PRODUCTION PROCESS

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

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.

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

EMISSION CONTROL

Use of low-grade fuels

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

Methane collection and treatment system

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

Environment friendly coal storage dome

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

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

SOLID WASTES DISPOSAL

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

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

NOISE CONTROL

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

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

HUMAN RESOURCE MANAGEMENT

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

TRAINING AND DEVELOPMENT FOR STAFF

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

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

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

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

FAIR ASSESSMENT SYSTEM

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

CARING OUR STAFF'S PHYSICAL AND MENTAL HEALTH

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

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

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

REMUNERATION AND BENEFITS

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

CONTRIBUTIONS TO SOCIETY AND FULFILMENT OF SOCIAL RESPONSIBILITIES

Besides actively developing its business, ND Paper also devotes to different kinds of community activities. During the Year, the Group donated RMB10.00 million for earthquake disaster relief in Yushu, Qinghai Province to fulfill its support to the community. In addition, the Group participated in the first "fundraising day for the underprivileged" in Guangdong and committed to donate RMB10.20 million. 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 prestigious academic institutions in China and hires them to relevant positions upon graduation. Such scheme can help to improve the living conditions of those out-of-school teenagers in the long run and also train up talents for ND Paper. The scheme has been organised for over 7 years and over 400 participants have joined ND Paper.

Directors and senior management

PROFILE OF DIRECTORS

Ms. Cheung Yan, 53, 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 14 years of experience in paper manufacturing and over 24 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 did not hold directorship in other listed public companies in the last three years before the date of this report. Ms. Cheung is the wife of Mr. Liu Ming Ching, the sister of Mr. Zhang Cheng Fei and the mother of Mr. Lau Chun Shun. Save as disclosed above, Ms. Cheung does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Ms. Cheung had following interests within the meaning of Part XV of the SFO, representing (i) corporate and other interests in 2,992,120,000 Shares; (ii) 42,371,432 Shares held by her personally; (iii) 34,919,326 underlying shares in respect of the Pre-Listing Share Option Scheme and 2006 Share Options Scheme granted by the Company to her as beneficial owner and (iv) 25,378,510 Shares and 34,915,674 underlying shares in respect of the Pre-Listing Share Option Scheme and 2006 Share Option Scheme granted by the Company to her spouse, Mr. Liu Ming Chung.

Ms. Cheung has a service contract for a term of three years with the Company which may be terminated, by either side, on six months' notice. She is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is RMB4,000,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Ms. Cheung that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Liu Ming Chung, 48, 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 19 years of experience in international trade and over 11 years of experience in corporate management. Mr. Liu graduated with a bachelor degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2000, Mr. Liu was appointed as a member of the Ninth Committee of the Chinese People's Political Consultative Conference of Guangzhou of Guangdong province and a consultant of the Committee for Affairs of Hong Kong, Macao, Taiwan Compatriots and Overseas Chinese. In 2001, Mr. Liu was awarded a member of All-China Youth Federation. Mr Liu did not hold directorship in other listed public companies in the last three years before the date of this report. Mr. Liu is the husband of Ms. Cheung Yan, the brother-in-law of Mr. Zhang Cheng Fei and the father of Mr. Lau Chun Shun. Save as disclosed above, Mr. Liu does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Liu had following interests within the meaning of Part XV of the SFO, representing (i) corporate and other interests in 2,992,120,000 Shares; (ii) 25,378,510 Shares held by him personally; (iii) 34,915,674 underlying shares in respect of the Pre-Listing Share Option Scheme and 2006 Share Option Scheme granted by the Company to him as beneficial owner; and (iv) 42,371,432 Shares and 34,919,326 underlying shares in respect of the Pre-Listing Share Option Scheme and 2006 Share Option Scheme granted by the Company to his spouse, Ms. Cheung Yan.

Mr. Liu has a service contract for a term of three years with the Company which may be terminated, by either side, on six months' notice. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is RMB3,800,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Liu that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Zhang Cheng Fei, 42, 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 16 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 did not hold directorship in other listed public companies in the last three years before the date of this report. Mr. Zhang is the younger brother of Ms. Cheung Yan, Mr. Liu Ming Chung's brother-in-law and the uncle of Mr. Lau Chun Shun. Save as disclosed above, Mr. Zhang does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Zhang had personal interests in 18,988,891 shares and 34,325,930 underlying shares in respect of the share options granted by the Company to him as beneficial owner under the Pre-Listing Share Option Scheme and 2006 Share Option Scheme within the meaning of Part XV of the SFO.

Mr. Zhang has a service contract for a term of three years with the Company which may be terminated, by either side, on six months' notice. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is RMB3,600,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Zhang that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Zhang Yuanfu, 47, has been an Executive Director of the Company since 2008. He also serves as the Group's Chief Financial Officer in charge of financial matters and investor relations. Prior to joining the Group, Mr. Zhang served as the chief financial officer, qualified accountant and company secretary of Weichai Power Co., Ltd. for more than 5 years and also worked in a number of Hong Kong listed companies in charge of accounting and financial management. He has more than 24 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. Zhang did not hold directorship in other listed public companies in the last three years before the date of this report. Mr. Zhang does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Zhang had personal interest in 3,200,000 underlying shares in respect of the share options granted by the Company to him as beneficial owner under the 2006 Share Option Scheme within the meaning of Part XV of the SFO.

Mr. Zhang has a service contract for a term of three years with the Company which may be terminated, by either side, on three months' notice. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is HK$1,000,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Zhang that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Lau Chun Shun, 29, 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 did not hold directorship in other listed public companies in the last three years before the date of this report. Mr. Lau is the son of Ms. Cheung Yan and Mr. Liu Ming Chung and the nephew of Mr. Zhang Cheng Fei. Saved as disclosed above, he does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Lau had following interests within the meaning of Part XV of the SFO, representing (i) 2,992,120,000 Shares through his interests in a number of trusts acting as a beneficial owner; and (ii) 450,000 underlying shares in respect of share options granted by the Company to him as beneficial owner under the 2006 Share Option Scheme in the Company.

Mr. Lau has a service contract for a term of three years with the Company which may be terminated, by either side, on three months' notice. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is HK$980,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Lau that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Ms. Gao Jing, 47, has been an Executive Director of the Company since 2006. She joined the Group in June 1996 and has 14 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. Ms. Gao did not hold directorship in other listed public companies in the last three years before the date of this report. The spouse of Ms. Gao, Mr. Huang Tie Min, is a senior management of the Group who serves as the general manager of the Group in charge of engineering affairs.

Save as disclosed above, Ms. Gao has no other relationships with any Director, senior management or substantial or controlling shareholders of the Company.

As at the date of this report, Ms. Gao had following interest within the meaning of Part XV of the SFO, representing (i) 200,000 underlying shares in respect of the Pre-Listing Share Option Scheme granted by the Company to her as beneficial owner; and (iii) 400,000 underlying shares in respect of the Pre-Listing Share Option Scheme granted by the Company to her spouse.

Ms. Gao has a service contract for a term of one year with the Company which may be terminated, by either side, on three months' notice. She is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the service agreement is RMB240,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Ms. Gao that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Ms. Tam Wai Chu, Maria, GBS, JP, 64, 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.

Ms. Tam does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Ms. Tam had personal interest in 1,216,670 Shares as beneficial owner in the Company within the meaning of Part XV of the SFO.

Ms. Tam has an appointment letter for a term of one year with the Company. She is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the appointment letter is HK$528,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Ms. Tam that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Chung Shui Ming, Timpson, GBS, JP, 58, 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, The Miramar Hotel & Investment Co. Limited and China Overseas Grand Oceans Group Ltd. (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an independent director of China State Construction Engineering Corporation Limited and China Everbright Bank Corporation Limited (listed on the Shanghai Stock Exchange). He holds a bachelor of science degree from the University of Hong Kong and a master's degree of business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Besides, he is currently Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong and a member of the National Committee of the 11th Chinese People's Political Consultative Conference.

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

Mr. Chung does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Chung had personal interest in 1,099,496 Shares as beneficial owner in the Company within the meaning of Part XV of the SFO.

Mr. Chung has an appointment letter for a term of one year with the Company. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the appointment letter is HK$528,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Chung that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Dr. Cheng Chi Pang, 53, 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 29 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.

Dr. Cheng does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Dr. Cheng had personal interest in 700,002 underlying shares in respect of the share options granted by the Company to him as beneficial owner under the Pre-Listing Share Option Scheme within the meaning of Part XV of the SFO.

Dr. Cheng has an appointment letter for a term of one year with the Company. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the appointment letter is HK$528,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Dr. Cheng that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Wang Hong Bo, 56, 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. Mr. Wang did not hold directorship in other listed public Companies in the last three years before the date of this report. Mr. Wang does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

As at the date of this report, Mr. Wang did not have any interests in Shares within the meaning of Part XV of the SFO.

Mr. Wang has an appointment letter for a term of one year with the Company. He is subject to retirement and will be eligible for re-election at the annual general meeting of the Company pursuant to the Bye-Laws. The director's fee specified in the appointment letter is RMB240,000 per annum. Such emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

Save as disclosed above, there are no other matters concerning Mr. Wang that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

PROFILE OF SENIOR MANAGEMENT

Mr. Wu, Chung-Sheng, Johnson, 43, joined as the President of Dongguan Nine Dragons Paper Industries Co., Ltd. in charge of group management and operations since April 2009. He has more than 16 years of manufacturing management 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, 50, joined as President of Nine Dragons Paper Industries (Taicang) Co., Ltd. in charge of operation and management since July 2008. He has more than 21 years of 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. Zhou Chuan Hong, 49, 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 22 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 Jian Bo, 44, joined the Group in 2008 and has served as the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. in charge of supervision and management since 2009. Prior to joining the Group, he worked as the General Manager of Sichuan Rui Song Paper Co. Ltd. Mr. Li has over 21 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. Guo Feng, 41, has served as the Deputy General Manager of Nine Dragons Pulp and Paper (Leshan) Co., Ltd. since May 2008 and has been promoted to General Manager since November 2009. He has 21 years of working experience in the specialty paper manufacturing enterprises. Prior to joining the Group, he worked as the member of senior management of Sichuan Rui Song Paper Co. Ltd. He graduated from East China Institute of Technology with a bachelor degree in Engineering. He also completed the EMBA program at Guanghua School of Management, Peking University in 2009 and obtained a master degree in Business Management.

Mr. Xin Gang, 36, has served as the Deputy General Manager of Nine Dragons Paper Industries (Quanzhou) Co., Ltd. since June 2010 in charge of supervision and management. Mr. Xin joined the Group in 1998 and has over 14 years of manufacturing, technology and management experience in the paper industry. He graduated from Shandong Institute of Light Industry in 1996 with a bachelor degree in Pulp and Paper Manufacturing.

Mr. Zhang Du Ling, 40, joined as the Group's General Manager of the Sales Department in charge of sales management in July 1998. Before joining the Group, he worked as the Manager of the sales department of Dongguang Chung Nam Paper Manufacturing Co., Ltd.. He has approximately 14 years of experience in sales and marketing in the paper industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Huang Tie Min, 47, joined as the Group's General Manager of the Development Engineering Department in charge of the Group's new project expansion and engineering management. Mr. Huang joined the Group in 1996 and has approximately 25 years of construction and administrative management experience in the paper industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor degree in Engineering. Ms. Gao Jing, Mr. Huang's spouse, is an Executive Director of the Company.

Mr. Ng Kwok Fan, Benjamin, 54, 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, 39, has served as the Group's Deputy Chief Financial Officer in charge of financial operation since October 2008. Mr. Chu has more than 16 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, 43, 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 17 years IT management experience in manufacturing industry. He holds a bachelor degree in Electronic Engineering and a master degree in Computer Science and an MBA of Queens' University, Canada.

Directors' report

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for the FY2010.

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 FY2010 are set out in the accompanying financial statements on page 67.

An interim dividend of RMB2.00 cents (equivalent to approximately HK2.27 cents) (2008: Nil) per Share for the six-month ended 31 December 2009 was paid to Shareholders on 10 May 2010.

The Directors recommend the payment of a final dividend of RMB10 cents (equivalent to approximately HK11.56 cents) per share for the FY2010, which is expected to be paid on 26 November 2010 subject to the approval of the 2010 AGM. The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on 17 November 2010. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.86497 as at 27 September 2010 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 24 to 25.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2010 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 18 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 14 to the financial statements.

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the FY2010, the five largest customers of the Group accounted for approximately 5.1% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group account for approximately 48.8% of its aggregate purchases.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executive Directors

Ms. Cheung
Mr. Liu
Mr. Zhang
Mr. Zhang Yuanfu
Mr. Lau Chun Shun (re-designated as an executive director on 3 August 2009)
Ms. Gao Jing

Independent non-executive Directors

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

In accordance with 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 2010, 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 2010.

		Number of Shares			Number of underlying Shares (in respect of share options)			
Name of Directors	Long Position/ Short Position	Personal Interests	Family Interests	Corporate Interests (Note 1)	Personal Interests	Family Interests	Total	Approximate percentage of shareholdings
Ms. Cheung	Long Position	37,321,432	20,328,510	2,992,120,000	39,969,326	39,965,674	3,129,704,942	67.603%
Mr. Liu	Long Position	20,328,510	37,321,432	2,992,120,000	39,965,674	39,969,326	3,129,704,942	67.603%
Mr. Zhang	Long Position	15,388,891	–	–	37,925,930	–	53,314,821	1.152%
Mr. Zhang Yuanfu	Long Position	800,000	–	–	3,200,000	–	4,000,000	0.086%
Mr. Lau Chun Shun	Long Position	–	–	2,992,120,000	450,000	–	2,992,570,000	64.641%
Ms. Gao Jing	Long Position	–	–	–	200,000	800,000	1,000,000	0.022%
Ms. Tam Wai Chu, Maria	Long Position	750,002	–	–	466,668	–	1,216,670	0.026%
Mr. Chung Shui Ming, Timpson	Long Position	629,494	–	–	470,002	–	1,099,496	0.024%
Dr. Cheng Chi Pang	Long Position	–	–	–	700,002	–	700,002	0.015%

(B) Interests in Associated Corporation – Best Result

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

Notes:

(1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of the Zhang Family Trust, and (v) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

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

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

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

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

Save as disclosed above, none of the Directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation as at 30 June 2010, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Directors or chief executive of the Company, as at 30 June 2010, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	Long Position/ Short Position	Capacity	No. of Shares held	Approximate percentage of total issued Shares
Best Result (Note)	Long Position	Beneficial Owner	2,992,120,000	64.631%
The Northern Trust Company of Delaware	Long Position	Trustee of YC 2006 Family Irrevocable Trust	2,992,120,000	64.631%
Zhang Xiujie	Long Position	Special trustee of YC 2006 Family Irrevocable Trust	2,992,120,000	64.631%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Liu Family Trust	2,992,120,000	64.631%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	64.631%

Note:

Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of the Zhang Family Trust, and (v) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at 30 June 2010, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

DONATIONS

The Group's charitable and other donations during the Year amounted to RMB11,000,000 (2009: approximately RMB15,000,000).

CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

The Group has entered into a 3-year facility agreement in the aggregate amount of up to US$500 million (the "Facility Agreement"), which still subsists as at the date of this Report.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the FY 2010.

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

(b) "Remuneration Committee" on page 31, in which the scope of duties and activities of the Remuneration Committee during the year are set out;

(c) "Audit Committee" on page 39 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 41, 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 43, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 46, in which the details of the Company's environmental protection policy and contributions to society are set out.

RELATED PARTY TRANSACTIONS

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

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 FY2010 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 2010 AGM.

On behalf of the Board
Cheung Yan
Chairlady
Hong Kong, 27 September 2010

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, 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 67 to 130, which comprise the consolidated and company balance sheets as at 30 June 2010, and the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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.

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.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 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, 27 September 2010

Balance Sheets

	Note	Consolidated 30 June 2010 RMB'000	Consolidated 30 June 2009 RMB'000	Company 30 June 2010 RMB'000	Company 30 June 2009 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**30,157,456**	27,011,394	**1,948**	2,293
Land use rights	7	**1,299,607**	1,185,815	**–**	–
Intangible assets	8	**239,543**	234,647	**–**	–
Investments in subsidiaries	9	**–**	–	**2,428,624**	2,414,955
		31,696,606	28,431,856	**2,430,572**	2,417,248
Current assets					
Inventories	10	**3,764,989**	1,500,869	**–**	–
Trade and other receivables	11	**3,385,855**	2,040,339	**1,998**	1,230
Amounts due from subsidiaries	11	**–**	–	**10,121,552**	7,951,020
Derivative financial instruments	12	**–**	441	**–**	–
Tax recoverable		**29,695**	–	**–**	–
Restricted cash		**–**	44,171	**–**	–
Cash and cash equivalents	13	**2,340,967**	1,508,542	**7,720**	27,210
		9,521,506	5,094,362	**10,131,270**	7,979,460
Total assets		**41,218,112**	33,526,218	**12,561,842**	10,396,708
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	14	**9,093,747**	6,539,269	**9,093,747**	6,539,269
Other reserves	15	**1,222,588**	1,250,050	**2,117,784**	2,139,718
Retained earnings					
– Proposed final dividend	28	**462,955**	151,736	**462,955**	151,736
– Unappropriated retained earnings		**8,350,924**	6,752,267	**455,729**	639,321
		19,130,214	14,693,322	**12,130,215**	9,470,044
Non-controlling interests		**246,528**	199,043	**–**	–
Total equity		**19,376,742**	14,892,365	**12,130,215**	9,470,044

Balance Sheets (continued)

		Consolidated		Company	
	Note	30 June 2010 RMB'000	30 June 2009 RMB'000	30 June 2010 RMB'000	30 June 2009 RMB'000
LIABILITIES					
Non-current liabilities					
Other payables	16	–	397,905	–	–
Deferred government grants	17	7,258	13,870	–	–
Borrowings	18	14,604,056	12,724,507	320,104	801,671
Deferred income tax liabilities	19	710,863	558,695	–	–
		15,322,177	13,694,977	320,104	801,671
Current liabilities					
Derivative financial instruments	12	1,922	–	–	–
Trade and other payables	16	4,288,535	3,674,389	6,346	19,257
Amounts due to subsidiaries	16	–	–	105,177	105,736
Current income tax liabilities		173,145	161,246	–	–
Borrowings	18	2,055,591	1,103,241	–	–
		6,519,193	4,938,876	111,523	124,993
Total liabilities		21,841,370	18,633,853	431,627	926,664
Total equity and liabilities		41,218,112	33,526,218	12,561,842	10,396,708
Net current assets		3,002,313	155,486	10,019,747	7,854,467
Total assets less current liabilities		34,698,919	28,587,342	12,450,319	10,271,715

Ms. Cheung Yan
Chairlady

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 74 to 130 are an integral part of these financial statements.

Consolidated Income Statement

	Note	For the year ended 30 June 2010 RMB'000	2009 RMB'000
Sales	20	**17,946,032**	13,128,585
Cost of goods sold		**(14,033,437)**	(10,687,076)
Gross profit		**3,912,595**	2,441,509
Other gains – net	21	**42,366**	7,023
Selling and marketing costs		**(355,090)**	(382,742)
Administrative expenses		**(479,849)**	(320,853)
Operating profit		**3,120,022**	1,744,937
Gain on repurchase of senior notes		**–**	594,039
Finance costs – net	24	**(541,120)**	(502,214)
Profit before income tax		**2,578,902**	1,836,762
Income tax expense	25	**(359,263)**	(175,491)
Profit for the year		**2,219,639**	1,661,271
Profit attributable to:			
Equity holders of the Company		**2,166,452**	1,661,122
Non-controlling interests		**53,187**	149
		2,219,639	1,661,271
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	27	**0.4792**	0.3835
– diluted	27	**0.4746**	0.3822
Dividends	28	**555,199**	151,736

The notes on pages 74 to 130 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit for the year	**2,219,639**	1,661,271
Other comprehensive income:		
Currency translation differences	**(14,267)**	(8,468)
Cash flow hedges	**(18,869)**	(4,889)
Other comprehensive income for the year	**(33,136)**	(13,357)
Total comprehensive income for the year	**2,186,503**	1,647,914
Attributable to:		
– Equity holders of the Company	**2,139,018**	1,651,456
– Non-controlling interests	**47,485**	(3,542)
	2,186,503	1,647,914

The notes on pages 74 to 130 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 14)	**Other reserves** RMB'000 (Note 15)	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 July 2008	6,526,986	1,233,201	5,511,315	13,271,502	273,648	13,545,150
Comprehensive income						
Profit for the year	–	–	1,661,122	1,661,122	149	1,661,271
Other comprehensive income:						
– Currency translation differences	–	(4,777)	–	(4,777)	(3,691)	(8,468)
– Cash flow hedges	–	(4,889)	–	(4,889)	–	(4,889)
Total comprehensive income	–	(9,666)	1,661,122	1,651,456	(3,542)	1,647,914
Transactions with owners						
Capital contribution from non-controlling interests	–	–	–	–	33,876	33,876
Dividend paid to non-controlling interests	–	–	–	–	(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 non-controlling interests	–	–	–	–	(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
Total transactions with owners	12,283	26,515	(268,434)	(229,636)	(71,063)	(300,699)
Balance at 30 June 2009	6,539,269	1,250,050	6,904,003	14,693,322	199,043	14,892,365

Consolidated Statement of Changes in Equity (continued)

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

The notes on pages 74 to 130 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 30 June 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	29	789,865	4,940,394
Income tax paid		(129,530)	(40,089)
Receipt of prepaid income tax		–	69,657
Interest paid		(741,407)	(1,040,622)
Net cash (used in)/generated from operating activities		(81,072)	3,929,340
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,187,555)	(3,725,003)
Purchase of intangible assets		(9,030)	–
Proceeds from disposals of property, plant and equipment	29	13,111	3,762
Payment for acquisition of land use rights		(145,601)	(28,872)
Interest received		8,826	10,819
Net cash used in investing activities		(4,320,249)	(3,739,294)
Cash flows from financing activities			
Placement of shares		2,475,484	–
Exercise of share options		59,806	9,773
Proceeds from borrowings		13,808,596	11,700,329
Repayments of borrowings		(10,971,841)	(11,982,229)
Tax refund received from government for purchase of property, plant and equipment	6	105,400	174,538
Dividend paid to non-controlling interests		–	(27,016)
Dividend paid to equity holders of the Company		(253,539)	(151,580)
Proceeds from government grants		29,234	–
Proceeds from capital contribution from non-controlling interests		–	33,876
Repayment of capital to non-controlling interests		–	(70,021)
Cash received from termination of cross currency swap		–	75,936
Net cash generated from/(used in) financing activities		5,253,140	(236,394)
Net increase/(decrease) in cash and cash equivalents		851,819	(46,348)
Cash and cash equivalents at beginning of the year		1,508,542	1,562,873
Exchange losses on cash and cash equivalents		(19,394)	(7,983)
Cash and cash equivalents at end of the year	13	2,340,967	1,508,542

The notes on pages 74 to 130 are an integral part of these financial statements.

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") mainly engage in the manufacture and sale of packaging paper, pulp and high value specialty board products in the People's Republic of China (the "PRC").

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors of the Company (the "BoD") on 27 September 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group as of 1 July 2009

- HKAS 1 (revised), "Presentation of financial statements". It prohibits 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" are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the consolidated statement of comprehensive income) or two statements (the consolidated income statement and consolidated statement of comprehensive income).

  The Group has elected to present two statements: a consolidated income statement and a consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

  Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) **New and amended standards adopted by the Group as of 1 July 2009 (continued)**

- HKFRS 8, "Operating segments". It requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM has been identified as the BoD. The adoption of this standard does not have material impact to the Group as it manages its business in a single segment.

- HKFRS 1 and HKAS 27 (amendment), "Cost of an investment in a Subsidiary, jointly controlled entity or associate". It does not have an impact to the Group's financial statement.

- HKFRS 7 (amendment), "Financial instruments: disclosures". It requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Group will make additional relevant disclosures in its financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 27 (revised), "Consolidated and separate financial statements". It 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 adoption of this standard does not have material impact to the Group.

- HKFRS 3 (revised), "Business combinations". The revised standard 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 adoption of this standard does not have material impact to the Group.

- HKAS 23 (amendment), "Borrowing costs" – capitalisation of borrowing costs for qualifying assets. The Group has capitalised borrowing costs with respect to qualifying assets and have no material impact on the Group's financial statements.

- HKAS 32 (amendment), "Financial instruments: presentation". Since the change only impacts presentation aspects, there is no impact to the Group's financial statements.

- HKAS 39 (amendment), "Financial instruments: Recognition and measurement – Eligible hedged items". It does not have an impact to the Group's financial statements, as the Group has no hedging.

- HKFRS 1 (revised), "First time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statement". This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKFRS 2 (amendment), "Share-based payment". It deals with vesting conditions and cancellations and does not have a material impact to the Group's financial statements.

- HKAS 32 and HKAS 1 (amendment), "Puttable financial instruments and obligations arising on liquidation". It does not have an impact to the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group as of 1 July 2009 (continued)

- HK(IFRIC) 15, “Agreements for the construction of real estate”. It does not have an impact to the Group’s financial statements, as the Group has no agreement for the construction of real estate.

- HK(IFRIC) 16, “Hedges of a net investment in a foreign operation”. It does not have an impact to the Group’s financial statements, as the Group has no hedging.

- HK(IFRIC) 17, “Distributions of non-cash assets to owners”. It does not have an impact to the Group’s financial statements, as the Group has not made any non-cash distributions.

- HK(IFRIC) 18, “Transfers of assets from customers”. It does not have an impact to the Group’s financial statements, as the Group has not made any transfer of assets from customers.

- First improvements to HKFRS (2008) issued in October 2008 by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It does not have a material impact to the Group’s financial statements.

- Second improvements to HKFRS (2009) issued in May 2009 by HKICPA. It does not have a material impact to the Group’s financial statements.

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

- HKFRS 1 (amendment), “Additional exemptions for first-time adopters” is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group as it is an existing HKFRS preparer.

- HKFRS 1 (amendment), “Limited exemption from comparative HKFRS 7 disclosures for first-time adopters” is effective for annual periods beginning on or after 1 July 2010. This is not relevant to the Group as it is an existing HKFRS preparer.

- HKAS 32 (amendment), “Classification of rights issues” is effective for annual periods beginning on or after 1 February 2010. It states that if rights issues offered for a fixed amount of foreign currency are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This is not currently applicable to the Group.

- HK(IFRIC) –Int 19, “Extinguishing financial liabilities with equity instruments” is effective for annual periods beginning on or after 1 July 2010. It clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. This is not currently applicable to the Group.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- HKFRS 2 (amendment), "Group cash-settled share-based payment transaction" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group.

- HKFRS 9, "Financial instruments" is effective for annual periods beginning on or after 1 January 2013. It addresses the classification and measurement of financial assets. The Group is yet to assess the impact of HKFRS 9 and has not yet decided when to adopt HKFRS 9.

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

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2010.

(a) **Subsidiaries**

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) **Functional and presentation currency**

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

(b) **Transactions and balances**

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

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

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

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

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 consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to 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 – 15 years

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Other intangible assets arising from business combinations

(i) Trademark

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

(b) Other intangible assets arising from business combinations (continued)

(ii) Patent

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

(iii) Customer relationship

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

(iv) Computer software

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

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.

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

2.10 Financial assets

(a) Classification

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(a) Classification (continued)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.14 and 2.15).

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category classified as current assets.

(b) Recognition and measurement

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.11.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (continued)

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

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

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

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

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

(a) **Cash flow hedge**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Derivative financial instruments and hedging activities (continued)

(a) **Cash flow hedge (continued)**

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".

2.13 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 Trade and other receivables

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

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

2.15 Cash and cash equivalents

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

2.16 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Trade payables

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

2.18 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.

2.19 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.

2.20 Current and deferred income tax

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

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

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

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

2.21 Employee benefits

(a) Pension obligations

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

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

(b) Employee leave entitlements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(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.

2.22 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue and other income recognition

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

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

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

(b) **Interest income**
Interest income is recognised using the effective interest method.

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

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

2.24 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.

2.25 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.

2.26 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.

At 30 June 2010, if RMB had weakened/strengthened by 0.6% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB22,727,000 lower/higher (at 30 June 2009, if RMB had weakened/strengthened by 0.5% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2009 would have been RMB6,476,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and cash equivalents, trade and other receivables (excluding prepayments), trade and other payables (excluding deposits from customers) and borrowings.

At 30 June 2010, if RMB had weakened/strengthened by 1.0% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB1,573,000 higher/lower (at 30 June 2009, if RMB had weakened/strengthened by 0.5% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2009 would have been RMB107,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HK$-denominated cash and cash equivalents, trade and other receivables (excluding prepayments) and borrowings.

At 30 June 2010, if RMB had weakened/strengthened by 14.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2010 would have been RMB43,602,000 lower/higher (at 30 June 2009, if RMB had weakened/strengthened by 10.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2009 would have been RMB49,465,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated cash and cash equivalents and trade and other payables (excluding deposits from customers).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) **Interest rate risk**

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

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

At 30 June 2010, if interest rates on borrowings had been 1 basis point higher/lower with all other variables held constant, net profit for the year would have been RMB669,000 (2009: RMB458,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) **Credit risk**

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

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

The table below shows the restricted cash, cash at bank and bank deposit balances of the major counterparties with external credit ratings as at 30 June 2010.

Counterparties with external credit rating (Note)

	30 June 2010 RMB'000	30 June 2009 RMB'000
A1	1,601,962	1,140,543
Baa1	81,753	130,233
Baa2	31,387	42,157
Baa3	240,493	32,258
Ba2	3,995	12,046
others	380,500	194,239
	2,340,090	1,551,476

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 18) and cash and cash equivalents (Note 13) on the basis of expected cash flow.

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

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000	**Over 5 years** RMB'000
Group				
At 30 June 2010				
Borrowings	**2,750,193**	**7,499,424**	**6,933,038**	**1,310,499**
Trade and other payables (excluding deposits from customers)	**4,064,215**	**–**	**–**	**–**
At 30 June 2009				
Borrowings	1,756,656	8,250,882	4,006,599	1,364,412
Trade and other payables (excluding deposits from customers)	3,181,205	397,905	–	–
Company				
At 30 June 2010				
Borrowings	**31,610**	**31,610**	**346,518**	**–**
Trade and other payables	**111,523**	**–**	**–**	**–**
At 30 June 2009				
Borrowings	79,995	79,995	956,701	–
Trade and other payables	124,993	–	–	–

Note: Interest on borrowings is calculated on borrowings held as at 30 June 2010 and 2009, respectively. Floating-rate interest is estimated using the current interest rate as at 30 June 2010 and 2009, 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 rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

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

The gearing ratio is calculated as follows:

	30 June 2010 RMB'000	30 June 2009 RMB'000
Total borrowings (Note 18)	**16,659,647**	13,827,748
Less: cash and cash equivalents and restricted cash (Note 13)	**(2,340,967)**	(1,552,713)
Net debt	**14,318,680**	12,275,035
Total equity	**19,376,742**	14,892,365
Gearing ratio	**74%**	82%

3.3 Fair value estimation

Effective from 1 July 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

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 2010 would be an estimated RMB220,946,000 (2009: RMB160,820,000) higher or RMB270,046,000 (2009: RMB196,558,000) 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 2010 would be an estimated RMB47,927,000 and RMB5,057,000 lower, respectively. The corresponding impact to the net profit for the year ended 30 June 2009 was RMB71,247,000 and RMB18,740,000 lower, respectively.

(d) Impairment of property, plant and equipment

The Group follows the guidance of HKAS 36 to determine when an asset is impaired. This determination requires significant judgement. In making this judgement, management evaluates, among other factors, the technology, market, economic and legal environment that the Group operates and the business outlook for the Group. Management assesses the impairment at each balance sheet date. As at 30 June 2010, the carrying amounts of property, plant and equipment were RMB30,157,456,000 (2009: RMB27,011,394,000).

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 2010, the carrying amounts of inventories were RMB3,764,989,000 (2009: RMB1,500,869,000).

(f) Employee benefits – share-based compensation

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

For the year ended 30 June 2010, 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 RMB1,612,000 (2009: RMB1,488,000).

(g) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management reassesses the provision at each balance sheet date. As at 30 June 2010, the carrying amounts of trade receivables were RMB1,769,932,000 (2009: RMB1,003,130,000).

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

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

(i) Income taxation and deferred taxation

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

5. SEGMENT INFORMATION

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

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation and logistic RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 July 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	257,748	1,831	59,859	3,720,466	4,043,476
Transfer	1,209,133	6,862,185	1,127	3,124	(8,075,569)	–
Tax benefit (Note (b))	–	(174,538)	–	–	–	(174,538)
Disposals (Note 29)	(686)	(963)	(837)	(2,337)	–	(4,823)
Depreciation (Note 22)	(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
Year ended 30 June 2010						
Opening net book amount	**3,616,405**	**16,743,880**	**215,663**	**226,746**	**6,208,700**	**27,011,394**
Optimisation on construction in progress (Note (a))	**–**	**–**	**–**	**–**	**89,179**	**89,179**
Additions	**17,657**	**28,519**	**27,117**	**117,078**	**3,935,334**	**4,125,705**
Transfer	**234,970**	**3,029,879**	**68,249**	**2,099**	**(3,335,197)**	**–**
Tax benefit (Note (b))	**–**	**(105,400)**	**–**	**–**	**–**	**(105,400)**
Disposals (Note 29)	**(8,952)**	**(2,729)**	**(5,150)**	**(9,838)**	**–**	**(26,669)**
Depreciation (Note 22)	**(183,441)**	**(671,760)**	**(37,017)**	**(33,676)**	**–**	**(925,894)**
Exchange differences	**(2,548)**	**(8,063)**	**(16)**	**(232)**	**–**	**(10,859)**
Closing net book amount	**3,674,091**	**19,014,326**	**268,846**	**302,177**	**6,898,016**	**30,157,456**
At 30 June 2010						
Cost	**4,364,591**	**21,444,737**	**395,224**	**438,525**	**6,898,016**	**33,541,093**
Accumulated depreciation	**(690,500)**	**(2,430,411)**	**(126,378)**	**(136,348)**	**–**	**(3,383,637)**
Net book amount	**3,674,091**	**19,014,326**	**268,846**	**302,177**	**6,898,016**	**30,157,456**

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment RMB'000	Motor vehicles, transportation and logistic RMB'000	Total RMB'000
At 1 July 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
Year ended 30 June 2010			
Opening net book amount	**43**	**2,250**	**2,293**
Depreciation	**(12)**	**(333)**	**(345)**
Closing net book amount	**31**	**1,917**	**1,948**
At 30 June 2010			
Cost	**63**	**2,750**	**2,813**
Accumulated depreciation	**(32)**	**(833)**	**(865)**
Net book amount	**31**	**1,917**	**1,948**

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(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.

(b) During the year, the Group has received tax benefit of RMB105,400,000 (2009: RMB174,538,000) 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.

(c) Certain property, plant and equipment of the Group with carrying values of approximately RMB118,748,000 as at 30 June 2010 (2009: RMB155,554,000) had been pledged for bank borrowings of the Group (Note 18).

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

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Cost of goods sold	**716,026**	644,661
Other gains – net	**1,667**	2,488
Administrative expenses	**85,295**	60,755
Selling and marketing costs	**47,954**	46,107
Capitalised in construction in progress	**1,804**	10,114
Total depreciation expense	**852,746**	764,125
Add: change of depreciation capitalised in finished goods	**73,148**	(4,276)
	925,894	759,849

7. LAND USE RIGHTS – GROUP

	Land use rights RMB'000
At 1 July 2008	
Cost	1,251,355
Accumulated amortisation	(65,931)
Net book amount	1,185,424
Year ended 30 June 2009	
Opening net book amount	1,185,424
Additions	27,270
Amortisation (Note 22)	(24,195)
Exchange differences	(2,684)
Closing net book amount	1,185,815
At 30 June 2009	
Cost	1,278,625
Accumulated amortisation	(92,810)
Net book amount	1,185,815
Year ended 30 June 2010	
Opening net book amount	**1,185,815**
Additions	**144,627**
Amortisation (Note 22)	**(27,722)**
Exchange differences	**(3,113)**
Closing net book amount	**1,299,607**
At 30 June 2010	
Cost	**1,423,252**
Accumulated amortisation	**(123,645)**
Net book amount	**1,299,607**

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

Amortisation of RMB27,722,000 (2009: RMB24,195,000) is included in the "cost of goods sold" of the consolidated income statement.

As at 30 June 2010, 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 RMB46,048,000 (2009: RMB86,650,000). 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 RMB'000	Trademark RMB'000	Patent RMB'000	Customer relationship RMB'000	Computer software RMB'000	Total RMB'000
At 1 July 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 22)	–	–	(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
Year ended 30 June 2010						
Opening net book amount	**146,694**	**56,357**	**3,958**	**27,638**	**–**	**234,647**
Addition	**–**	**–**	**–**	**–**	**9,030**	**9,030**
Amortisation (Note 22)	**–**	**–**	**(566)**	**(3,071)**	**(497)**	**(4,134)**
Closing net book amount	**146,694**	**56,357**	**3,392**	**24,567**	**8,533**	**239,543**
At 30 June 2010						
Cost	**221,830**	**56,357**	**4,524**	**30,709**	**9,030**	**322,450**
Accumulated amortisation and impairment charge	**(75,136)**	**–**	**(1,132)**	**(6,142)**	**(497)**	**(82,907)**
Net book amount	**146,694**	**56,357**	**3,392**	**24,567**	**8,533**	**239,543**

Amortisation of RMB4,134,000 (2009: RMB3,637,000) is included in the "administrative expenses" of the consolidated income statement.

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))	23.5%
Long-term growth rate (Note (ii))	1.0%
Discount rate (Note (iii))	17.0%

Note:

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

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

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

The Group does not have to recognise an impairment loss as at 30 June 2010 (2009: Nil) based on the impairment assessment performed.

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

(b) Impairment test for trademark

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

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

Revenue growth rate (Note (i))	2%
Royalty rate (Note (ii))	2%
Long-term growth rate (Note (iii))	2%
Discount rate (Note (iv))	14.1%

8. INTANGIBLE ASSETS – GROUP (CONTINUED)

(b) Impairment test for trademark (continued)

Note:

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

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

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

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

The Group does not have to recognise an impairment loss as at 30 June 2010 (2009: Nil) based on the impairment assessment performed.

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

9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	30 June 2010 RMB'000	30 June 2009 RMB'000
Investments in unlisted shares, at cost	2,386,700	2,386,700
Share option granted to employees of subsidiaries	41,924	28,255
	2,428,624	2,414,955

The following is a list of the principal subsidiaries as at 30 June 2010:

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

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)				
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$255,529,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd. [2]	PRC, limited liability company	Manufacture of paper/PRC	US$191,860,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd. [2]	PRC, limited liability company	Manufacture of paper/PRC	US$183,260,000	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd. [2]	PRC, limited liability company	Manufacture of paper/PRC	US$4,500,000	99.9%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited [3]	PRC, limited liability company	Manufacture of pulp and paper/PRC	RMB163,640,000	55%
Cheng Yang Paper Mill Co., Ltd.	Vietnam, limited liability company	Manufacture of paper/Vietnam	US$30,000,000	60%
Nine Dragons Paper Industries (Tianjin) Co., Ltd. [2]	PRC, limited liability company	Manufacture of paper/PRC	US$97,520,000	99.9%
Shine Dragon Paper Industries (Tianjin) Co., Ltd. [2]	PRC, limited liability company	Manufacture of paper/PRC	US$68,360,000	99.9%

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 2010 RMB'000	30 June 2009 RMB'000
At cost:		
Raw materials	**1,727,454**	1,049,010
Finished goods	**2,037,535**	451,859
	3,764,989	1,500,869

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB14,070,359,000 (2009: RMB10,720,453,000).

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 June 2010 RMB'000	30 June 2009 RMB'000	30 June 2010 RMB'000	30 June 2009 RMB'000
Trade receivables due from:				
– third parties	**1,522,682**	1,024,289	**–**	–
– related parties (Note 31)	**247,250**	8,865	**–**	–
	1,769,932	1,033,154	**–**	–
Less: provision for impairment of receivables (Note (g))	**–**	(30,024)	**–**	–
Trade receivables – net	**1,769,932**	1,003,130	**–**	–
Bills receivable	**779,139**	374,878	**–**	–
Prepayments	**171,804**	379,787	**–**	–
Amounts due from subsidiaries (Note (b))	**–**	–	**10,121,552**	7,951,020
Other receivables	**664,980**	282,544	**1,998**	1,230
	3,385,855	2,040,339	**10,123,550**	7,952,250

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

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

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) As at 30 June 2010, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
0-30 days	**1,320,934**	738,405
31-60 days	**277,064**	279,940
61-90 days	**43,652**	11,883
Over 90 days	**128,282**	2,926
	1,769,932	1,033,154

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.

(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 are any trade disputes with the debtors.

Trade receivables are analysed below:

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
Fully performing under credit term (Note (i))	**1,575,461**	991,958
Past due but not impaired (Note (ii))	**194,471**	41,196
Total trade receivables	**1,769,932**	1,033,154
Less: provision for impairment of receivables (Note (g))	**–**	(30,024)
Trade receivables – net	**1,769,932**	1,003,130

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(e) (continued)

Note:

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

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

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
0-30 days	**26,136**	4,138
31-60 days	**16,573**	30,618
61-90 days	**28,228**	5,774
Over 90 days	**123,534**	666
	194,471	41,196

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

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
RMB	**2,946,996**	1,779,534
US$	**198,096**	124,595
Others	**240,763**	136,210
	3,385,855	2,040,339

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

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
Beginning of the year	**30,024**	50,947
Reversal for impairment of trade receivables (Note 22)	**(30,024)**	(20,923)
End of the year	**–**	30,024

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

12. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	30 June 2010		30 June 2009	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swaps	**–**	**(1,922)**	441	–

The notional amounts of the outstanding cross currency interest rate swaps at 30 June 2010 were US$250 million (2009: US$250 million).

Derivative financial instruments are presented within "operating activities" as part of changes in working capital in the consolidated statement of cash flows (Note 29).

Changes in fair values of derivative financial instruments are recorded in "other gains – net" in the consolidated income statement (Note 21).

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	30 June 2010 RMB'000	30 June 2009 RMB'000	**30 June 2010 RMB'000**	30 June 2009 RMB'000
Cash at bank and in hand	**2,295,830**	1,494,380	**7,720**	27,210
Short-term time deposits	**45,137**	14,162	**–**	–
	2,340,967	1,508,542	**7,720**	27,210
Denominated in:				
RMB	**1,703,167**	1,085,698	**–**	–
HK$	**141,265**	214,008	**2,262**	11,119
US$	**440,494**	180,957	**5,458**	16,091
Others	**56,041**	27,879	**–**	–
	2,340,967	1,508,542	**7,720**	27,210
Maximum exposure to credit risk	**2,340,090**	1,507,305	**7,720**	27,210

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

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

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

14. SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid						
At 1 July 2008		4,330,862,099	433,086	448,822	6,078,164	6,526,986
Exercise of share options	15(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
At 1 July 2009		4,335,304,699	433,530	449,214	6,090,055	6,539,269
Placement of shares	(b)	264,285,000	26,429	23,285	2,503,090	2,526,375
Placing expenses	(b)	–	–	–	(50,891)	(50,891)
Exercise of share options	15(b)	29,964,468	2,996	2,633	76,361	78,994
At 30 June 2010		**4,629,554,167**	**462,955**	**475,132**	**8,618,615**	**9,093,747**

(a) The total authorised number of ordinary shares as at 30 June 2010 is 8,000,000,000 shares (2009: 8,000,000,000 shares) with a par value of HK$0.1 per share (2009: HK$0.1 per share).

(b) During the year ended 30 June 2010, 264,285,000 new shares have been issued and subscribed for cash at a price of HK$10.85 (equivalent to approximately RMB9.56). The net proceeds, after deduction of the commissions and expenses, is approximately HK$2,809,729,000 (equivalent to approximately RMB2,475,484,000) (2009: nil).

15. OTHER RESERVES

Group

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000 (Note (b))	Statutory reserve and enterprise expansion fund RMB'000 (Note (d))	Translation RMB'000	Cash flow hedge reserve RMB'000 (Note (c))	Total RMB'000
At 1 July 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 24)	–	–	–	–	–	(54,902)	(54,902)
At 30 June 2009	660,542	98,980	37,606	447,013	(21,503)	27,412	1,250,050
At 1 July 2009	**660,542**	**98,980**	**37,606**	**447,013**	**(21,503)**	**27,412**	**1,250,050**
Transfer from net profit	**–**	**–**	**–**	**3,037**	**–**	**–**	**3,037**
Share options granted to directors and employees	**–**	**–**	**16,123**	**–**	**–**	**–**	**16,123**
Exercise of share options	**–**	**–**	**(19,188)**	**–**	**–**	**–**	**(19,188)**
Currency translation differences	**–**	**–**	**–**	**–**	**(8,565)**	**–**	**(8,565)**
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 24)	**–**	**–**	**–**	**–**	**–**	**(18,869)**	**(18,869)**
At 30 June 2010	**660,542**	**98,980**	**34,541**	**450,050**	**(30,068)**	**8,543**	**1,222,588**

15. OTHER RESERVES (CONTINUED)

Company

	Contributed surplus RMB'000 (Note (e))	Share option reserve RMB'000 (Note (b))	Cash flow hedge reserve RMB'000 (Note (c))	Total RMB'000
At 1 July 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 24)	–	–	(54,902)	(54,902)
At 30 June 2009	2,074,700	37,606	27,412	2,139,718
At 1 July 2009	**2,074,700**	**37,606**	**27,412**	**2,139,718**
Share option expense written back	**–**	**–**	**–**	**–**
Share options granted to directors and employees	**–**	**16,123**	**–**	**16,123**
Exercise of share options	**–**	**(19,188)**	**–**	**(19,188)**
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 24)	**–**	**–**	**(18,869)**	**(18,869)**
At 30 June 2010	**2,074,700**	**34,541**	**8,543**	**2,117,784**

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

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

(c) Cash flow hedge reserve represents the cumulative gains of the cash flow hedge, which was discontinued during the year ended 30 June 2009. This remaining balance in equity will be recognised when the hedged items that previously designated affected consolidated income statement. During the year ended 30 June 2010, an amount of approximately RMB18,869,000 (2009: RMB54,902,000) has been released to the consolidated income statement following the repurchase of senior notes and the interest payment on senior notes.

15. OTHER RESERVES (CONTINUED)

(d) Statutory reserve and enterprise expansion fund

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

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

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

16. TRADE AND OTHER PAYABLES

	Group		Company	
	30 June 2010 RMB'000	30 June 2009 RMB'000	**30 June 2010 RMB'000**	30 June 2009 RMB'000
Trade payables due to:				
– third parties	**903,903**	1,226,406	**–**	–
– related parties (Note 31)	**871,806**	542,551	**–**	–
	1,775,709	1,768,957	**–**	–
Bills payable	**677,000**	155,030	**–**	–
Deposits from customers	**224,320**	493,184	**–**	–
Amounts due to subsidiaries (Note (a))	**–**	–	**105,177**	105,736
Other payables (Note (b))	**1,515,236**	1,502,377	**851**	1,982
Staff welfare benefits payable	**42,772**	51,154	**–**	–
Accrued expenses	**53,498**	101,592	**5,495**	17,275
	4,288,535	4,072,294	**111,523**	124,993
Less:				
Other long term payables (Note (b))	**–**	(397,905)	**–**	–
	4,288,535	3,674,389	**111,523**	124,993

16. TRADE AND OTHER PAYABLES (CONTINUED)

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

(b) Other payables mainly represent payables for acquisition of property, plant and equipment. 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 2010 is as follows:

	Group	
	30 June 2010 RMB'000	30 June 2009 RMB'000
0 – 90 days	**1,683,849**	1,638,160
91 – 180 days	**37,884**	75,846
181 – 365 days	**36,531**	25,081
Over 365 days	**17,445**	29,870
	1,775,709	1,768,957

17. DEFERRED GOVERNMENT GRANTS – GROUP

	For the year ended 30 June	
	2010 RMB'000	2009 RMB'000
Beginning of the year	**13,870**	17,039
Utilisation	**(6,612)**	(3,169)
End of the year	**7,258**	13,870

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.

18. BORROWINGS

Group

	30 June 2010 RMB'000	30 June 2009 RMB'000
Non-current		
– Long-term bank borrowings	10,896,284	9,549,560
– Club term loan (Note (a))	3,387,668	–
– Syndicated term loans	–	2,373,276
– Senior notes (Note (b))	320,104	801,671
	14,604,056	12,724,507
Current		
– Short-term bank borrowings	1,337,947	132,581
– Current portion of long-term bank borrowings	717,644	637,373
– Current portion of syndicated term loans	–	333,287
	2,055,591	1,103,241
	16,659,647	13,827,748

(a) During the year ended 30 June 2010, club term loan with principal amount of RMB3,387,668,000 was drawn down by the Group, of which RMB2,706,563,000 was used to repay syndicated term loans.

(b) Movement of senior notes are as follows:

	For the year ended 30 June	
	2010 RMB'000	2009 RMB'000
Beginning of the year	801,671	2,023,226
Repurchase of senior notes	(484,987)	(1,240,950)
Amortisation of issue cost	5,435	26,097
Exchange gains	(2,015)	(6,702)
End of the year	320,104	801,671

During the year ended 30 June 2010, senior notes with principal amount of USD70,998,000 (equivalent to approximately RMB484,987,000) were repurchased by the Group at par value.

During the year ended 30 June 2009, senior notes with principal amount of USD181,427,000 (equivalent to approximately RMB1,240,950,000) were repurchased by the Group at discounted prices and net gains of approximately RMB594,039,000 were recognised.

18. BORROWINGS (CONTINUED)

Group (continued)

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

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

	30 June 2009				
	Bank borrowings RMB'000	Club term loan RMB'000	Syndicated term loans RMB'000	Senior notes RMB'000	Total 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

18. BORROWINGS (CONTINUED)

Group (continued)

(d) The effective interest rates as at 30 June 2010 are as follows:

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

	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%

(e) As at 30 June 2010, borrowings of RMB55,478,000 (2009: RMB103,671,000) are secured by certain property, plant and equipment of the Group (Note 6), borrowings of RMB15,813,538,000 (2009: RMB12,930,277,000) are guaranteed by certain subsidiaries within the Group.

(f) 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 2010 RMB'000	30 June 2009 RMB'000
6 months or less	**9,076,174**	8,942,013
6 -12 months	**3,496,768**	891,291
1 – 5 years	**4,086,705**	3,994,444
	16,659,647	13,827,748

18. BORROWINGS (CONTINUED)

Group (continued)

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

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

	30 June 2010 RMB'000	30 June 2009 RMB'000
Carrying amounts	**14,604,056**	12,724,507
Fair values	**14,526,422**	12,770,928

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.

(h) The carrying amounts of all the Group's borrowings as at 30 June 2010 are denominated in the following currencies:

	30 June 2010 RMB'000	30 June 2009 RMB'000
RMB	**13,559,376**	9,102,000
US$	**2,947,603**	3,321,133
HK$	**152,668**	1,394,237
Other currency	**–**	10,378
	16,659,647	13,827,748

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

	30 June 2010 RMB'000	30 June 2009 RMB'000
Floating rate:		
– expiring within one year	**8,798,468**	5,141,925
– expiring beyond one year	**5,225,798**	2,195,559
	14,024,266	7,337,484

Company

On 30 June 2010, borrowings of the Company represented senior notes of RMB320,104,000 (2009: RMB801,671,000).

19. DEFERRED INCOME TAX – GROUP

	30 June 2010 RMB'000	30 June 2009 RMB'000
Deferred income tax liabilities to be payable within 12 months	**2,142**	2,142
Deferred income tax liabilities to be payable after more than 12 months	**708,721**	556,553
	710,863	558,695

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

	For the year ended 30 June 2010 RMB'000	2009 RMB'000
Beginning of the year	**558,695**	452,421
Recognised in the consolidated income statement (Note 25)	**152,978**	106,624
Exchange differences	**(810)**	(350)
End of the year	**710,863**	558,695

Deferred income tax liabilities are analysed as follows:

	Accelerated tax depreciation RMB'000 (Note (a))	**Fair value gains** RMB'000 (Note (b))	**Total** RMB'000
At 1 July 2008	396,621	55,800	452,421
Charged/(credited) to the consolidated income statement	108,766	(2,142)	106,624
Exchange differences	–	(350)	(350)
At 30 June 2009	505,387	53,308	558,695
At 1 July 2009	505,387	53,308	558,695
Charged/(credited) to the consolidated income statement	155,120	(2,142)	152,978
Exchange differences	–	(810)	(810)
At 30 June 2010	660,507	50,356	710,863

19. DEFERRED INCOME TAX – GROUP (CONTINUED)

(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.

(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 RMB41,941,000 (2009: RMB41,611,000) in respect of tax losses amounting to RMB245,095,000 (2009: RMB237,116,000) as at 30 June 2010 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 2010, the tax losses carried forward will be expired in the following years:

	30 June 2010 RMB'000	30 June 2009 RMB'000
2012	**2,129**	2,563
2013	**11,317**	18,381
2014	**8,998**	110,690
2015	**72,930**	–
Tax losses with no expiry date	**149,721**	105,482
	245,095	237,116

(d) Apart from those as disclosed in Note (c), the Group has no significant unrecognised deferred tax assets as at 30 June 2010 and 2009.

20. SALES

	For the year ended 30 June	
	2010 RMB'000	2009 RMB'000
Sales of packaging paper	**17,458,142**	12,570,910
Sales of pulp	**269,280**	361,146
Sales of high value specialty board products	**218,610**	196,529
	17,946,032	13,128,585

21. OTHER GAINS – NET

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Gains from sales of electricity (net of cost)	5,625	6,828
Interest income	8,826	10,819
Net foreign exchange gains/(losses)	4,280	(26,141)
Net (loss)/gain arising from change in fair value of derivative financial instruments	(2,363)	7,927
Loss on disposals of property, plant and equipments	(13,558)	(1,061)
Loss on disposal of derivative financial instruments	–	(10,735)
Subsidy income	29,234	9,929
Others	10,322	9,457
	42,366	7,023

22. 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	
	2010	2009
	RMB'000	RMB'000
Depreciation (Note 6)	925,894	759,849
Less: amount charged to other gains – net	(1,667)	(2,488)
Less: amount capitalised to construction in progress	(1,804)	(10,114)
	922,423	747,247
Amortisation of intangible assets (Note 8)	4,134	3,637
Employee benefit expenses (Note 23)	585,295	453,157
Changes in finished goods	(1,585,676)	551,873
Raw materials and consumables used (net of claims)	14,310,043	9,016,334
Transportation	185,091	189,414
Operating leases		
– Land use rights (Note 7)	27,722	24,195
– Buildings	2,471	2,415
Auditor's remuneration	5,900	5,900
Non-deductible value added tax for indirect export sales	101,192	117,837
Reversal of impairment of trade receivables (Note 11)	(30,024)	(20,923)
Other expenses	339,805	299,585
	14,868,376	11,390,671

23. EMPLOYEE BENEFIT EXPENSES

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Wages and salaries	**531,724**	501,456
Share options granted to directors and employees/ (reversal of share option expense) (Notes 15 and (a))	**16,123**	(87,829)
Pension costs – defined contribution plans (Note (b))	**24,224**	24,785
Medical benefits	**6,313**	7,861
Other allowances and benefits	**6,911**	6,884
	585,295	453,157

(a) Performance conditions are attached to share options granted on 17 November 2006 under the 2006 Share Options Scheme. The performance conditions for the years ended 30 June 2010 and 2009 were not met and the directors consider that the performance targets attached to the remaining two tranches of the share options would not be met in future periods. Thus, no share option expense related to these share options are charged to consolidated income statement for the year ended 30 June 2010 (2009: reversal of RMB94,091,000).

(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	
	2010	2009
	RMB'000	RMB'000
Gross scheme contributions	**24,224**	24,785

23. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(c) Directors' and senior management's emoluments

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

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

23. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

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

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

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan ("Ms. Cheung") (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 Yuan Fu	993	–	1,752	–	931	9	3,685
Ms. Gao Jing	100	–	373	–	67	6	546
Non-executive directors							
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

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

(iii) Mr. Lau Chun Shun was re-designated from non-executive director to executive director on 3 August 2009.

23. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2010 include four (2009: three) directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining one (2009: two) individual during the year are as follows:

	For the year ended 30 June 2010 RMB'000	2009 RMB'000
Pension costs	–	–
Salaries, share options, other allowances and benefits in kind	4,072	9,241
	4,072	9,241

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June 2010	2009
RMB2,000,001 to RMB4,000,000	–	–
RMB4,000,001 to RMB6,000,000	1	2

24. FINANCE COSTS – NET

	For the year ended 30 June 2010 RMB'000	2009 RMB'000
Interest on borrowings		
– wholly repayable within five years	593,323	852,224
– not wholly repayable within five years	58,543	33,691
	651,866	885,915
Less: interest capitalised	(195,717)	(415,719)
	456,149	470,196
Bills discount charges	86,098	57,978
Other incidental borrowing costs	23,465	29,106
Exchange gains on borrowings	(5,723)	(164)
Hedge reserve released (Note 15)	(18,869)	(54,902)
	541,120	502,214

The capitalisation interest rate applied to funds borrowed generally and used for the development of construction in progress is 4.666% for the year ended 30 June 2010 (2009: 5.699%).

25. INCOME TAX EXPENSE

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current tax		
– Hong Kong profits tax (Note (a))	**–**	–
– PRC corporate income tax (Note (b))	**206,285**	68,867
	206,285	68,867
Deferred income tax (Note 19)	**152,978**	106,624
	359,263	175,491

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	
	2010	2009
	RMB'000	RMB'000
Profit before taxation	**2,578,902**	1,836,762
Calculated at tax rates applicable to profits in the respective jurisdictions	**668,689**	328,489
Effect of tax holidays	**(324,207)**	(185,078)
Add:		
Tax losses for which no deferred income tax asset was recognised	**19,440**	25,461
Expense not deductible	**24,345**	9,956
Less:		
Income not subject to tax	**(9,894)**	(3,337)
Utilisation of previously unrecognised tax losses	**(19,110)**	–
Income tax expense	**359,263**	175,491

(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 2010 (2009: Nil).

25. INCOME TAX EXPENSE (CONTINUED)

(b) PRC corporate income tax

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

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, withholding income tax of 10% shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax. As at 30 June 2010, the Group has not accrued any withholding income tax for the earnings of its PRC subsidiaries (2009: nil), because the Group does not have a plan to distribute earnings from its PRC subsidiaries generated in the period from 1 January 2008 to 30 June 2010 in the foreseeable future.

26. RETAINED EARNINGS OF THE COMPANY

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**791,057**	407,444
profit for the year	**381,166**	535,193
Dividends	**(253,539)**	(151,580)
End of the year	**918,684**	791,057
Representing		
– Proposed final dividend	**462,955**	151,736
– Unappropriated retained earnings	**455,729**	639,321

27. EARNINGS PER SHARE

– Basic

	For the year ended 30 June	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**2,166,452**	1,661,122
Weighted average number of ordinary shares in issue (shares in thousands)	**4,520,533**	4,331,725
Basic earnings per share (RMB per share)	**0.4792**	0.3835

27. 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	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**2,166,452**	1,661,122
Weighted average number of ordinary shares in issue (shares in thousands)	**4,520,533**	4,331,725
Adjustments for share options (shares in thousands)	**44,054**	14,461
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	**4,564,587**	4,346,186
Diluted earnings per share (RMB per share)	**0.4746**	0.3822

28. DIVIDENDS

	For the year ended 30 June	
	2010 RMB'000	2009 RMB'000
Interim dividend, RMB2.00 cents (2009: nil) per ordinary share (Note (a))	**92,244**	–
Final dividend, proposed, of RMB10.00 cents (2009: RMB3.50 cents) per ordinary share (Note (b))	**462,955**	151,736
	555,199	151,736

(a) An interim dividend for the six months ended 31 December 2009 of RMB2.00 cents per ordinary share, totalling approximately RMB92,244,000 (six months ended 31 December 2008: Nil) has been approved in the meeting of BoD on 30 March 2010.

(b) At a meeting held on 27 September 2010, the BoD proposed a final dividend of RMB10.00 per ordinary share, approximately RMB462,955,000, for the year ended 30 June 2010. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2011.

A final dividend for the year ended 30 June 2009 of RMB3.5 cents per ordinary share, totalling approximately RMB161,295,000 has been declared in the Company's Annual General Meeting on 3 December 2009 and paid during the year.

29. CASH GENERATED FROM OPERATIONS

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit for the year	2,219,639	1,661,271
Adjustments for		
Income tax expense (Note 25)	359,263	175,491
Depreciation (Note 6)	850,942	754,011
Amortisation (Notes 7 and 8)	31,856	27,832
Reversal of impairment of trade receivables (Note 11(g))	(30,024)	(20,923)
Share options granted to directors and employees/ (reversal of share option expense) (Note 15)	16,123	(87,829)
Loss on disposals of property, plant and equipment (note)	13,558	1,061
Net loss/(gain) arising from change in fair value of derivative financial instruments (Note 21)	2,363	(7,927)
Subsidy income (Note 21)	(29,234)	–
Interest income (Note 21)	(8,826)	(10,819)
Finance cost (Note 24)	541,120	502,214
Gain on repurchase of senior notes (Note 18(b))	–	(594,039)
Exchange losses on cash and cash equivalents	19,394	7,983
	3,986,174	2,408,326
Changes in working capital		
Inventories	(2,196,462)	1,313,331
Trade and other receivables before provision for impairment	(1,279,555)	1,181,821
Derivative financial instruments after fair value changes	–	5,756
Trade and other payables	279,708	31,160
Cash generated from operations	789,865	4,940,394

Note: Disposals of property, plant and equipment:

	For the year ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net book amount of property, plant and equipment (Note 6)	26,669	4,823
Loss on disposals of property, plant and equipment	(13,558)	(1,061)
Proceeds from disposals of property, plant and equipment	13,111	3,762

30. COMMITMENTS

(a) Capital commitments

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

	30 June 2010 RMB'000	30 June 2009 RMB'000
Contracted but not provided for		
Not later than one year	3,853,624	938,418
Later than one year and not later than five years	1,325,410	1,454,847
	5,179,034	2,393,265
Authorised but not contracted for		
Not later than one year	413,677	604,500
Later than one year and not later than five years	550,000	1,490,818
	963,677	2,095,318
	6,142,711	4,488,583

(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 2010 RMB'000	30 June 2009 RMB'000
Not later than one year	2,829	2,929
Later than one year and not later than five years	2,872	3,117
Later than five years	19,507	20,153
	25,208	26,199

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

(b) Transactions with related parties

For the year ended 30 June 2010, 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	
	2010 **RMB'000**	2009 RMB'000
Sales of goods:		
Taicang Packaging	**330,296**	74,942
Sales of utilities:		
Taicang Packaging	**3,419**	6,927
Purchase of recovered paper (net of claims):		
ACN	**6,692,699**	3,573,655
Taicang Packaging	**5,653**	6,469
	6,698,352	3,580,124

(c) Key management compensation

Other than compensation for directors as disclosed in Note 23, compensation for other key management is as follows:

	For the year ended 30 June	
	2010 **RMB'000**	2009 RMB'000
Salaries and other short-term employee benefits	**23,740**	18,130
Termination benefits	**–**	–
Share options	**4,100**	2,238
	27,840	20,368

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties

	30 June 2010 RMB'000	30 June 2009 RMB'000
Trade balances due from:		
Related parties:		
– Taicang Packaging	247,250	8,865

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

	30 June 2010 RMB'000	30 June 2009 RMB'000
Trade balances due to:		
Related parties:		
– ACN	863,156	539,713
– Taicang Packaging	8,650	2,838
	871,806	542,551

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

32. ULTIMATE HOLDING COMPANY

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

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

Investor relations and communications with shareholders

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

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

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

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

SHAREHOLDERS

As at 30 June 2010, the Group had over 4,400 non-institutional shareholders.

FINANCIAL CALENDAR

FY2010 interim results announcement	published on 30 March 2010
FY2010 annual results announcement	published on 27 September 2010
Closure of register of members	18 November 2010 to 22 November 2010 (both dates inclusive)
2010 AGM	22 November 2010
Distribution of FY2010 final dividend#	26 November 2010

subject to Shareholders' approval of the final dividend at 2010 AGM

ANNUAL GENERAL MEETING

The 2010 AGM will be held on Monday, 22 November 2010. The notice of the 2010 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The notice of 2010 AGM and the proxy form will also be available on the website of HKExnews at www.hkexnews.hk under Listing Company Information and the website of the Company at www.ndpaper.com.

SHARE INFORMATION

Shares listing

The Shares of ND Paper are listed on the Main Board of the Stock Exchange (Stock Code: 2689.HK) in March 2006.

Index constituent

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

Ordinary shares

Issued Shares as at 30 June 2010:	4,629,554,167 Shares
Nominal Value:	HK$0.1 per Share
Broad lot:	1,000 Shares

Dividends

Dividends per Share for the year ended 30 June 2010

– Interim dividend	RMB2 cents per Share
– Final dividend	RMB10 cents per Share

Share registrar and transfer office

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

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

Investor relations contact

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

Stock code

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

Website

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

Definition

2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2010 AGM	Annual General Meeting to be held on 22 November 2010
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

Definition

Hong Kong or Hong Kong SAR	The Hong Kong Special Administrative Region of the People's Republic of or HKSAR China
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Mr. Liu	Mr. Liu Ming Chung, an executive Director, the Deputy Chairman and the Chief Executive Officer of the Company
Mr. Zhang	Mr. Zhang Cheng Fei, an executive Director and the Deputy Chief Executive Officer of the Company
Ms. Cheung	Ms. Cheung Yan, an executive Director and the Chairlady of the Company
ND Xing An	Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited (玖龍興安漿紙(內蒙古)有限公司), an equity joint venture established in the PRC on 16 February 2004. ND Xing An is 55% indirectly owned by the Company and 45% owned by China Inner Mongolia Forestry
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
Pre-Listing Share Option Scheme	the Pre-Listing Share Option Scheme adopted by the Company with effect from 1 January 2006
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share Option Schemes	Pre-Listing Share Option Scheme and 2006 Share Option Scheme
Share(s)	Ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
sq.ft	square feet
sq.m	square metre
Taicang Packaging	Nine Dragons Packaging (Taicang) Company Limited, a wholly foreign owned enterprise established in the PRC on 9 April 2002

The Liu Family Trust	a trust set up by Mr. Liu as the settlor and BNP Paribas Jersey Trust Corporation Limited as the trustee
tpa	tonnes per annum
USD/US$	US dollars
YC 2006 Family Irrevocable Trust	The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee, of YC 2006 Family Irrevocable Trust
Year	the twelve months ended 30 June 2010
%	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 cellulosefibers (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

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This 2009/10 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at www.ndpaper.com and on the website of HKExnews at www.hkexnews.hk.

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

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

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

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

玖龍紙業(控股)有限公司*
NINE DRAGONS PAPER (HOLDINGS) LIMITED