玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

- Sales increased by 35.9% to RMB24,386.9 million.
- Gross profit rose by 8.0% to RMB4,226.8 million.
- Gross margin decreased from 21.8% to 17.3%.
- Profit for the year decreased by 9.2% to RMB2,015.1 million
- Basic earnings per share decreased by 11.8% to RMB0.4227
- Proposed final dividend per share of RMB8.0 cents (equivalent to approximately HK9.8 cents).

FINANCIAL RESULTS

The board of directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the year ended 30 June 2011 ("FY2011" or the "Year"), together with the comparative figures for the last financial year ("FY2010").

* *for identification purpose only*

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June 2011 RMB'000	2010 RMB'000
Sales	*2*	**24,386,905**	17,946,032
Cost of goods sold	*3*	**(20,160,107)**	(14,033,437)
Gross profit		**4,226,798**	3,912,595
Other gains – net	*4*	**106,034**	42,366
Selling and marketing costs	*3*	**(526,400)**	(355,090)
Administrative expenses	*3*	**(627,463)**	(479,849)
Operating profit		**3,178,969**	3,120,022
Finance costs – net	*5*	**(775,220)**	(541,120)
Profit before income tax		**2,403,749**	2,578,902
Income tax expense	*6*	**(388,691)**	(359,263)
Profit for the year		**2,015,058**	2,219,639
Profit attributable to:			
– Equity holders of the Company		**1,967,838**	2,166,452
– Non-controlling interests		**47,220**	53,187
		2,015,058	2,219,639
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	*7*	**0.4227**	0.4792
– diluted	*7*	**0.4217**	0.4746
Dividends	*8*	**466,252**	555,199

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

	Note	30 June 2011 RMB'000	30 June 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**38,628,163**	30,157,456
Land use rights	*9*	**1,515,520**	1,299,607
Intangible assets	*10*	**234,827**	239,543
Deferred income tax assets		**16,682**	–
		40,395,192	31,696,606
Current assets			
Inventories	*11*	**2,557,583**	3,764,989
Trade and other receivables	*12*	**5,307,951**	3,385,855
Tax recoverable		**42,216**	29,695
Restricted cash		**97,450**	–
Cash and cash equivalents		**2,500,254**	2,340,967
		10,505,454	9,521,506
Total assets		**50,900,646**	41,218,112
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*13*	**9,187,231**	9,093,747
Other reserves		**1,200,373**	1,222,588
Retained earnings			
– Proposed final dividend		**373,007**	462,955
– Unappropriated retained earnings		**9,839,100**	8,350,924
		20,599,711	19,130,214
Non-controlling interests		**420,949**	246,528
Total equity		**21,020,660**	19,376,742

	Note	**30 June 2011**	30 June 2010
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred government grants		**–**	7,258
Borrowings	*14*	**20,973,492**	14,604,056
Deferred income tax liabilities		**905,322**	710,863
		21,878,814	15,322,177
Current liabilities			
Derivative financial instruments		**–**	1,922
Trade and other payables	*15*	**4,803,799**	4,288,535
Current income tax liabilities		**194,176**	173,145
Borrowings	*14*	**3,003,197**	2,055,591
		8,001,172	6,519,193
Total liabilities		**29,879,986**	21,841,370
Total equity and liabilities		**50,900,646**	41,218,112
Net current assets		**2,504,282**	3,002,313
Total assets less current liabilities		**42,899,474**	34,698,919

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**2,015,058**	2,219,639
Adjustments for non-cash items/income tax/finance costs	**811,202**	895,598
Changes in working capital	**28,045**	(3,196,309)
Net cash generated/(used in) from operating activities	**2,854,305**	(81,072)
Net cash used in investing activities	**(8,934,196)**	(4,320,249)
Net cash generated from financing activities	**6,274,955**	5,253,140
Net increase in cash and cash equivalents	**195,064**	851,819
Cash and cash equivalents at beginning of the year	**2,340,967**	1,508,542
Exchange losses on cash and cash equivalents	**(35,777)**	(19,394)
Cash and cash equivalents at end of the year	**2,500,254**	2,340,967

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nine Dragons Paper (Holdings) Limited and its subsidiaries 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 on 20 September 2011.

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

(a) New and amended standards adopted by the Group as of 1 July 2010, these are not currently applicable to the Group.

HKFRS 1 (amendment)	First-time adoption of HKFRS – Oil and gas assets and determining whether an arrangement contains a lease
HKFRS 1 (amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HKAS 32 (amendment)	Financial instruments – Classification of rights issues
HK(IFRIC) –Int 19	Extinguishing financial liabilities with equity instruments
HKFRS 2 (amendments)	Group cash-settled share-based payment transactions
HK Int 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause
Various HKASs and HKFRSs	Second improvements to HKFRSs (2009)

(b) New and amended standards that are not yet effective and have not been early adopted by the Group. Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

		Effective for annual periods beginning on or after
HK(IFRIC) Int-14 (amendment)	Prepayments of a minimum funding requirement	1 January 2011
Various HKASs and HKFRSs	Third improvements to HKFRS (2010)	1 January 2011
HKAS 24 (revised)	Related party disclosures	1 January 2011
HKFRS 7 (amendment)	Disclosures – Transfers of financial assets	1 July 2011
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKAS 12 (amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 1 (amendment)	Presentation of financial statements – Amendments to revise the way other comprehensive income is presented	1 July 2012
HKAS 27	Consolidated and separate financial statements – Reissued as HKAS 27 separate financial statements	1 January 2013
HKAS 28	Investments in associates – Reissued as HKAS 28 investments in associates and joint ventures	1 January 2013
HKFRS 9	Financial instruments	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (amendment)	Employee benefits – Amended standard resulting from the post-employment benefits and termination benefits projects	1 January 2013

2. SALES

Sales recognised during the Year are as follows:

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

3. EXPENSES BY NATURE

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

	For the year ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Depreciation *(Note 9)*	**975,395**	925,894
Less: amount charged to other gains – net	**(4,843)**	(1,667)
Less: amount capitalised to construction in progress	**–**	(1,804)
	970,552	922,423
Amortisation of intangible assets *(Note 10)*	**4,716**	4,134
Employee benefit expenses	**715,899**	585,295
Changes in finished goods	**673,992**	(1,585,676)
Raw materials and consumables used (net of claims)	**18,077,166**	14,310,043
Transportation	**228,398**	185,091
Operating leases		
– Land use rights *(Note 9)*	**31,081**	27,722
– Buildings	**2,404**	2,471
Auditor's remuneration	**6,900**	5,900
Non-deductible value added tax for indirect export sales	**61,878**	101,192
Provision/(reversal) of impairment for receivables	**19,000**	(30,024)
Other expenses	**521,984**	339,805
	21,313,970	14,868,376

4. OTHER GAINS – NET

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

5. FINANCE COSTS – NET

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

6. INCOME TAX EXPENSE

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

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the Year (2010: Nil).

(b) PRC corporate income tax

The Corporate Income Tax Law of the PRC (the "new CIT Law") was effective from 1 January 2008, which unifies the corporate income tax rate for domestic and foreign enterprises at 25%. From 1 January 2008, PRC corporate income tax is provided based on the statutory income tax rate of 25% of the assessable income of each of these companies for the period as determined in accordance with the new CIT Law except for certain subsidiaries of the Company, which were exempted from tax or taxed at preferential rates of 7.5%, 12.5% 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 2011, the Group has not accrued any withholding income tax for the earnings of its PRC subsidiaries (2010: nil), because the Group does not have a plan to distribute earnings from its PRC subsidiaries generated in the period from 1 January 2008 to 30 June 2011 in the foreseeable future.

7. EARNINGS PER SHARE

– Basic

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

– Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

8. DIVIDENDS

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

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

9. CAPITAL EXPENDITURES

	Land use rights	**Property, plant and equipment**
	RMB'000	*RMB'000*
Year ended 30 June 2010		
Opening net book amount	1,185,815	27,011,394
Optimisation on construction in progress	–	89,179
Additions	144,627	4,125,705
Tax benefit	–	(105,400)
Disposals	–	(26,669)
Amortisation/depreciation changes *(Note 3)*	(27,722)	(925,894)
Exchange differences	(3,113)	(10,859)
Closing net book amount as at 30 June 2010	1,299,607	30,157,456
Year ended 30 June 2011		
Opening net book amount	**1,299,607**	**30,157,456**
Acquisition of subsidiaries	**74,400**	**1,403,050**
Additions	**177,305**	**8,333,362**
Tax benefit	**–**	**(98,356)**
Disposals	**–**	**(176,269)**
Amortisation/depreciation ***(Note 3)***	**(31,081)**	**(975,395)**
Exchange differences	**(4,711)**	**(15,685)**
Closing net book amount as at 30 June 2011	**1,515,520**	**38,628,163**

10. INTANGIBLE ASSETS

	RMB'000
Year ended 30 June 2010	
Opening net book amount as at 1 July 2009	234,647
Addition	9,030
Amortisation *(Note 3)*	(4,134)
Closing net book amount as at 30 June 2010	239,543
Year ended 30 June 2011	
Opening net book amount as at 1 July 2010	**239,543**
Amortisation *(Note 3)*	**(4,716)**
Closing net book amount as at 30 June 2011	**234,827**

11. INVENTORIES

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

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

12. TRADE AND OTHER RECEIVABLES

	30 June 2011 *RMB'000*	30 June 2010 *RMB'000*
Trade receivables due from:		
– third parties	**1,985,321**	1,522,682
– related parties	**18,157**	247,250
	2,003,478	1,769,932
Bills receivable	**1,499,009**	779,139
Prepayments	**222,683**	171,804
Other receivables	**1,582,781**	664,980
	5,307,951	3,385,855

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

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

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

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

13. SHARE CAPITAL

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

14. BORROWINGS

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

Note (a): On 22 June 2011, the Company informed the Trustee to redeem all outstanding senior notes, with principal amount of approximately USD47.6 million (equivalent to approximately RMB305.9 million) in full on 16 August 2011 at a redemption price equal to 100% of the principal amount, plus the applicable premium of approximately USD7.4 million (equivalent to approximately RMB47.8 million), and accrued and unpaid interest pursuant to the terms of the indenture dated on 29 April 2008.

15. TRADE AND OTHER PAYABLES

As at 30 June 2011, the ageing analysis of trade payables is as follows:

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

16. COMMITMENTS

(a) Capital commitments

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

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

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

The future aggregate minimum lease payments under non-cancellable operating leases in relation to land and buildings are as follows:

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

DIVIDENDS

An interim dividend of RMB2.0 cents (equivalent to approximately HK2.4 cents) (2010: RMB2.0 cents) per share was paid to shareholders on 30 May 2011.

The Board has resolved to recommend the payment of a final dividend of RMB8.0 cents (equivalent to approximately HK9.8 cents) per share for FY2011, which is expected to be paid on Friday, 9 December 2011 subject to the approval of the forthcoming annual general meeting dated 21 November 2011. The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 16 November 2011. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.81929 as at 20 September 2011 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 17 November 2011 to Monday, 21 November 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 16 November 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Being the largest containerboard manufacturer in Asia, ND Paper primarily produces and sells a broad variety of packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as produces and sells pulp and specialty paper. The Group's new products such as recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) and coated linerboard have successfully commenced production and launched sales, enabling the Group to further offer its customers a diverse product portfolio for various needs.

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

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

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

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

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

Business Strategy

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

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

Proactively expanding production capacity and optimizing product portfolio

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

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

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

Paper machines completed construction and commenced production in 2010

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

Paper machines completed construction and commenced production in 2011

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

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

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

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

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

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

(Breakdown by product category)

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

(Capacity mix by product category)

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

(Distribution by location)

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

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

(By location)

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

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

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

Invest in infrastructure facilities to achieve economies of scale

(1) Power resources

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

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

(2) Land resources

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

(3) Transportation infrastructure

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

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

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

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

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

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

Achieving win-win situation through personnel training

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

FINANCIAL REVIEW

Sales

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

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

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

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

The majority of the Group's sales continued to be realised from the domestic market, in particular from the linerboard and high performance corrugating medium sectors. For FY2011, revenue related to domestic consumption represented approximately 86.3% of the Group's total revenue, while the remaining revenue of approximately 13.7% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

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

Gross profit

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

Other gains – net

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

Selling expenses and marketing costs

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

Administrative expenses

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

Operating profit

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

Finance costs – net

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

Income Taxation

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

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

Net profit

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

Dividend

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

Material acquisition

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

Working capital

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

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

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

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

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

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

Liquidity and financial resources

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

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

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

Debts Management

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

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

Treasury policies

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

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

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

(b) Minimise currency risk

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

Cost of borrowing

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

Capital expenditures

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

Capital commitments

The Group made capital expenditure commitments mainly for building, plant and machineries of approximately RMB3,035.6 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the construction of PM33-36 for the expansion of the Group's production capacity and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

Contingencies

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

Event occurring after the balance sheet date

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

OUTLOOK

Although we maintain a bearish view on the current market and for the coming year, and the Group will keep operating in a conservative and cautious manner, it is our conviction that successful capture of market opportunities and improvement in the areas such as sales, customer base, corporate operation, etc. have to be achieved by the expansion of economies of scale and continual optimization of its resources, and further fueled by improving market conditions and accelerating market consolidation. Little efforts accumulate and help. In the future, the Group can certainly leverage on its long-established advantages. As the most resourceful paper manufacturing enterprise in the PRC, the Group will, by employing its existing strengths in management and finance, make steady development in order to strive for better investment return for its shareholders in the foreseeable future.

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 FY2011.

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiary companies for FY2011 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, PricewaterhouseCoopers. The unqualified auditor's report will be included in the annual report to shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During FY2011, the Group was in compliance with the provisions of the Code on Corporate Governance Practices and, where appropriate, the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 FY2011, they were in compliance with provisions of the Model Code.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Monday, 21 November 2011. The notice of annual general meeting will be published on the websites of HKEXnews at www.hkexnews.hk under "Listed Company information" and the Company at www.ndpaper.com.

APPRECIATION

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

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

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

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

By Order of the Board
Cheung Yan
Chairlady

Hong Kong, 20 September 2011