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 2012

FINANCIAL HIGHLIGHTS

- Sales increased by 11.4% to RMB27,169.7 million.
- Gross profit rose by 2.6% to RMB4,337.4 million.
- Gross margin decreased from 17.3% to 16.0%.
- Profit attributable to equity holders of the Company decreased by 27.8% to RMB1,420.2 million.
- Basic earnings per share decreased by 27.9% to RMB0.3046.
- Proposed final dividend per share of RMB5.0 cents (equivalent to approximately HK6.1 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 2012 ("FY2012" or the "Year"), together with the comparative figures for the last financial year ("FY2011").

* *for identification purpose only*

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June **2012** ***RMB'000***	 2011 *RMB'000*
Sales	*2*	**27,169,737**	24,386,905
Cost of goods sold		**(22,832,313)**	(20,160,107)
Gross profit		**4,337,424**	4,226,798
Other income/(expenses) and other gains/(losses), net		**62,690**	84,777
Selling and marketing costs		**(667,903)**	(526,400)
Administrative expenses		**(662,194)**	(627,463)
Operating profit	*3*	**3,070,017**	3,157,712
Finance income	*4*	**46,696**	21,257
Finance costs	*4*	**(1,208,646)**	(775,220)
Profit before income tax		**1,908,067**	2,403,749
Income tax expense	*5*	**(449,509)**	(388,691)
Profit for the year		**1,458,558**	2,015,058
Profit attributable to:			
Equity holders of the Company		**1,420,152**	1,967,838
Non-controlling interests		**38,406**	47,220
		1,458,558	2,015,058
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
— basic	*6*	**0.3046**	0.4227
— diluted	*6*	**0.3044**	0.4217

Details of dividends payable to equity holders of the Company attributable to the profit for the Year are set out in Note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**1,458,558**	2,015,058
Other comprehensive income:		
Currency translation differences	**(9,577)**	(28,716)
Cash flow hedges	**(753)**	(7,790)
Other comprehensive income for the year	**(10,330)**	(36,506)
Total comprehensive income for the year	**1,448,228**	1,978,552
Attributable to:		
— Equity holders of the Company	**1,413,990**	1,942,368
— Non-controlling interests	**34,238**	36,184
	1,448,228	1,978,552

CONSOLIDATED BALANCE SHEET

	Note	**30 June 2012** *RMB'000*	30 June 2011 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**42,360,533**	38,628,163
Land use rights	*8*	**1,557,628**	1,515,520
Intangible assets	*9*	**230,264**	234,827
Deferred income tax assets		**24,993**	16,682
		44,173,418	40,395,192
Current assets			
Inventories	*10*	**4,195,911**	2,557,583
Trade and bill receivables	*11*	**2,920,754**	3,502,487
Other receivables and prepayments	*11*	**2,534,669**	1,805,464
Tax recoverable		**18,671**	42,216
Restricted cash		**3,678**	97,450
Cash and cash equivalents		**4,364,539**	2,500,254
		14,038,222	10,505,454
Total assets		**58,211,640**	50,900,646
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	**9,202,356**	9,187,231
Other reserves		**1,181,590**	1,200,373
Retained earnings			
— Proposed final dividend		**233,146**	373,007
— Unappropriated retained earnings		**10,933,429**	9,839,100
		21,550,521	20,599,711
Non-controlling interests		**431,268**	420,949
Total equity		**21,981,789**	21,020,660

	Note	**30 June 2012**	30 June 2011
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**21,192,466**	20,973,492
Deferred income tax liabilities		**1,137,487**	905,322
Other payables		**55,406**	—
Deferred government grants		**13,024**	—
		22,398,383	21,878,814
Current liabilities			
Trade and bills payables	*14*	**5,731,338**	2,311,222
Other payables and deposits received		**2,710,266**	2,492,577
Current income tax liabilities		**287,576**	194,176
Borrowings	*13*	**5,102,288**	3,003,197
		13,831,468	8,001,172
Total liabilities		**36,229,851**	29,879,986
Total equity and liabilities		**58,211,640**	50,900,646
Net current assets		**206,754**	2,504,282
Total assets less current liabilities		**44,380,172**	42,899,474

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**1,458,558**	2,015,058
Adjustments for non-cash items/income tax/finance costs	**916,096**	803,506
Changes in working capital	**1,646,002**	83,645
Net cash generated from operating activities	**4,020,656**	2,902,209
Net cash used in investing activities	**(4,227,954)**	(8,835,840)
Net cash generated from financing activities	**2,089,285**	6,128,695
Net increase in cash and cash equivalents	**1,881,987**	195,064
Cash and cash equivalents at beginning of the year	**2,500,254**	2,340,967
Exchange losses on cash and cash equivalents	**(17,702)**	(35,777)
Cash and cash equivalents at end of the year	**4,364,539**	2,500,254

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nine Dragons Paper (Holdings) Limited and its subsidiaries mainly engage in the manufacture and sales of packaging paper, recycled printing and writing paper, pulp and high value specialty paper 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").

The financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. The financial statements have been approved for issue by the Board on 25 September 2012.

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

(a) Effect of adopting amendments and interpretations to existing standards

The following amendments and interpretations to existing standards are mandatory for the Group's financial year beginning 1 July 2011:

- HKFRSs (Amendment) — "Improvements to HKFRSs 2010";
- HKFRS 1 (Amendment) — "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters";
- HKFRS 7 (Amendment) — "Disclosures — Transfers of Financial Assets';
- HKAS 24 (Revised) — "Related Party Disclosures"; and
- HK (IFRIC) — Int 14 (Amendment) — "Prepayments of a Minimum Funding Requirement".

The adoption of these amendments and interpretations to standards did not result in a significant impact on the results and financial position of the Group.

(b) New standards, amendments and interpretations to existing standards that have been issued but are not effective

The following new standards, amendments and interpretations to existing standards are mandatory for the Group's financial year beginning 1 July 2012 or later periods and have not been early adopted by the Group:

- HKFRS 1 (Amendment) — "Government Loan"[2];
- HKFRS 7 (Amendment) — "Offsetting Financial Assets and Financial Liabilities"[2];
- HKFRS 9 — "Financial Instruments"[4];
- HKFRS 10 — "Consolidated Financial Statements"[2];
- HKFRS 11 — "Joint Arrangements"[2];
- HKFRS 12 — "Disclosure of Interests in Other Entities"[2];
- HKFRS 13 — "Fair Value Measurements"[2];
- HKAS 1 (Amendment) — "Presentation of Items of Other Comprehensive Income"[1];
- HKAS 12 (Amendment) — "Deferred Tax: Recovery of Underlying Assets"[1];
- HKAS 19 (2011) — "Employee Benefits"[2];
- HKAS 27 (2011) — "Separate Financial Statements"[2];
- HKAS 28 (2011) — "Investments in Associates and Joint Ventures"[2];
- HKAS 32 (Amendment) — "Offsetting Financial Assets and Financial Liabilities"[3];
- HK(IFRIC) — Int 20 — "Stripping Costs in the Production Phase of a Surface Mine" [2]; and
- HKFRSs (Amendment) — "Annual Improvements 2009–2011 Cycle"[2].

[1] Effective for the Group for annual period beginning on 1 July 2012
[2] Effective for the Group for annual period beginning on 1 July 2013
[3] Effective for the Group for annual period beginning on 1 July 2014
[4] Effective for the Group for annual period beginning on 1 July 2015

The directors of the Company anticipate that the adoption of the new standards, interpretations and amendments to existing standards will not result in a significant impact on the results and financial position of the Group.

2. SALES

Sales recognised during the Year are as follows:

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Sales of packaging paper	**26,166,729**	24,014,795
Sales of recycled printing and writing paper	**721,185**	—
Sales of high value specialty paper products	**182,574**	132,072
Sales of pulp	**99,249**	240,038
	27,169,737	24,386,905

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Depreciation *(Note 8)*	**1,300,532**	975,395
Less: amount charged to other expenses	**(2,249)**	(4,843)
	1,298,283	970,552
Amortisation of intangible assets *(Note 9)*	**4,563**	4,716
Employee benefit expenses	**1,047,535**	715,899
Changes in finished goods	**115,315**	673,992
Raw materials and consumables used (net of claims)	**21,188,752**	18,250,342
Operating leases		
— Land use rights *(Note 8)*	**33,551**	31,081
— Buildings	**2,602**	2,404
(Reversal of)/provision for impairment of receivables	**(19,000)**	19,000

4. FINANCE INCOME AND FINANCE COSTS

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Finance income:		
Interest income from bank deposits	**46,696**	21,257
Finance costs:		
Interest on borrowings		
— wholly repayable within five years	**(1,298,951)**	(883,191)
— not wholly repayable within five years	**(341,303)**	(124,151)
	(1,640,254)	(1,007,342)
Other incidental borrowing costs	**(52,540)**	(91,522)
Less: interest capitalised	**519,547**	466,715
	(1,173,247)	(632,149)
Bills discount charges	**(324,057)**	(243,987)
Exchange gains on financing activities	**287,905**	93,126
Hedge reserve released	**753**	7,790
	(1,208,646)	(775,220)

5. INCOME TAX EXPENSE

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax		
— Hong Kong profits tax *(Note (a))*	**—**	—
— PRC corporate income tax *(Note (b))*	**225,478**	247,096
	225,478	247,096
Deferred income tax	**224,031**	141,595
	449,509	388,691

(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 (2011: Nil).

(b) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to preferential rates ranging from 12.5% to 15% for the Group's financial year ended 30 June 2012 (2011: 7.5% to 15%).

6. EARNINGS PER SHARE

— Basic

	For the year ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**1,420,152**	1,967,838
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,662,791**	4,654,889
Basic earnings per share *(RMB per share)*	**0.3046**	0.4227

— Diluted

Diluted earnings per share is calculated by 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	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**1,420,152**	1,967,838
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,662,791**	4,654,889
Adjustments for share options *(shares in thousands)*	**2,793**	11,049
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,665,584**	4,665,938
Diluted earnings per share *(RMB per share)*	**0.3044**	0.4217

7. DIVIDENDS

	For the year ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interim dividend, RMB2.0 cents (2011: RMB2.0 cents) per ordinary share	**93,258**	93,245
Final dividend, proposed, of RMB5.0 cents (2011: RMB8.0 cents) per ordinary share	**233,146**	373,007
	326,404	466,252

At a meeting held on 25 September 2012, the Board proposed a final dividend of RMB5.0 cents per ordinary share, totalling approximately RMB233,146,000 for the Year. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements, but will be reflected as an appropriation for the year ending 30 June 2013.

8. CAPITAL EXPENDITURES

	Land use rights *RMB'000*	Property, plant and equipment *RMB'000*
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
Year ended 30 June 2012		
Opening net book amount	**1,515,520**	**38,628,163**
Additions	**76,988**	**5,135,796**
Tax benefit	**—**	**(76,635)**
Disposals	**—**	**(21,992)**
Amortisation/depreciation *(Note 3)*	**(33,551)**	**(1,300,532)**
Exchange differences	**(1,329)**	**(4,267)**
Closing net book amount as at 30 June 2012	**1,557,628**	**42,360,533**

9. INTANGIBLE ASSETS

	RMB'000
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
Year ended 30 June 2012	
Opening net book amount as at 1 July 2011	**234,827**
Amortisation *(Note 3)*	**(4,563)**
Closing net book amount as at 30 June 2012	**230,264**

10. INVENTORIES

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
At cost:		
Raw materials	**2,947,683**	1,194,040
Finished goods	**1,248,228**	1,363,543
	4,195,911	2,557,583

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB22,832,313,000 (2011: RMB20,160,107,000).

11. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**1,723,931**	2,003,478
Bills receivable *(Note (b))*	**1,196,823**	1,499,009
	2,920,754	3,502,487
Value-added tax receivables	**1,739,450**	1,119,291
Other receivables and prepayments	**795,219**	686,173
	2,534,669	1,805,464
	5,455,423	5,307,951

(a) As at 30 June 2012, the ageing analysis of trade receivables is as follows:

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
0–30 days	**1,264,556**	1,665,223
31–60 days	**432,609**	279,661
61–90 days	**18,432**	37,948
Over 90 days	**8,334**	20,646
	1,723,931	2,003,478

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 sale to corporate customers are entered into on credit terms around 30 to 60 days.

(b) Bills receivable are normally with maturity period of 90 to 180 days.

12. SHARE CAPITAL

	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 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
At 1 July 2011	**4,662,592,620**	**466,259**	**477,981**	**8,709,250**	**9,187,231**
Exercise of share options	**328,191**	**33**	**27**	**15,098**	**15,125**
At 30 June 2012	**4,662,920,811**	**466,292**	**478,008**	**8,724,348**	**9,202,356**

13. BORROWINGS

	30 June 2012 *RMB'000*	30 June 2011 *RMB'000*
Non-current		
— Long-term bank and other borrowings	**20,102,047**	18,490,119
— Club term loan *(Note (a))*	**—**	2,483,373
— Medium-term note *(Note (b))*	**1,090,419**	—
	21,192,466	20,973,492
Current		
— Short-term bank borrowings	**514,836**	1,787,262
— Current portion of long-term bank and other borrowings	**1,134,781**	30,298
— Current portion of club term loans *(Note (a))*	**2,456,100**	831,944
— Short-term commercial paper *(Note (c))*	**996,571**	—
— Senior notes *(Note (d))*	**—**	353,693
	5,102,288	3,003,197
Total borrowings	**26,294,754**	23,976,689

(a) In March 2010, the Group entered into a facility agreement with certain banks for a 3-year term loan facility (the "Club term loan"). As at 30 June 2012, the amount drawn under the Club term loan amounted to RMB2,456,100,000 (30 June 2011: RMB3,315,317,000). The Club term loan had been fully repaid subsequent to the Year end.

(b) On 8 December 2011, the Group issued a RMB1,100 million Medium-term note for a term of three years. The Medium-term note will be redeemed on 12 December 2014.

(c) On 6 December 2011, the Group issued a RMB1,000 million Short-term commercial paper for a term of one year. The Short-term commercial paper will be redeemed on 7 December 2012.

(d) On 16 August 2011, the Group redeemed all outstanding Senior notes due 2013 in full.

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

	30 June 2012				
	Bank and other borrowings	**Club term loan**	**Short-term commercial paper**	**Medium-term note**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Within 1 year	**1,649,617**	**2,456,100**	**996,571**	**—**	**5,102,288**
Between 1 and 2 years	**8,651,673**	**—**	**—**	**—**	**8,651,673**
Between 2 and 5 years	**9,763,115**	**—**	**—**	**1,090,419**	**10,853,534**
Over 5 years	**1,687,259**	**—**	**—**	**—**	**1,687,259**
	21,751,664	**2,456,100**	**996,571**	**1,090,419**	**26,294,754**

	30 June 2011			
	Bank and other borrowings	Club term loan	Senior notes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,817,560	831,944	353,693	3,003,197
Between 1 and 2 years	6,227,960	2,483,373	—	8,711,333
Between 2 and 5 years	9,261,795	—	—	9,261,795
Over 5 years	3,000,364	—	—	3,000,364
	20,307,679	3,315,317	353,693	23,976,689

14. TRADE AND BILLS PAYABLES

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**2,548,734**	972,736
Bills payable	**3,182,604**	1,338,486
	5,731,338	2,311,222

(a) As at 30 June 2012, the ageing analysis of trade payables is as follows:

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
0–90 days	**2,269,360**	887,051
91–180 days	**175,543**	58,603
181–365 days	**50,636**	15,030
Over 365 days	**53,195**	12,052
	2,548,734	972,736

15. COMMITMENTS

(a) Capital commitments

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

	30 June 2012	30 June 2011
	RMB'000	*RMB'000*
Contracted but not provided for		
Not later than one year	**1,138,257**	2,520,451
Later than one year and not later than five years	**223,716**	515,120
	1,361,973	3,035,571
Authorised but not contracted for		
Not later than one year	**—**	100,000
Later than one year and not later than five years	**—**	300,000
	—	400,000
	1,361,973	3,435,571

(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 2012	30 June 2011
	RMB'000	*RMB'000*
Not later than one year	**3,205**	2,760
Later than one year and not later than five years	**5,580**	7,273
Later than five years	**17,367**	18,088
	26,152	28,121

DIVIDENDS

An interim dividend of RMB2.0 cents (equivalent to approximately HK2.46 cents) (six months ended 30 June 2011: RMB2.0 cents) per share was paid to shareholders on 30 May 2012.

The Board has resolved to recommend the payment of a final dividend of RMB5.0 cents (equivalent to approximately HK6.1 cents) per share for FY2012. The proposed dividend is subject to the consideration and approval of the forthcoming annual general meeting. A separate announcement will be issued by the Company regarding the closure of register of members for the dividend entitlement. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.81815 as at 25 September 2012 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of Operations

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 recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.), pulp and specialty paper.

During the Year, economic conditions were extremely severe and complex both at home and abroad. The lingering European sovereign debt crisis has made the global market highly volatile, while the Chinese economy simultaneously faced challenges in various aspects due to impacts arising from the external environment, austerity policy and changes in economic modes. Weak consumption and a continuously low market for the paper manufacturing industry have exerted the greatest pressure on the Group's operations ever since its founding, undermining its profitability. Fortunately, leveraging upon its sizable scale and extensive experience of its management team, the Group operated cautiously in all aspects and drove product diversification, realizing a sound growth in sales volume and sales revenue, both breaking their historical records, notwithstanding the low market. The balance between sales and production and normal inventory levels were maintained. All paper machines were operating well and ran at nearly full capacity. During the Year, the Group strove to adjust its raw materials mix, exercise stringent control on its costs and capital expenditure and proactively increase efficiency. The Group also took advantage of the downward trend of interest rates to optimize its debt portfolio and improve its gearing ratio. While operating in a cautious manner, the Group also proactively implemented its strategic roadmap and persisted in the construction of high-quality new production facilities, thereby laying a solid foundation to capture the market recovery and expansion opportunities in future.

As at 30 June 2012, the total design production capacity of the Group was 11.45 million tpa, including seven paper machines that had completed construction or upgrading by the end of the previous financial year. These paper machines represent a total design production capacity of 2.63 million tpa. At present, these paper machines have all completed their optimization process. The new paper machines include PM27 for the production of coated duplex board, food grade and pharmaceutical grade white board and PM28 for the production of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) in Dongguan base, and PM31 for the production of testlinerboard and PM32 for the production of kraftlinerboard in Tianjin base. The upgraded paper machines include PM3 for the production of coated linerboard in Dongguan base, and PM20 for the production of coated linerboard and PM21 for the production of recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.) in Taicang base. They have created a more diversified product mix for the Group. The various new products produced by these paper machines were launched successfully in the market and were recognized and well-received by customers, except for coated linerboard which had not been able to meet the sales level as planned due to slowdown of the macro market. Hence, during the Year, the Group flexibly deployed the relevant production capacities to produce coated linerboard as well as other high-margin products (including high-end kraftlinerboard and coated duplex board, etc.) based on the prevailing market conditions, in order to ensure reasonable returns from the new production capacities. Although in the current grim macroeconomic environment some of these products have not been able to promptly realize their advantages of higher profitability, in the long run they will enable the Group's product portfolio to better materialize its profit potential and increase overall investment returns when the market recovers.

During the Year, the Group carried on the construction of a number of new paper machines and the two new bases located in Quanzhou and Shenyang, among which PM34 in Tianjin base has commenced production in July this year as planned and is now in smooth optimization process, adding an additional design production capacity of 550,000 tpa for coated duplex board, food grade and pharmaceutical grade white board products, and lifting the Group's total design production capacity to 12 million tpa. As these products are not produced locally in northern China and northeastern China, the products of this new paper machine are expected to gain local market penetration swiftly, thus expanding the market share of the Group.

Paper machines commenced production at the end of FY2011 and finished optimization during the Year

Paper machine	Location	Product	Design production capacity	Date of production commencement
PM27 (new)	Dongguan	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	June 2011
PM28 (new)	Dongguan	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	250,000 tpa	June 2011
PM31 (new)	Tianjin	Testlinerboard	400,000 tpa	June 2011
PM32 (new)	Tianjin	Kraftlinerboard	400,000 tpa	June 2011
PM3 (upgrade)	Dongguan	Coated linerboard	400,000 tpa	June 2011
PM20 (upgrade)	Taicang	Coated linerboard	430,000 tpa	June 2011
PM21 (upgrade)	Taicang	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	200,000 tpa	June 2011

Paper machines commenced production in 2012 and now under optimization

Paper machine	Location	Product	Design production capacity	Date of production commencement
PM34 (new)	Tianjin	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	July 2012

With an increasing production capacity scale, the Group continues to increase its purchase of recovered paper. In terms of domestic recovered paper purchase, approximately 23% of the Group's total purchase of recovered paper were sourced in China during the Year.

Business Strategy and Development Plans

Despite the slow market during the Year, the enormous consumption power in China continues to provide huge development potential for the paper manufacturing industry in the long run. With the new Quanzhou and Shenyang bases commencing production successively within two years, we shall have full coverage over the six key manufacturing hubs in China, namely the Pearl River Delta (Dongguan base), the Yangtze River Delta (Taicang base), the mid-western market (Chongqing base) , the Northern region (Tianjin base), the three provinces in northeastern China (Shenyang base) and the west coast of the Taiwan Strait (Quanzhou base). After its rapid growth in the past few years, the Group has successfully entered a stage of steady development. We shall continue to formulate our future business development plans based on the market supply and demand environment for each base and the Group's own resources, and continue to optimize our product portfolio while also considering expansion into paper types with market potential beyond packaging paperboard. In line with such increase in scale, the Group will be elevating its profitability progressively and reducing its debts.

Pursuant to the current capacity expansion plan, the Group expects to complete the construction and production commencement of a total of five new paper machines successively within two years. These new paper machines will be distributed in different bases to provide the product types to cater different needs of customers in these regions and fill the supply shortage in the local markets. PM33 in Chongqing base is expected to commence production by the end of November 2012, for the production of coated duplex board, food grade and pharmaceutical grade white board with a design production capacity of 550,000 tpa. The construction of PM35 and PM36 in the new Quanzhou base, primarily for the production of kraftlinerboard and testlinerboard respectively, with a design production capacity of 350,000 tpa and 300,000 tpa respectively, will also be completed and commence production by the end of June 2013. Meanwhile, the Group is also planning for PM39 in Leshan base with a design production capacity of 300,000 tpa. The machine will produce high performance corrugating medium for supplying to customers in the local market, using 100% local recovered paper as raw material. It is scheduled to commence production by the end of December 2013. On the other hand, commencement of production of PM37 in the new Shenyang base, primarily for the production of kraftlinerboard with a design production capacity of 350,000 tpa, has been postponed to the end of June 2014 in line with the latest market conditions. The construction and production commencement of the abovementioned new paper machines will further increase production capacity scale of the Group. By June 2014, it is expected that the Group's total production capacity will be close to 14 million tonnes, representing an increase of approximately another 21% from the total production capacity as at the end of June 2012. In addition, PM38 planned for the Shenyang base, with a production capacity of 350,000 tpa primarily for the production of testlinerboard, will have its production commencement postponed to before the end of December 2015.

Apart from the new bases and new paper machines above, the Group has no other plans for production capacity expansion at present.

Paper machines under construction and scheduled for completion of construction and production commencement in 2012

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM33	Chongqing	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	Before end of November

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

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM35	Quanzhou	Kraftlinerboard	350,000 tpa	Before end of June
PM36	Quanzhou	Testlinerboard	300,000 tpa	Before end of June
PM39	Leshan	High performance corrugating medium	300,000 tpa	Before end of December

Paper machines planned for completion of construction and production commencement in 2014

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM37	Shenyang	Kraftlinerboard	350,000 tpa	Before end of June

Paper machines planned for completion of construction and production commencement in 2015

Paper machine	Location	Product	Design production capacity	Scheduled completion date
PM38	Shenyang	Testlinerboard	350,000 tpa	Before end of December

Design production capacities of packaging paperboard and printing and writing paper of the Group's production bases in China in the next 2 years

(Breakdown by product category) *(million tpa)*	**June 2012**	**June 2013**	**June 2014**
Linerboard	6.13	6.78	7.13
Corrugating medium	3.10	3.10	3.40
Coated duplex board	1.50	2.60	2.60
Recycled printing and writing paper	0.45	0.45	0.45
Total	11.18	12.93	13.58

(Capacity mix by product category)	**June 2012**	**June 2013**	**June 2014**
Linerboard	54.9%	52.4%	52.5%
Corrugating medium	27.7%	24.0%	25.0%
Coated duplex board	13.4%	20.1%	19.2%
Recycled printing and writing paper	4.0%	3.5%	3.3%
Total	100.0%	100.0%	100.0%

(Distribution by location)

	June 2012	**June 2013**	**June 2014**
Dongguan	47.0%	40.6%	38.7%
Taicang	27.1%	23.4%	22.3%
Chongqing	7.1%	10.5%	9.9%
Tianjin	14.3%	16.6%	15.8%
Quanzhou	—	5.0%	4.8%
Shenyang	—	—	2.6%
Hebei Yongxin	4.5%	3.9%	3.7%
Leshan	—	—	2.2%
Total	100.0%	100.0%	100.0%

Number of paper machines for packaging paperboard and printing and writing paper in the Group's production bases in China in the next 2 years

(Distribution by location)

(No. of machines)	June 2012	June 2013	June 2014
Dongguan	15	15	15
Taicang	8	8	8
Chongqing	2	3	3
Tianjin	4	5	5
Quanzhou	—	2	2
Shenyang	—	—	1
Hebei Yongxin	2	2	2
Leshan	—	—	1
Total	31	35	37

Solid foundation in various resources

The Group has abundant human resources to meet the talent requirements in the course of its product diversification, increasing number of bases and expanding customer network. As at 30 June 2012, the Group employed approximately 18,500 full-time staff.

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 accommodate the Group's existing operations and prepare for future business development. As at 30 June 2012, the Group has secured land use rights for land plots aggregating 11.95 million sq.m.

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 1,373 MW, providing adequate and stable electricity power as well as the steam for use in the drying process in production.

Continuous commitment on environmental protection

Adhering to the philosophy of "no environment management, no paper-making", and in line with the relevant policy of continuing to intensify and implement the requirements on environmental protection, energy conservation and emission reduction under the "12th 5-Year Program", the Group persistently strengthens its efforts on environmental protection and energy conservation. In addition to substantial investment in environmental management facilities, the Group has also completed the building of an environmental management information system in all bases, achieving real-time monitoring on the operation of the environmental management facilities in each base, and continued to outperform the standards required by the government in every key environmental parameter. At the same time, the Group has erected large environmental information online monitoring screens outside its bases to reveal in real time the key environmental data to the public, thereby fully reflecting the transparency level that a listed company should demonstrate and the

Group's confidence in its environmental management, continuing to maintain its leading position in the industry. The Group has been granted with various environmental protection incentives by the government. In December 2011, the Group was awarded the title of "Environment-Friendly Enterprise in PRC Paper Manufacturing Industry (中國造紙工業環境友好企業)" by China Paper Association.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB27,169.7 million for FY2012, representing an increase of approximately 11.4% 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 96.3% of the revenue, with the remaining revenue of approximately 3.7% generated from its recycled printing and writing paper, pulp and high value specialty paper products business.

The Group's revenue for FY2012 increased by approximately 11.4% as compared with the last financial year, mainly contributed by increase in sales volume of its packaging paperboard products and recycled printing and writing paper. Revenue of linerboard, high performance corrugating medium, coated duplex board and recycled printing and writing paper for FY2012 accounted for approximately 52.7%, 27.2%, 16.4% and 2.7% respectively of the total revenue, compared to 54.9%, 29.1%, 14.5% and 0% respectively in the last financial year.

The Group's design production capacity in packaging paperboard and recycled printing and writing paper as at 30 June 2012 was 11.3 million tpa, comprising 6.2 million tpa of linerboard, 3.1 million tpa of high performance corrugating medium, 1.5 million tpa of coated duplex board and 0.5 million tpa of recycled printing and writing paper. In FY2012, the Group's total sales volume of packaging paperboard products and recycled printing and writing paper reached approximately 8.9 million tonnes, representing an increase of approximately 17.1% as compared to the last financial year. The increase of sales volume of packaging paperboard and recycled printing and writing paper was supported by the contribution from the newly introduced PM27 and PM28 in Dongguan and PM31 and PM32 in Tianjin, which commenced their commercial operation in January 2012, and the completion of the upgrade of PM3 in Dongguan and PM20 and PM21 in Taicang during FY2012.

The sales volume of linerboard, high performance corrugating medium and coated duplex board for FY2012 increased by approximately 13.5%, 7.1% and 41.5% respectively, while recycled printing and writing paper was the first year launched product of the Group.

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 FY2012, revenue related to domestic consumption represented approximately 89.2% of the Group's total revenue, while the remaining revenue of approximately 10.8% are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises.

In FY2012, sales to the Group's top five customers in aggregate accounted for approximately 4.5% (FY2011: 4.3%) of the Group's revenue, with that to the single largest customer accounted for approximately 1.3% (FY2011: 1.3%).

Gross profit

The gross profit for FY2012 was approximately RMB4,337.4 million, a slight increase of approximately RMB110.6 million or increased by approximately 2.6% as compared with RMB4,226.8 million in the last financial year. The gross profit margin decreased from approximately 17.3% in FY2011 to approximately 16.0% in FY2012. The decrease in gross profit margin was mainly impacted by the decrease in average product costs outweighed by the drop in average selling prices in FY2012.

Selling and marketing costs

Selling and marketing costs were approximately RMB667.9 million in FY2012, increased by approximately 26.9% as compared with RMB526.4 million in FY2011. The total amount of selling and marketing costs as a percentage of the Group's revenue increased from 2.2% in the last financial year to approximately 2.5% in FY2012, which was due to more geographical coverage in FY2012.

Administrative expenses

Administrative expenses slightly increased by approximately 5.5% from RMB627.5 million in the last financial year to approximately RMB662.2 million in FY2012. The amount of administrative expenses as a percentage of group revenue decreased slightly from 2.6% in the last financial year to approximately 2.4% in FY2012, which was achieved by cost efficiency with the increase in the Group's scale of operations.

Operating profit

The operating profit for FY2012 was approximately RMB3,070.0 million, a slight decrease by approximately 2.8% over the last financial year. The operating profit margin decreased from 13.0% in FY2011 to approximately 11.3% in FY2012 due to the gross profit margin decreased from 17.3% in FY2011 to approximately 16.0% in FY2012.

Finance costs

Finance costs increased by approximately 55.9% to approximately RMB1,208.6 million in FY2012 from RMB775.2 million in the last financial year. The increase was mainly due to the net result of the increase in interest expenses caused by the higher effective interest rate under the tightened credit policies in China in FY2012, and total borrowings were raised from RMB23,976.7 million as at 30 June 2011 to approximately RMB26,294.8 million as at 30 June 2012 to fund the expansion of production capacity, and offset by the increase in net exchange gain on financing activities derived by loans denominated in foreign currencies upon appreciation of RMB in FY2012.

Income Taxation

Income tax charged for FY2012 amounted to approximately RMB449.5 million and increased by approximately RMB60.8 million as compared with the last financial year.

The Group's average effective tax rate increased from 16.2% in FY2011 to approximately 23.6% in FY2012. The increase in effective tax rate was mainly due to the significant increase in deferred income tax expense by 58.2% from RMB141.6 million in FY2011 to RMB224.0 million in FY2012, caused by the additional depreciation from those 4 new launched and 3 upgraded PMs.

Net profit

The profit attributable to the equity holders of the Company in FY2012 was approximately RMB1,420.2 million, representing an decrease of approximately RMB547.7 million, or decreased by approximately 27.8% over the last financial year. The decrease was mainly due to the increase in finance costs by approximately RMB433.4 million. The profit attributable to the equity holders of the Company margin decreased from 8.1% in FY2011 to approximately 5.2% in FY2012.

Dividend

In FY2012, the Group paid an interim dividend of RMB2.0 cents per share, which amounted RMB93.3 million. The directors have proposed a final dividend of RMB5.0 cents per share, which will aggregate approximately RMB233.1 million. The total dividend for the FY2012 amounted to RMB7.0 cents per share, representing an decrease of RMB3.0 cents per share as compared with the last financial year. The pay out ratio has also decreased from 23.7% in the last financial year to 23.0% in FY2012.

Working capital

The inventories increased by approximately RMB1,638.3 million for FY2012 and amounted to approximately RMB4,195.9 million as at 30 June 2012, representing an increase of approximately 64.1% from that of the last financial year. Inventories mainly comprise raw materials (mainly recovered paper, spare parts and coal) of approximately RMB2,947.7 million and finished goods of approximately RMB1,248.2 million.

The raw materials increased by approximately 146.9% to approximately RMB2,947.7 million in FY2012 from RMB1,194.0 million in the last financial year. The increase in raw materials balances was as a result of storing a certain amount of raw materials for deployment by increased production capacity and spare parts of PMs for repair and maintenance purpose.

The finished goods slightly decreased by approximately 8.5% to approximately RMB1,248.2 million in FY2012 from RMB1,363.5 million in the last financial year.

As a result, during FY2012, raw material (excluding spare parts) turnover days increased to approximately 27 days as compared to 15 days for FY2011 while the finished goods turnover days decreased to approximately 20 days as compared to 24 days for FY2011.

Trade and bills receivables decreased by approximately RMB581.7 million for FY2012 and amounted to approximately RMB2,920.8 million, representing a decrease of approximately 16.6% from that of the last financial year. During FY2012, the turnover days of trade and bills receivables were approximately 39 days for FY2012 as compared to 52 days for FY2011. This was in line with credit terms of 30 days to 60 days granted by the Group to its customers.

Trade and bills payables increased by approximately RMB3,420.1 million for FY2012 and amounted to approximately RMB5,731.3 million from RMB2,311.2 million in FY2011. The turnover days of trade and bills payable were approximately 92 days for FY2012 which 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 FY2012 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 generated from operating activities increased from RMB2,902.2 million in FY2011 to approximately RMB4,020.7 million in FY2012, representing an increase of approximately 38.5%. The increase was attributable primarily to the changes in working capital, mainly due to the net result of the increase in trade and other payable and inventories. In terms of available financial resources as at 30 June 2012, the Group had total undrawn banking facilities of approximately RMB21,339.6 million and cash and cash equivalents and restricted cash of approximately RMB4,368.2 million.

As at 30 June 2012, the shareholders' funds were approximately RMB21,550.5 million, an increase of approximately RMB950.8 million from that of the last financial year. The shareholders' fund per share increased by approximately 4.5% from RMB4.42 to approximately RMB4.62.

Debts Management

The Group's outstanding borrowings increased by approximately RMB2,318.1 million from RMB23,976.7 million as at 30 June 2011 to approximately RMB26,294.8 million as at 30 June 2012. The short-term and long-term borrowings amounted to approximately RMB5,102.3 million and approximately RMB21,192.5 million respectively, accounting for approximately 19.4% and approximately 80.6% of the total borrowings respectively. As at 30 June 2012, about 97.5% of the Group's debts were on unsecured basis.

The net debt to total equity ratio of the Group decreased from 101.7% as at 30 June 2011 to approximately 99.7% as at 30 June 2012.

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 2012, total foreign currency borrowings amounted to the equivalent of approximately RMB7,173.7 million and loans denominated in RMB amounted to approximately RMB19,121.1 million, representing approximately 27.3% and 72.7% of the Group's borrowings respectively.

Cost of borrowing

Average borrowing cost as at 30 June 2012 were approximately 5.6% and 5.0% per annum as compared to 5.2% and 4.2% per annum as at 30 June 2011 for long-term borrowings and short-term borrowings respectively. The gross interest and finance charges (including interest capitalised and exchange gains on financing activities but before interest income and impact from derivative financial instruments) increased to approximately RMB1,728.9 million in FY2012 from RMB1,249.7 million in FY2011.

Capital expenditures

For FY2012, the Group invested approximately RMB4,287.1 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 RMB1,362.0 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 FY2012, the Group had no material contingent liabilities.

Event occurring after the balance sheet date

On 14 August 2012, the Group entered into a facility agreement with a bank for a term loan to the extent of US$350,000,000, of which US$100,000,000 was for a term of 1 year and US$250,000,000 was for a term of 3 years. All these facilities were drawn by the Group in August 2012 and used to repay the Club term loan in September 2012 (Note 13(a)).

OUTLOOK

Looking into the future, it is expected that the global economy will continue to be volatile in the second half of 2012, while China will adopt a prudent approach in the easing of austerity measures. Hence the Group will continue to operate in a cautious and conservative manner in the short run. However, a combined assessment of the trend of raw material prices and the current industry conditions makes the Group believe that the industry has now reached the bottom of the market, and is forecast to rebound gradually when entering into 2013. With its efforts in actively expanding production capacity in the past few years, the Group will be able to outperform industry peers in various aspects, such as product diversity, market share, customer network and all kinds of resources. These will significantly strengthen its competitive advantages in the long run, building a broader and more solid platform for future growth of the Group's sales and profitability. Meanwhile, it is expected that interest rates in Mainland China may be lowered gradually and bank reserves may be relaxed, bringing more room for the Group to optimize its debt portfolio, which may enable the Group to progressively improve its debt ratios and finance costs year by year, bringing better investment returns to our shareholders.

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 FY2012.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The audit committee, which comprises four independent non-executive directors, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the consolidated financial statements of the Company and its subsidiary companies for FY2012, with the directors and the Company's auditor, PricewaterhouseCoopers.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During FY2012, the Group has complied with all the code provisions of the Code on Corporate Governance Practices, which was revised and renamed as Corporate Governance Code on 1 April 2012, contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the period from 1 July 2011 to 31 March 2012 and of the Corporate Governance Code for the period from 1 April 2012 to 30 June 2012.

Detailed information of the Company's corporate governance practices as set out in the corporate governance report will be included in the Company's annual report to be despatched to the shareholders in due course.

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 FY2012, they were in compliance with provisions of the Model Code.

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. Lau Chun Shun
Mr. Zhang Yuanfu
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, 25 September 2012