玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

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RECYCLED PAPER

Annual Report 2011/2012

* For identification purposes only

Contents

Contents printed on Land Dragon 100% Recycled Fiber Offset Paper

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung *(Deputy Chairman and Chief Executive Officer)*
Mr. Zhang Cheng Fei *(Deputy Chief Executive Officer)*
Mr. Lau Chun Shun
Mr. Zhang Yuanfu *(Chief Financial Officer)*
Ms. Gao Jing

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

AUDIT COMMITTEE

Dr. Cheng Chi Pang *(Chairman)*
Ms. Tam Wai Chu, Maria *GBS, JP*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Mr. Wang Hong Bo

REMUNERATION COMMITTEE

Ms. Tam Wai Chu, Maria *GBS, JP (Chairlady)*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Mr. Cheng Chi Pang
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Ms. Cheung Yan *(Chairlady)*
Mr. Zhang Cheng Fei
Ms. Tam Wai Chu, Maria *GBS, JP*
Mr. Chung Shui Ming, Timpson *GBS, JP*
Mr. Cheng Chi Pang

AUTHORISED REPRESENTATIVES

Mr. Zhang Cheng Fei
Ms. Cheng Wai Chu, Judy *ACS, ACIS*

COMPANY SECRETARY

Ms. Cheng Wai Chu, Judy *ACS, ACIS*

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

HONG KONG OFFICE

Room 3129, 31/F.,
Sun Hung Kai Centre,
30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

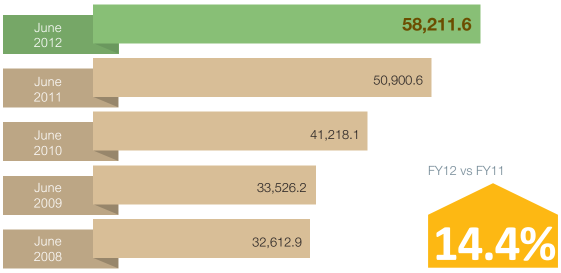
Conyers Dill & Pearman (Bermuda)
Zhong Lun Law Firm (PRC)
Sidley Austin (Hong Kong)

PRINCIPAL BANKERS

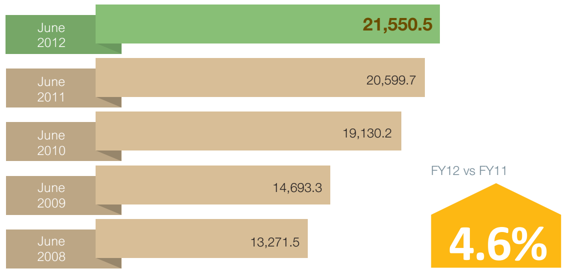
Bank of China
Bank of China (Hong Kong)
Bank of Communications
China Development Bank
Agricultural Bank of China
China Merchants Bank

Financial Highlights

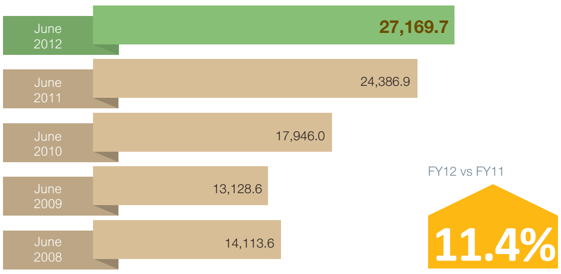
Total assets RMB million



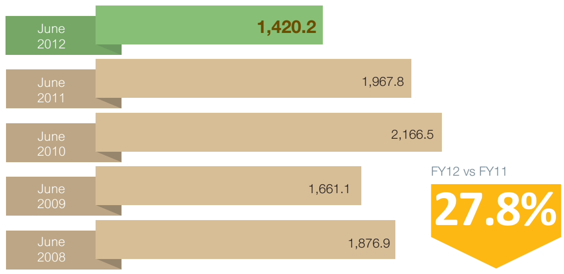
Shareholder's fund RMB million



Sales RMB million



Profit attributable to Company's equity holders RMB million



For the year ended 30 June	2012	2011	Change
Operating results (RMB million)			
Sales	27,169.7	24,386.9	11.4%
Gross profit	4,337.4	4,226.8	2.6%
Operating profit	3,070.0	3,157.7	(2.8%)
Profit before taxation	1,908.1	2,403.7	(20.6%)
Profit attributable to Company's equity holders	1,420.2	1,967.8	(27.8%)
Financial position (RMB million)			
Net cash generated from operating activities	4,020.7	2,902.2	38.5%
Net debt	21,926.5	21,379.0	2.6%
Shareholders' funds	21,550.5	20,599.7	4.6%
Per share data (RMB cents)			
Earnings per share — basic	30.46	42.27	(27.9%)
Earnings per share — diluted	30.44	42.17	(27.8%)
Dividend per share			
— Interim	2.00	2.00	—
— Final	5.00	8.00	(37.5%)
Other data (RMB million)			
Capital expenditures	4,287.1	8,378.3	(48.8%)
Key ratios (%)			
Gross profit margin	16.0	17.3	(1.3 pts)
Operating profit margin	11.3	13.0	(1.7 pts)
Net profit margin	5.2	8.1	(2.9 pts)
EBITDA/ratio	17.1	17.1	—
Return on capital employed	4.9	5.9	(1.0 pts)

- Group revenue increased by 11.4% to RMB27,169.7 million
- Profit attributable to equity holders of the Company decreased by 27.8% to RMB1,420.2 million
- Net profit margin less 2.9 percentage points to 5.2%

Main Products

1. LINERBOARD CATEGORY

1) Kraftlinerboard

Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

2) Testlinerboard

Testlinerboard is made of 100% recovered paper. It meets certain customers' requirements for lower cost and environmentally friendly purposes. The Group classifies different classes of products into Land Dragon kraftlinerboard, Sea Dragon testlinerboard and Land Dragon testlinerboard so as to cater to the different needs of the customers.

3) White Top Linerboard

White top linerboard is a three-ply sheet of which the surface layer is bleached, and caters to customers that require a white surface for appearance or superior printability. The Group classifies different classes of products into Nine Dragons and Sea Dragon so as to cater to the different needs of the customers.

4) Coated Linerboard

Coated linerboard is a four-ply sheet of which the surface layer is coated on bleached kraft pulp. It possesses the characteristics of high performance (as that of kraftlinerboard) and high printability (as that of coated duplex board), which can replace the traditional coated duplex board.

2. HIGH PERFORMANCE CORRUGATING MEDIUM

Compared to standard corrugating medium, high performance corrugating medium, which undergoes surface sizing, achieves superior strength and physical properties for the same basis weight, which reduces packaging weight, bulk and the amount of material used, allowing customers to save on shipping costs. The Group offers high performance corrugating medium ranging from 50–180g/m^2, of which light weight high performance corrugating medium of 50, 60 and 70 g/m^2 are at a leading position in the industry. High performance corrugating medium satisfies the needs of the customers for different classes and weights. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

3. COATED DUPLEX BOARD

Coated duplex board is a type of boxboard with a glossy coated surface on one side for superior printability. This product is typically used as packaging material for small boxes that require high quality printability, such as consumer electronic products, cosmetics or other consumer merchandise. It can also be used in combination with high performance corrugating medium and linerboard for the outer layer of corrugated board. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

4. WHITE BOARD

White board is a type of boxboard with a glossy coated surface layer and a bottom layer in bleached kraft pulp. This product is widely used in cigarettes and food product packaging, medicines, cosmetics and carrying bags.

5. PRINTING AND WRITING PAPER CATEGORY

1) Uncoated Woodfree Paper

Uncoated woodfree paper is suitable for printing books, teaching materials, magazines, notebooks and colour pictures. The Group offers high quality uncoated woodfree paper of 55–140g/m. This product has passed FSC certification. The Group classifies different classes of products into Nine Dragons, Sea Dragon and Land Dragon so as to cater to the different needs of the customers.

2) Office Paper

Office paper is suitable for colour printing and copying, colour inkjet and digital printing, high-speed black and white printing and copying for office uses. The surface of this product is processed with special technologies, minimizing the wear of office equipments. It has passed FSC certification. The 100% recycled fiber multi-function office paper under the Nine Dragons brand is made of 100% recovered paper and is more environmentally friendly.

Chairlady's Statement

Dear Shareholders,

On behalf of Nine Dragons Paper (Holdings) Limited and its subsidiaries, I hereby present the annual results for the twelve months ended 30 June 2012. On behalf of the Board, I would also like to express my heartfelt gratitude to all shareholders and friends from various communities for their care extended to the development of the Group.

The industry has now reached the bottom of the market, and it is forecast to rebound gradually when entering into 2013.

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 volatile, while the Chinese economy 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, amid the market downturn, the Group operated cautiously in all aspects, proactively implemented its strategic roadmap and drove product diversification, realizing a sound growth in sales volume. 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 focused on adjusting its raw material mix and optimizing its production cost structure, and has exercised stringent control on its costs and capital expenditure. 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 persisted in the construction of high-quality new production facilities, thereby laying a solid foundation to capture the market recovery and expansion opportunities in the future.

During the Year, the Group's sales volume once again reached a record high of 8.90 million tonnes. Sales of the Group amounted to approximately RMB27.2 billion, representing an increase of approximately 11.4% as compared with the corresponding period last year. Gross profit amounted to approximately RMB4.3 billion, representing an increase of approximately 2.6% as compared with the corresponding period last year. Profit attributable to equity holders amounted to approximately RMB1.4 billion, with basic earnings per share at approximately RMB0.3. The Board has recommended the distribution of a final dividend of RMB5 cents per share.

As at 30 June 2012, the total design production capacity of the Group reached 11.45 million tpa, including seven paper machines that had completed construction or upgrading by the end of 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, resulting in a more diversified product mix for the Group. The various new products were launched successfully in the market and were recognized and well-received by customers. Although in the current grim macroeconomic environment some of these products have not been able to promptly realize their advantages of higher profitability, they will enable the Group's product portfolio to better materialize its profit potential and increase 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 as planned, among which PM34 in Tianjin base has commenced production in July this year as scheduled 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.

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 was sourced in China during the Year.

Adhering to the philosophy of "no environmental 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

Chairlady's Statement

conservation. The Group has outperformed the standards required by the government in every key environmental parameter, and has been granted with various incentives by the government, maintaining its leading position in the industry. Under a difficult market condition and even more stringent requirements in environmental policy, it is expected that more small-to-medium production capacities will be eliminated, which in turn will be beneficial to the Group in strengthening its competitive advantages.

In the aspect of capital management, as most of the new production capacity under the current stage of expansion plan has been completed and commenced production, capital expenditure has come down. As at 30 June 2012, the net debt to total equity ratio of the Group has decreased to 99.7%, which is expected to continue to improve year by year in the future. The Group has always maintained excellent relationship with the banks as well as a robust financial position, providing strong funding support to its future business development. 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 and effectively reduce its finance costs.

Outlook and Acknowledgement

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 me believe that the industry has now reached the bottom of the market, and it is forecast to rebound gradually when entering into 2013. With the Group's efforts in active production capacity expansion in the past few years, it will be able to further improve its operating results in various aspects, such as sales, market share and profit.

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. They will all be completed by 2014. These paper machines include PM33 in Chongqing base for the production of coated duplex board, food grade and pharmaceutical grade white board, with a design production capacity of 550,000 tpa, and PM35 and PM36 in the new Quanzhou base and PM37 in the new Shenyang base for the production of linerboard products, with a total design production capacity of 1 million tpa. Leshan base will also enter the packaging paper market with the plan for PM39 with a design production capacity of 300,000 tpa for the production of high performance corrugating medium. The construction completion and production commencement of these five new paper machines will further enlarge the Group's production capacity scale. By 2014, it is expected that the Group's total production capacity scale will be close to 14 million tpa, representing an increase of approximately another 21% from the total annual production capacity as at 30 June 2012. Apart from the five new paper machines mentioned above, by 2015, with PM38 in the new Shenyang base planned to commence production by the end of the year, the Group's total production capacity will exceed 14 million tpa.

After rapid growth in the past few years, the Group has successfully stepped into a stage of steady development. We shall continue to formulate our future business expansion 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 considering expansion beyond packaging paperboard into other paper types with market potential.

In line with such increase in scale, the Group will endeavour to elevate its profitability progressively and reduce its debts, striving for better long-term investment return for its shareholders. On behalf of all members of the Board, I would like to take this opportunity to express my heartfelt gratitude to the management and all the staff for their dedication to and the trust they have bestowed on ND Paper, as well as my appreciation for governments at all levels, investors, banks and business partners who have been supporting the Group all along.

Cheung Yan
Chairlady

Hong Kong, 25 September 2012

Chairlady's Statement

The Nine Dragons Culture: Respect and care for our staff; Refinement and innovation in management; Perpetuating a brand that thrives for a century; Propagating the spirit of diligence.

Chief Executive Officer's Operation Review and Outlook

Dear Shareholders,

I hereby present the Group's operation review for the Year and outlook.

Exercising stringent control on costs and capital expenditure, enhancing efficiency proactively and maintaining sound sales growth.

Chief Executive Officer's Operation Review and Outlook

Operation Review

During the Year, customers tended to be conservative under the difficult macroeconomic environment, causing pressure to the Group's product prices and affected its profitability. However, leveraging upon its sizable scale and extensive experiences of its operation team, the Group strived to improve its own operation and management in the time of market downturn by exercising stringent control on its costs and capital expenditure, enhancing efficiency proactively and maintaining sound sales growth. Revenue of the Group amounted to RMB27.2 billion for the Year, representing a year-on-year increase of approximately 11% over FY2011. During this period, total sales volume of packaging paper and printing and writing paper was approximately 8.9 million tonnes, including approximately 4.7 million tonnes of linerboard, approximately 2.7 million tonnes of high performance corrugating medium, approximately 1.3 million tonnes of coated duplex board and approximately 0.2 million tonnes of printing and writing paper, generating a revenue contribution of approximately RMB26.9 billion to the Group. The optimization of seven new or upgraded paper machines, which have commenced production at the end of FY2011, has been completed smoothly during the Year. These paper machines have gradually progressed to stable operating conditions. They have achieved a total sales volume of approximately 1.1 million tonnes during the process of optimization. Accordingly, all production capacities of the Group achieved a total sales result of 10 million tonnes during the Year, reaching a historical high.

The abovementioned 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. Their total design production capacity amounted to 2.63 million tpa. Among the various new products produced by these paper machines, coated linerboard 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.

PM34 in Tianjin base with a design production capacity of 550,000 tpa has commenced production successfully in July 2012 and is now in the process of optimization. This paper machine produces coated duplex board, food grade and pharmaceutical grade white board. 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.

During the Year, the Group continued to keep its inventories, accounts receivable and payable at healthy and normal levels and maintained excellent cooperative relationship with the banks, enabling the Group to have adequate cash and credit facilities for its operations and project development needs. The Group also explored financing channels proactively to diversify its debt portfolio and reduce finance costs. Such efforts include the issue of Medium-Term Note of RMB1.1 billion and Short-Term Commercial Paper of RMB1 billion in December 2011. As at 30 June 2012, the Group had bank and cash balances of approximately RMB4.4 billion and undrawn bank credit facilities of RMB21.3 billion. The total borrowings to total asset ratio was approximately 45.2%. The Group's gearing has started to come down and is expected to improve progressively year by year in the future. Meanwhile, the Group will continue to optimize its debt portfolio, including the plans to further issue Medium-Term Note and Short-Term Commercial Paper in FY2013 for an aggregate amount of RMB6.3 billion, so as to further reduce its finance costs.

In terms of environmental protection and emission reduction, the Group has completed the building of an environmental management information system, 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 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. In December 2011, the Group was awarded the title of "Environmentally Friendly Enterprise in PRC Paper Manufacturing Industry (中國造紙工業環境友好企業)" by China Paper Association.

To be in line with the directions in market development and to continually enhance operational efficiency, so as to maintain its leadership position in the industry, the Group drives innovation in the various aspects of products, technology and management, etc. The Group has hitherto obtained 38 patents, and another 34 patent applications or approval are being processed. During the year, the "New and High Tech Enterprise" qualification continued to be maintained at both the Dongguan base and Taicang base.

Outlook

During the Year, the Group has stepped into a stage of steady development. 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 also plans 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, in the new Shenyang base, production commencement of PM37, primarily for the production of kraftlinerboard with a design production capacity of 350,000 tpa, has been postponed to before the end of June 2014, in line with the latest market conditions, while production commencement of the originally planned PM38, primarily for the production of testlinerboard with a design production capacity of 350,000 tpa, will be postponed to before the end of December 2015.

Despite the unsatisfactory market conditions 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, the Yangtze River Delta, the mid-western region, the northern market, the three provinces in northeastern China and the west coast of the Taiwan Strait. We shall outperform our industry peers in terms of product diversity, customer network and all kinds of resources. These will greatly strengthen the long-term competitive advantages of the Group, building up a more enormous and more solid platform for the growth of the Group's sales and profit in future.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 25 September 2012

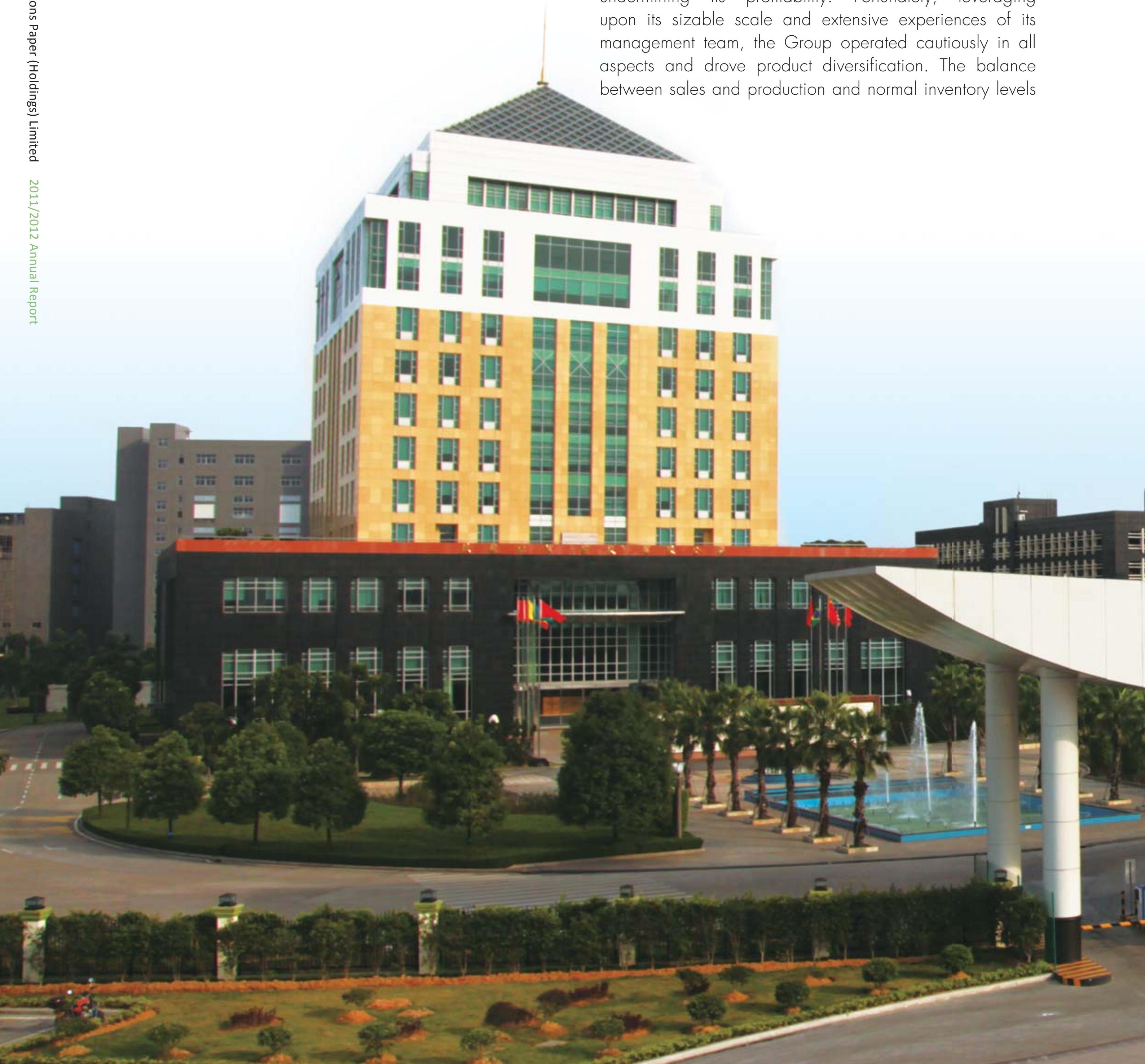
Management Discussion and Analysis

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.

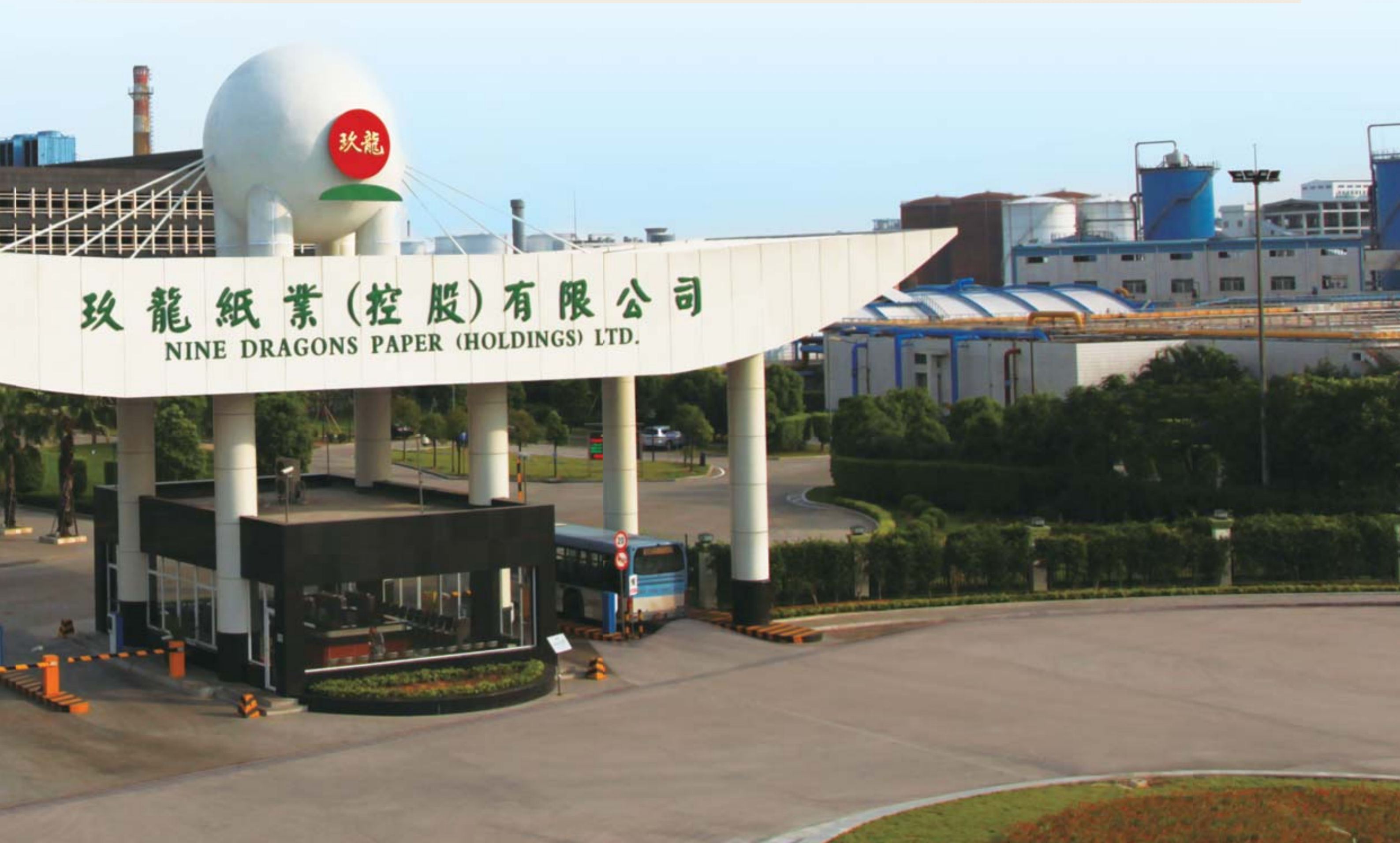
During the Year, economic conditions were extremely severe and complex both at home and abroad. The lingering European sovereign debt crisis has made the global market volatile, while the Chinese economy simultaneously faced challenges in various aspects due to impacts arising from the external environment, 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 experiences of its management team, the Group operated cautiously in all aspects and drove product diversification. 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 in all aspects, 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, the same production capacity scale as that at the end of the previous financial year. Nevertheless, this included the seven paper machines which had just completed their construction or upgrading at the end of the previous financial year. These paper machines represent a total design production capacity of 2.63 million tpa and have all completed their optimization process during the Year. As a result, although the production capacity scale did not increase, with the contribution of these paper machines after optimization, sales volume for the Year has increased by approximately 16% as compared to the previous financial year, breaking the Group's sales record.

The balance between sales and production and normal inventory levels were maintained. All paper machines were operating well and ran at nearly full capacity.



Management Discussion and Analysis

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 high value 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 as planned, among which PM34 in Tianjin base has commenced production in July this year as scheduled 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

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 region (Chongqing base), the Northern market (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 beyond packaging paperboard into other paper types with market potential. 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 also plans 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

Management Discussion and Analysis

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 enlarge the Group's production capacity scale. 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%

Management Discussion and Analysis

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. Expenses related to employees (including directors' emoluments) for the Year amounted to approximately RMB1.05 billion. The Group continued to have OHSAS18001 certification for its occupational health and safety management system.

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.

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 bases. The pier in Taicang base is capable of receiving oceangoing vessels of up to 50,000 tonnes, 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.

Continuous commitment on environmental protection

Adhering to the philosophy of "no environmental 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 each base, achieving real-time monitoring on the operation of the environmental management facilities, 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 at 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 "Environmentally Friendly Enterprise in PRC Paper Manufacturing Industry (中國造紙工業環境友好企業)" by China Paper Association. The Group continued to obtain ISO14001 environmental management certification during the Year.

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 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.

Management Discussion and Analysis

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.

The Group in the Last Five Years

In millions of RMB

	For the year ended 30 June				
Consolidated Income Statement	**2012**	2011	2010	2009	2008
Sales	**27,169.7**	24,386.9	17,946.0	13,128.6	14,113.6
Cost of goods sold	**(22,832.3)**	(20,160.1)	(14,033.4)	(10,687.1)	(11,241.3)
Gross profit	**4,337.4**	4,226.8	3,912.6	2,441.5	2,872.3
Other income/(expenses) and other gains/(losses), net	**62.7**	84.7	33.6	(3.8)	218.2
Selling and marketing costs	**(667.9)**	(526.4)	(355.1)	(382.7)	(335.5)
Administrative expenses	**(662.2)**	(627.4)	(479.9)	(320.9)	(499.7)
Operating profit	**3,070.0**	3,157.7	3,111.2	1,734.1	2,255.3
Gain on repurchase of senior notes	**–**	–	–	594.0	–
Finance income	**46.7**	21.3	8.8	10.8	10.6
Finance costs	**(1,208.6)**	(775.2)	(541.1)	(502.1)	(101.9)
Profit before income tax	**1,908.1**	2,403.8	2,578.9	1,836.8	2,164.0
Income tax expense	**(449.5)**	(388.7)	(359.3)	(175.5)	(263.2)
Profit for the year	**1,458.6**	2,015.1	2,219.6	1,661.3	1,900.8
Profit attributable to:					
Equity holders of the Company	**1,420.2**	1,967.8	2,166.5	1,661.1	1,876.9
Non-controlling interests	**38.4**	47.3	53.1	0.2	23.9

	For the year ended 30 June				
Consolidated Statement of Cash Flows	**2012**	2011	2010	2009	2008
Net cash generated from/(used in) operating activities	**4,020.7**	2,902.2	(81.1)	3,929.3	1,395.8
Net cash used in investing activities	**(4,228.0)**	(8,835.8)	(4,320.2)	(3,739.3)	(9,809.4)
Net cash generated from/(used in) financing activities	**2,089.3**	6,128.7	5,253.1	(236.4)	8,270.2
Net increase/(decrease) in cash and cash equivalents	**1,882.0**	195.1	851.8	(46.4)	(143.4)

Management Discussion and Analysis

In millions of RMB

	As at 30 June				
Consolidated Balance Sheet	**2012**	2011	2010	2009	2008
Total assets	**58,211.6**	50,900.6	41,218.1	33,526.2	32,612.9
Inventories	**4,195.9**	2,557.6	3,765.0	1,500.9	2,818.5
Trade and bills receivables	**2,920.8**	3,502.5	2,549.1	1,378.0	1,940.9
Other receivables and prepayments	**2,534.6**	1,805.4	836.7	662.3	911.3
Tax recoverable	**18.7**	42.2	29.7	–	–
Derivative financial instruments	**–**	–	–	0.4	–
Cash and cash equivalents and restricted cash	**4,368.2**	2,597.7	2,341.0	1,552.7	1,956.0
Total current assets	**14,038.2**	10,505.4	9,521.5	5,094.3	7,626.7
Property, plant and equipment	**42,360.5**	38,628.2	30,157.5	27,011.4	23,536.6
Land use rights	**1,557.6**	1,515.5	1,299.6	1,185.8	1,185.4
Intangible assets	**230.3**	234.8	239.5	234.7	238.3
Derivative financial instruments	**–**	–	–	–	25.9
Deferred income tax assets	**25.0**	16.7	–	–	–
Total non-current assets	**44,173.4**	40,395.2	31,696.6	28,431.9	24,986.2
Total liabilities	**36,229.9**	29,880.0	21,841.4	18,633.9	19,067.8
Trade and bills payables	**5,731.3**	2,311.2	2,452.7	1,924.0	2,286.5
Other payables and deposits received	**2,710.3**	2,492.6	1,835.9	1,750.4	1,552.3
Current income tax liabilities	**287.6**	194.2	173.1	161.3	72.4
Derivative financial instruments	**–**	–	1.9	–	1.7
Short-term borrowings	**5,102.3**	3,003.2	2,055.6	1,103.2	2,295.5
Total current liabilities	**13,831.5**	8,001.2	6,519.2	4,938.9	6,208.4
Long-term borrowings	**21,192.5**	20,973.5	14,604.1	12,724.5	12,389.9
Deferred income tax liabilities	**1,137.5**	905.3	710.9	558.7	452.4
Other payables	**55.4**	–	–	397.9	–
Deferred government grants	**13.0**	–	7.2	13.9	17.1
Total non-current liabilities	**22,398.4**	21,878.8	15,322.2	13,695.0	12,859.4
Net current assets	**206.7**	2,504.2	3,002.3	155.4	1,418.3
Total assets less current liabilities	**44,380.1**	42,899.4	34,698.9	28,587.3	26,404.5
Capital and reserves attributable to equity holders of the Company	**21,550.5**	20,599.7	19,130.2	14,693.3	13,271.5
Non-controlling interests	**431.2**	420.9	246.5	199.0	273.6

The Company strives to attain and maintain the highest standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safe guarding interests of shareholders and other stakeholders. The Company has accordingly adopted sound corporate governance principles that emphasis a quality Board, effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

The Board has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules. In October 2011, the Stock Exchange published its consultation conclusions on the review of the CG Code (renamed as the Corporate Governance Code (the "Revised CG Code")) and associated Listing Rules (the "Revised Listing Rules") setting out the amendments that are to be made in 2012. The Board has reviewed the Revised CG Code and the Revised Listing Rules and their impact to the Company and taken measures to comply with the Revised CG Code and the Revised Listing Rules.

During FY2012, the Company has complied with all code provisions as set out in the CG Code for the period from 1 July 2011 to 31 March 2012 and the Revised CG Code for the period from 1 April 2012 to 30 June 2012.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all Directors, who have confirmed that, during the Year, they were in compliance with provisions of the Model Code.

BOARD

As the date of this Annual Report, the Board comprised ten Directors, including six executive Directors and four INEDs. Ms. Cheung is the spouse of Mr. Liu while Mr. Zhang is a brother of Ms. Cheung. Mr. Lau Chun Shun is the son of Ms. Cheung and Mr. Liu and a nephew of Mr. Zhang. Save as disclosed above, the Board members have no financial, business, family or other material/relevant relationship with each other.

The Board is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are:

- formulating the long-term strategies of the Group and supervising their implementation;
- reviewing and approving, if thought fit, the business plans and financial budgets of the Group;
- approving, if thought fit, the annual and interim results of the Group;
- reviewing and supervising the risk management and internal control of the Group;
- ensuring a high standard of corporate governance and compliance; and
- overseeing the performance of the management.

Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the Chief Executive Officer. A Director who considers a need for independent professional advice in order to perform his/her duties as a Director may convene, or request the Company Secretary to convene a meeting of the Board to approve the seeking or independent legal or other professional advice.

All Directors are appointed for a specific term. In accordance with the Company's Bye-laws, at each annual general meeting, all directors will be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at the AGM at which he retires. Any Director appointed to fill a casual vacancy shall hold office until the first annual general meeting of the Company after his appointment and be subject to re-election at such meeting. The election of each Director is done through a separate resolution.

Corporate Governance

The Board held four meetings in FY2012 and meetings attended by each of the Directors were as follows:

Name of Directors	**Number of Meetings attended/eligible to attend**
Executive Directors	
Ms. Cheung *(Chairlady)*	4/4
Mr. Liu *(Deputy Chairman and Chief Executive Officer)*	4/4
Mr. Zhang *(Deputy Chief Executive Officer)*	4/4
Mr. Lau Chun Shun	4/4
Mr. Zhang Yuanfu *(Chief Financial Officer)*	4/4
Ms. Gao Jing	4/4
Independent Non-Executive Directors	
Ms. Tam Wai Chu, Maria	4/4
Mr. Chung Shui Ming, Timpson	2/4
Dr. Cheng Chi Pang	4/4
Mr. Wang Hong Bo	4/4

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

To avoid concentration of power and control, the position of the Chairlady and the Deputy Chairman cum Chief Executive Officer are segregated and each plays a distinctive role but complementing each other. The Chairlady is responsible for supervising the functions and performance of the Board, while the Deputy Chairman cum Chief Executive Officer is responsible for the management of the businesses of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout FY2012, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of four INEDs and that two Directors with appropriate professional qualifications or accounting or related financial management expertise. The Company has received, from each of the INEDs, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

The INEDs provide the Group with different expertise, skills and experience. Their participation in Board meetings could bring independent judgement on issues relating to the Group's strategy, internal control and performance to ensure the interests of the shareholders are taken into account.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flows of the Group. In preparing the financial statements of the Group for FY2012, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movements of the Group at any time.

The Directors recognize the responsibility for preparing the consolidated financial statements of the Group. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The statement of reporting responsibilities of the Company's external auditor in connection with the financial statements of the Company are set out in the Independent Auditor's Report on pages 59 and 60.

EXECUTIVE COMMITTEE

The Board has established the Executive Committee, which is responsible for the management and administration of the business of the Company and any matters which are within the ordinary course of the Company's business under the control and supervision of the Board and in accordance with the provisions of the Bye-laws.

The members of the Executive Committee shall be executive Directors, but the Executive Committee shall not at any time consist of more than four members. No change shall be made to the composition of the Executive Committee except with the approval of all the Directors in writing. The Chairlady of the Board shall be the Chairlady of the Executive Committee.

Currently, the members of the Executive Committee include Ms. Cheung (Chairlady), Mr. Liu and Mr. Zhang.

REMUNERATION COMMITTEE

The Board has set up a Remuneration Committee with a majority of the members being INEDs. It comprises three INEDs and two executive Directors, namely, Ms. Tam Wai Chu, Maria (Chairlady), Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang, Mr. Liu and Mr. Zhang.

A separate report prepared by the Remuneration Committee which summarized its works performed during FY2012, and also set out details of the share options to the Directors and the employees on pages 33 to 37 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

During FY2012, two meetings were held and the attendance of each member is set out below:

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

AUDIT COMMITTEE

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

A separate report prepared by the Audit Committee which summarized its works performed during FY2012 is set out on pages 38 to 39 of this Annual Report.

During FY2012, three meetings were held by Audit Committee, with details as follows:

Name of Directors	**Number of Meetings attended/eligible to attend**
Dr. Cheng Chi Pang *(Chairman)*	3/3
Ms. Tam Wai Chu, Maria	3/3
Mr. Chung Shui Ming, Timpson	1/3
Mr. Wang Hong Bo	3/3

RISK CONTROL COMMITTEE

The Risk Control Committee is formed by the Supervision Department and Finance Department. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analyzing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for minimizing and eliminating risks; reviewing and reporting to the Board in respect of the effectiveness of internal control; and maintaining contact with external auditor for maintaining the quality of the Group's internal control system.

Corporate Governance

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

The Board set up a Nomination and Corporate Governance Committee with a majority of the members being INEDs in February 2012. It comprises two executive Directors and three INEDs, namely, Ms. Cheung (Chairlady), Mr. Zhang, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Dr. Cheng Chi Pang. The term of reference of the committee are set out on page 40 of this report.

No meeting was held by Nomination and Corporate Governance Committee during FY2012. The first Committee meeting was held on 25 September 2012.

INDUCTION AND PROFESSIONAL DEVELOPMENT

Every newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment to make sure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities in the Company.

During FY2012, all Directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities. INED's are invited to visit the site of the Group.

The Company organized a training session conducted by the professional firm in June 2012 on "Corporate Governance". Ms. Cheung, Mr. Liu, Mr. Zhang, Mr. Lau Chun Shun, Mr. Zhang Yuanfu, Ms. Gao Jing and Mr. Wang Hong Bo attended this session. In addition, Ms. Tam Wai Chu, Maria and Mr. Chung Shui Ming also attended relevant seminars arranged by a number of professional firms.

Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses. They are requested to provide their respective training records to the Company Secretary.

COMPANY SECRETARY

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and Chief Executive Officer, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including to assist the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

During FY2012, the Company Secretary has attended relevant professional seminars to update her skills and knowledge. She will comply with the Revised Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of communications with the shareholders of the Company, both individual and institutional as well as potential investors. In February 2012, the Company adopted a Shareholders Communication Policy of the Company which aims to set out the provisions with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders of the Company to exercise their rights in an informed manner, and to allow shareholders of the Company and potential investors to engage actively with the Company.

During the Year, there has not been any change in the Company's constitutional documents.

Disclosure of information on Company's Website

The Company endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. The Company maintains a corporate website at http://www.ndpaper.com where important and updated information about the Group's activities and corporate matters such as annual and interim reports, announcements, business development and operations, corporate governance practices and other information are available for review by shareholders and other stakeholders. When announcements are made through the Stock Exchange, the same information is made available on the ND Website.

Annual General Meeting

The annual general meeting also provides an important opportunity for constructive communication between the Board and the Shareholders. The Chairlady and the chairmen of the audit committee and remuneration committee as well as the Company's auditor maintained an on-going dialogue with the Shareholders and answered all questions raised by the Shareholders throughout the last annual general meeting held on 21 November 2011.

Investor Relations

During the Year, the Company strived to improve transparency and communications with shareholders and investors. Meetings and conference calls with investors and analysts were held, in order for the Company to understand their views and to keep them abreast on the latest developments. Inquiries on the Company were also dealt with in an informative and timely manner. At the same time, the Company reached out to the investment community by participating in investment conferences and road shows. In order to maintain high standards of corporate governance, the Company will keep a proactive dialogue with the shareholders and investors Feedbacks and suggestions can be addressed to the Company at info_hk@ndpaper.com.

Shareholders' enquiries

1 Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch Registrar, Tricor Investor Services Limited.

2 Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

3 Shareholders may make enquiries to the Board in written to the Company Secretary at the office of the Company at Room 3129, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, by email to info_hk@ndpaper.com or by fax to (852) 39293890.

Corporate Governance

Procedure for Shareholders

Set out below are procedures by which Shareholders may: (1) convene a special general meeting and (2) put forward proposals at Shareholders' meetings. These procedures are generally governed by the provisions of the Company's Bye-Laws and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies. Shareholders who have enquiries regarding the below procedures may write to the Company Secretary, whose contact details are set out in paragraph 3 of Shareholders' enquiry above.

1. Procedures by which Shareholders may convene a special general meeting

1.1 Shareholders or a group of Shareholders holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition carrying the right of voting at general meetings of the Company may by written requisition deposit at the Company's principal place of business at Room 3129, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong for the attention of the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

1.2 The requisition must specify the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form each signed by one or more of those requisitionists.

1.3 The signatures and the requisition will be verified by the Company's branch share registrar. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised.

1.4 If the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene such meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. In addition, such meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

2. Procedures for putting forward proposals at a Shareholders' meeting

2.1 The Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as a special general meeting whenever necessary.

2.2 Shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at the AGM; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

2.3 The written request/statements must be signed by the Shareholder(s) concern and deposited at the Company's principal place of business at Room 3129, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, for the attention of the Board of Directors or the Company Secretary, not less than six (6) weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one (1) week before the general meeting in the case of any other requisition.

2.4 If the written request is in order, the Company Secretary will ask the Board of Directors of the Company (i) to include the resolution in the agenda for the AGM; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board of Directors sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the Shareholder(s) concerned in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid or the Shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the general meeting.

Remuneration Committee

The Remuneration Committee was established in March 2006. The functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and practices and establishing recruitment policies that enable the Company to recruit, retain and motivate high-calibre staff to reinforce the success of the Company and create value for the Shareholders.

In addition, the Remuneration Committee supervises and enforces the 2006 Share Option Scheme of the Company in an effective manner. Currently, the Remuneration Committee consists of Ms. Tam Wai Chu, Maria (Chairlady), Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang, Mr. Liu and Mr. Zhang.

In February 2012, the Board adopted a revised terms of reference of the Remuneration Committee which include the amendments in line with the requirements of the Revised CG Code. The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

Major responsibilities and functions of the Remuneration Committee are:

- make recommendations to the Board on the Company's policy and structure of Directors' and senior management's remuneration; and the establishment of a formal and transparent procedure for developing remuneration policy
- review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives
- make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management
- make recommendations to the Board on the remuneration of Non-Executive Directors

SUMMARY OF MAJOR WORK DONE IN FY2012

During FY2012, the Remuneration Committee held two meetings. The following is a summary of the major tasks completed by the Remuneration Committee during the Year.

- reviewed the remuneration level for Directors;
- recommended the Board to approve the fee of the Directors and senior management; and
- reviewed and approved the remuneration packages and service contracts of Directors.

SHARE OPTION SCHEME

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

Remuneration Committee

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

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

The subscription price of a Share in respect of any particular option granted under the 2006 Share Option Scheme shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.

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

		Number of Share options					
Grantees		**Balance as at 1 July 2011**	**Granted during the Year**	**Exercised during the Year**	**Cancelled/ Lapsed during the Year**	**Balance as at 30 June 2012**	**Approximate percentage of shareholding***
i)	**Directors**						
	Ms. Cheung (Note 1)	33,200,000	–	–	(33,200,000)	–	–
	Mr. Liu (Note 1)	33,200,000	–	–	(33,200,000)	–	–
	Mr.Zhang (Note 1)	33,200,000	–	–	(33,200,000)	–	–
	Mr. Lau Chun Shun (Notes 2 & 4)	450,000	–	–	–	450,000	0.01%
	Mr. Zhang Yuanfu (Notes 2 & 4)	2,400,000	–	–	–	2,400,000	0.05%
	Sub-total:	102,450,000	–	–	(99,600,000)	2,850,000	0.06%
ii)	**Employees and others** (Notes 3)	4,544,575	–	(328,191)	(716,384)	3,500,000	0.08%
	Total:	**106,994,575**	**–**	**(328,191)**	**(100,316,384)**	**6,350,000**	**0.14%**

* The issued share capital of the Company was 4,662,920,811 as at 30 June 2012

Notes:

(1) Ms. Cheung, Mr. Liu and Mr. Zhang each was granted 41,500,000 share options under the 2006 Share Option Scheme. The exercise price is HK$9.8365 per Share, being about 3% premium to the higher of the closing price of the Shares on 26 October 2006, the date of the meeting of the Board to consider and propose the grant of the share options, and the average closing price of the Shares for the five trading days immediately preceding 26 October 2006. The exercise period is from 1 January 2008 to 31 December 2011. The share options in an aggregate of 99,600,000 shares granted to Ms. Cheung, Mr. Liu and Mr. Zhang were lapsed on 1 January 2012.

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

Name of Director	Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2011	Granted during the Year	Exercised during the Year	Cancelled/ Lapsed during the Year	Balance as at 30 June 2012	Closing price immediately before Grant Date HK$
Mr. Lau Chun Shun	1 June 2010	11.052	1 June 2011 to 30 May 2015	450,000	–	–	–	450,000	11.58
Total:				**450,000**	**–**	**–**	**–**	**450,000**	
Mr. Zhang Yuanfu	25 August 2008	4.310	25 August 2009 to 24 August 2013	600,000	–	–	–	600,000	4.20
	28 October 2008	0.894	28 October 2009 to 27 October 2013	1,200,000	–	–	–	1,200,000	0.72
	10 November 2008	1.590	11 November 2009 to 10 November 2013	600,000	–	–	–	600,000	1.44
Total:				**2,400,000**	**–**	**–**	**–**	**2,400,000**	

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

Date of grant ("Grant Date")	Exercise Price HK$	Exercisable Period	Number of shares options: Balance as at 1 July 2011	Granted during the Year	Exercised During the Year	Cancelled/ Lapsed during the Year	Balance as at 30 June 2012	Closing price Immediately before Grant Date HK$
28 October 2008 (Note 4)	0.894	29 October 2009 to 28 October 2013	1,984,575	–	(328,191)	(656,384)	1,000,000	0.72
7 April 2009 (Note 4)	3.320	8 April 2010 to 7 April 2014	60,000	–	–	(60,000)	–	3.40
19 November 2009 (Note 4)	13.520	19 November 2010 to 18 November 2014	500,000	–	–	–	500,000	13.66
26 November 2009 (Note 4)	13.980	26 November 2010 to 25 November 2014	300,000	–	–	–	300,000	14.00
8 April 2010 (Note 5)	14.220	8 April 2010 to 7 April 2015	1,100,000	–	–	–	1,100,000	14.28
24 May 2010 (Note 4)	11.488	24 May 2011 to 23 May 2015	300,000	–	–	–	300,000	10.52
13 July 2010 (Note 4)	10.800	13 July 2011 to 12 July 2015	300,000	–	–	–	300,000	11.16
Total:			**4,544,575**	**–**	**(328,191)**	**(716,384)**	**3,500,000**	

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

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

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

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

Remuneration Committee

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

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

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

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

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

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

(6) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(7) The weighted average closing price immediately before the date on which the options were exercised was approximately HK$5.10.

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

VALUE OF SHARE OPTIONS

The fair values of options under 2006 Share Option Scheme are determined used "Binominal Valuation model" (the "Model"). Key assumptions of the Model are:

Date of Grant	**Model**	**Risk-free rate**	**Expected dividend yield**	**Expected volatility of the market price of the Shares**	**Fair value (approximately) HK$**
25 August 2008	Binominal Valuation	2.897%	per annum 1.373%	61%	8,000,000
28 October 2008	Binominal Valuation	2.154%	per annum 7.356%	62%	3,000,000
10 November 2008	Binominal Valuation	1.798%	per annum 3.706%	62%	1,000,000
7 April 2009	Binominal Valuation	1.733%	per annum 1.800%	82%	3,000,000
19 November 2009	Binominal Valuation	1.542%	per annum 1.000%	71%	6,000,000
26 November 2009	Binominal Valuation	1.525%	per annum 1.000%	70%	2,000,000
8 April 2010	Binominal Valuation	1.997%	per annum 1.000%	78%	9,000,000
24 May 2010	Binominal Valuation	1.535%	per annum 1.000%	78%	2,000,000
1 June 2010	Binominal Valuation	1.581%	per annum 1.000%	79%	3,000,000
13 July 2010	Binominal Valuation	1.500%	per annum 1.000%	80%	2,000,000

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

DIRECTORS' SERVICES CONTRACTS

None of the Directors who are proposed for re-election at the 2012 AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT DETAILS

Details of the emoluments of the Directors and the senior management are set out in note 21 to the financial statements.

Audit Committee

MEMBERS

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

TERMS AND REFERENCE

In February 2012, the Board adopted a revised terms of reference of the Audit Committee which include the amendments in line with the requirements of the Revised CG Code.

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

SUMMARY OF MAJOR WORK DONE IN FY2012

The Audit Committee holds regular meetings and organizes additional meetings if and when necessary. During FY2012, the committee held three meetings. The following is a summary of the tasks completed by the Audit Committee during the Year:

- reviewed the financial statements for FY2012 and for the six months ended 31 December 2011 before submission to the Board focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumption;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- reviewed the external auditor's audit plan, audit's management letter and audit engagement letter;
- considered and approved the FY2012 external audit remuneration;
- reviewed and monitored the external auditor's independence and the non-audit services, especially tax-related services, provided by the external auditor;
- reviewed the "Continuing Connected Transactions" of the Group;
- reviewed the purchase terms and the fairness of the Group's basis of selecting its recovered paper suppliers quarterly; and
- reviewed the Company's financial reporting system and internal control system.

FINANCIAL REPORTS

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

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

REVIEW OF THE GROUP'S ACCOUNTING AND FINANCIAL REPORTING FUNCTION

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

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee recommended to the Board that, subject to Shareholders' approval at the 2012 AGM, PricewaterhouseCoopers be re-appointed as the Company's external auditor for FY2013.

For FY2012, the external auditor of the Company received approximately RMB6.9 million for audit and audit-related services and RMB1.1 million for tax and other services.

Nomination and Corporate Governance Committee

The Board set up a Nomination and Corporate Governance Committee with a majority of the members being INEDs in February 2012. This Committee comprises two executive Directors and three INEDs, namely, Ms. Cheung (Chairlady), Mr. Zhang, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Dr. Cheng Chi Pang.

In February 2012, the Board adopted the terms of reference of the Nomination and Corporate Governance Committee. The major duties of the Committee are as follows:

(i) review the structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes.

(ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

(iii) assess the independence of the independent non-executive Directors.

(iv) make recommendations to the Board on the re-appointment of directors and succession planning for directors and senior management.

(v) develop and review the Company's policy and practices on corporate governance and make recommendations to the Board.

(vi) review and monitor the training and continuous professional development of Directors and senior management.

(vii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

(viii) develop, review and monitor the code of conduct applicable to employees and Directors.

(ix) review the Company's compliance with the corporate governance code of the Listing Rules and other related rules.

(x) review the annual corporate governance report and recommend to the Board for consideration and approval for disclosure.

(xi) regularly review the time required from a director to perform his responsibilities.

(xii) review the Committee's terms of reference annually and recommend to the Board any changes.

No meeting was held by the Committee for FY2012. The first Committee meeting was held on 25 September 2012.

Internal Control and Risk Management

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management system. The internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business objectives.

The Risk Control Committee is formed by the Supervision Department and Finance Department. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analysing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for minimizing and eliminating risks; reviewing and reporting to the Board in respect of the effectiveness of internal control; and maintaining contact with external auditor for maintaining the quality of the Group's internal control system.

BUSINESS RISK

According to the Group's policies, business risks including, in particular, slow response to customer's need, insufficient competitiveness of price, unreliable customer credit profile, possible business secret leaking and unstable product quality etc., are reviewed and analyzed from time to time. Control activities are conducted to eliminate, transfer or alleviate business uncertainty.

FINANCIAL RISK

The Group's financial risk management policies governs the Group's cost control, asset management, treasury management, logistics supervision, financial reporting promptness management, investment return assurance, interest risk management, currency risk management to credit risk management, and ensures overall financial risks are well under supervision and control. The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies.

COMPLIANCE RISK

Clear systems and procedures are established to ensure compliance with the relevant legislation and regulations. Besides, we engage the professional firms and consulting companies to keep us abreast of the latest developments in different fields including legal, financial, environment, operation and business.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company:

1. included in its Code of Conduct a strict prohibition on the unauthorized use of confidential or insider information; and

2. has established and implemented procedures for responding to external enquiries about the Group's affairs. Only the senior management of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

OPERATIONAL RISK

A full set of procedures has been established to prevent operational problems. These operational problems can be insufficient management effectiveness and efficiency, inefficient procurement, operational accident, unusual damage to key equipment or its components, information system failure, inability to retain high caliber staff or inadequate equipment utilization. Once deemed necessary, risk control activities would be carried out to address risks in order to achieve management target.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems covering all material business, financial, compliance, operational, and is satisfied that such systems are effective and adequate.

Corporate and Social Responsibility

"NO ENVIRONMENTAL MANAGEMENT, NO PAPER-MAKING"

Adhering to the belief of "no environmental management, no paper-making", the Group has persistently applied concepts of environmental protection and recycling on various aspects including production technologies and ancillary facilities, in order to embed the concept of environmental protection in the minds of its employees as well as its products.

WIN-WIN ENVIRONMENTALLY FRIENDLY POLICY

Through the execution of its environmental protection systems, the Group has not only saved precious resources and achieved higher operational efficiency, but also significantly reduced the operational risk of non-compliance with environmental laws and regulations, which indeed fosters a win-win situation for the Group and the environment.

ENVIRONMENTAL AWARDS AND CERTIFICATIONS

The Group has obtained relevant permits for the disposal of solid waste and the discharge of wastewater and gaseous emission. In recent years, to tighten the monitoring on enterprises, the Environmental Protection Bureau has conducted impromptu inspections in addition to regular visits to ensure that paper manufacturers are in compliance with relevant requirements. The Group has always followed all the environmental laws or regulations.

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

"ENERGY CONSERVATION AND CONSUMPTION REDUCTION" PRODUCTION PROCESS

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

ADVANCED WASTEWATER TREATMENT FACILITIES

The Group has introduced the anaerobic aerobic two-stage biological treatment, currently the world's most advanced wastewater treatment technology, resulting in water discharge performance outperforming relevant national and local standards. We have also adopted the state-of-the-art automatic programmable logic controller (PLC) systems with an online monitoring system to monitor our wastewater discharge for centralised management. In order to reduce the discharge pollutants, our wastewater treatment plant has adopted additional advanced treatment facilities which will further reduce the water pollutants through the addition of water purification agents, etc.

		PRC Government Approved	ND Paper	Parameter before treatment				Average Parameter after treatment parameter			
	Unit	Level	standard	2008	2009	2010	2011	2008	2009	2010	2011
COD	mg/L	≤90(60)	80(60)	2500	2500	3000	3100	80	80	80	78(56)
BOD	mg/L	≤20	20	1000	1000	1300	1360	10	10	10	10
SS	mg/L	≤30	30	2000	2000	2800	2950	28	28	28	28
PH		6–9	6–9	6–9	6–9	6–9	6–9	6–9	6–9	6-9	6–9

Note: (60) and (56) in the table represent the control parameters of Taicang base and Tianjin base of ND Group.

EMISSION CONTROL

Use of low-grade fuels

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

Methane collection and treatment system

Since 2008, the Group has conducted the technology upgrade for its methane collection and treatment system featuring the addition of a methane desulphurization unit. With this unit, processed methane will be transmitted to the heat and electricity boiler system as fuel for power generation and an annual reduction of 60,000 tonnes in coal consumption can be achieved after commissioning. The use of methane (mainly methane gas) as resources will contribute to the reduction of greenhouse effect. In addition, the coal fired power plants in all of our production bases are equipped with particle removal and desulphurization equipment, and their emission levels are far better than the approved level under the applicable PRC regulatory requirements.

Topped-out the sewage treatment plant tanks

In order to further reduce the impact of the odor of sewage treatment plant to the environment, the Group has built various greenbelts within the plant area and established a series of tank topped-out and biological deodorization system for the sewage treatment plants. The tank topped-out project will topped-out odoriferous sources, such as primary sedimentation tank, hydrolytic acidation cell and anaerobic treatment of distillery effluent, and divert the odor to the biological deodorization system through the induced draft fan. The construction of the greenbelts and the operation of the biological deodorization system have substantially lowered the diffusion of odor generated by the odoriferous sources at the site and effectively removed the harmful substances in the odor, thereby substantially mitigating the impact of odor to the environment.

Environmentally friendly coal storage dome

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

	Unit	PRC Government Approved Level	ND Paper standard	Parameter before treatment				Average parameter after treatment			
				2008	2009	2010	2011	2008	2009	2010	2011
SO_2	mg/L	≤400	100	2,800	2,700	2,100	2000	80	88	88	88
Dust	mg/L	≤50	50	25,400	25,400	25,000	24,860	30	30	30	30
NO_X	mg/L	≤450	450	–	–	–	–	333	330	320	315

Corporate and Social Responsibility

SOLID WASTES DISPOSAL

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

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

NOISE CONTROL

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

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

OPEN AND TRANSPARENT ENVIRONMENTAL INFORMATION

The Group also promoted "transparent management" by publishing the environmental monitoring data, which is linked in real time with the local environmental department, to the public through electronic displaying screens.

HUMAN RESOURCES MANAGEMENT

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

TRAINING AND DEVELOPMENT FOR STAFF

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

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

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

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

FAIR ASSESSMENT SYSTEM

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

CARING OUR STAFF'S PHYSICAL AND MENTAL HEALTH

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

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

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

REMUNERATION AND BENEFITS

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

CONTRIBUTIONS TO SOCIETY AND FULFILMENT OF SOCIAL RESPONSIBILITIES

With our firm and persistent commitment on social responsibility, ND Paper has always been devoted to community services. We have established the "Nine Dragons Class" throughout the years by providing education as well as job opportunities to underprivileged students from remote regions. ND Paper promptly donated RMB15 million and RMB10 million respectively for earthquake disaster relief in Sichuan Wencun and Qinghai Yushu in order to assist the people in those areas to rebuild their homes. An aggregate amount of over RMB30.2 million has been donated in the "Fundraising Day for the Relief of the Poor" activity in Guangdong. After Severe Typhoon "Fanapi" hit West Guangdong and caused heavy floods in the area, ND Paper made a timely donation of RMB0.6 million to the victims for the construction of "Heart Resettling Houses". RMB1 million was donated in support of the caring project by overseas Chinese "Light for Tibet". In addition, ND Paper also provided "Nine Dragons Caring Lunches" for 800 students from poor families staying in poverty-stricken mountain areas of Pengshui County, Chongqing City. ND Paper has won wide recognition from each and every community in society on its social responsibility, and has been awarded a number of honors such as "China Charity Prize", "Guangdong Overseas Chinese Special Contribution Award in Commemoration of Three Decades of Economic Reform", "Chinese Merchants Contribution Award", "Poverty Alleviation Cotton Tree Golden Cup Award", etc.

Directors and Senior Management

PROFILE OF EXECUTIVE DIRECTORS

Ms. Cheung Yan, 55, has been the Chairlady of the Company since 2006. She is also the chairlady of the Executive Committee and the Nomination and Corporate Governance Committee, and a director of several subsidiaries of the Company. She is one of the founders of the Group and is in charge of the Company's overall corporate development and the Group's strategic planning. Ms. Cheung has over 16 years of experience in paper manufacturing and over 26 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference, executive vice chairman of the China Overseas Chinese Entrepreneurs Association, vice president of China Paper Association, vice president of China Paper Industry Chamber of Commerce, executive vice president of the Guangdong Overseas Chinese Enterprises Associations and vice chairman of Chamber of Commerce of Guangdong Province. Ms. Cheung is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2007, Ms. Cheung was awarded the "Entrepreneur of the Year in China 2007" by Ernst & Young and in 2008, she was accredited as a "Leader Figure" ("領袖人物獎") in "China Cailun Award" ("中華蔡倫獎") by China Paper Industry Chamber of Commerce and was awarded "China Charity Award 2008" ("2008年中華慈善獎") by the Ministry of Civil Affairs of the PRC. In May 2009, Ms. Cheung was awarded "Outstanding Entrepreneur in Pulp and Paper Manufacturing Industry in China" ("全國製漿造紙行業優秀企業家") by China Paper Association. She was awarded "Chinese Chamber of Commerce Contributions Award" ("華商貢獻獎") in the city of Chongqing in January 2010, the title of "Outstanding Person on Energy Saving and Emission Reduction in China 2009" ("2009中國節能減排功勳人物") by All-China Environment Federation in May 2010 and "Outstanding Contribution Award on Poverty Alleviation and Benefiting the Community by a Businessman in the Private Sector in Guangdong Province" ("廣東省非公有制經濟人士扶貧濟困回報社會突出貢獻獎") in July 2010. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 50, has been the Deputy Chairman and Chief Executive Officer of the Company since 2006. He is a member of the Executive Committee, the Remuneration Committee and a director of various subsidiaries of the Company. He is one of the founders of the Group and is responsible for the overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment and human resources management of the Group. Mr. Liu has over 21 years of experience in international trade and over 13 years of experience in corporate management. Mr. Liu graduated with a bachelor degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. In 2000, Mr. Liu was appointed as a member of the Ninth Committee of the Chinese People's Political Consultative Conference of Guangzhou of Guangdong province and a consultant of the Committee for Affairs of Hong Kong, Macao, Taiwan Compatriots and Overseas Chinese. In 2001, Mr. Liu was awarded a member of All-China Youth Federation. Mr. Liu is the husband of Ms. Cheung, the brother-in-law of Mr. Zhang and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 44, has been the Executive Director and Deputy Chief Executive Officer of the Company since 2006. He is members of the Executive Committee, the Remuneration Committee, the Nomination and Corporate Governance Committee and a director of various subsidiaries of the Company. He is one of the founders and is responsible for the overall management of the operations and business of the Group including marketing, finance, procurement, sales and IT departments. Mr. Zhang has over 18 years of experience in procurement, marketing and distribution and is a member of the Third Committee of the Chinese People's Political Consultative Conference of Chongqing. Mr. Zhang is the younger brother of Ms. Cheung, Mr. Liu's brother-in-law and the uncle of Mr. Lau Chun Shun.

Mr. Lau Chun Shun, 31, joined the Company as a Non-executive Director in 2006 and was re-designated as an Executive Director of the Company in August 2009. He is a director of various subsidiaries of the Company. He is responsible for the management and operation of the Group including marketing and distribution, procurement and sales departments. Mr. Lau holds a bachelor degree in Economics from the University of California, Davis and a master degree in Industrial Engineering from Columbia University. Mr. Lau is the son of Ms. Cheung and Mr. Liu and the nephew of Mr. Zhang.

Mr. Zhang Yuanfu, 49, has been an Executive Director of the Company since 2008. He is also a director of various subsidiaries of the Company. He also serves as the Group's Chief Financial Officer in charge of financial matters and investor relations. Prior to joining the Group, Mr. Zhang served as the chief financial officer, qualified accountant and company secretary of Weichai Power Co., Ltd. for more than 5 years and also worked in a number of Hong Kong listed companies in charge of accounting and financial management. He has more than 26 years of experience in auditing, accounting and corporate finance. Mr. Zhang holds a bachelor degree in Economics. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Gao Jing, 49, has been an Executive Director of the Company since 2006. She is a director of various subsidiaries of the Company. She joined the Group in June 1996 and has 16 years of experience in cost auditing of raw materials and the purchasing of recovered paper. She served as the Group's Financial Manager and was promoted as the Head of the Group's Import Purchasing Department in July 2006. Ms. Gao graduated from Liaoning Broadcasting Television University with a diploma in Electrical Engineering. The spouse of Ms. Gao, Mr. Huang Tie Min, is a senior management of the Group who serves as the general manager of the Group in charge of new project expansion and engineering management.

PROFILE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, GBS, JP, 66, has been an Independent Non-Executive Director of the Company since 2006. She is also the chairlady of the Remuneration Committee, members of the Audit Committee, Nomination and Corporate Governance Committee of the Company. She serves as an independent non-executive director of Guangnan (Holdings) Limited, Minmetals Land Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Tong Ren Tang Technologies, Co., Ltd. and Wing On Company International Limited. Ms. Tam is a Deputy of the National People's Congress P.R.C. from H.K.S.A.R. and a member of the Hong Kong Basic Law Committee under the Standing Committee of the National People's Congress. She is qualified as a barrister-at-law at Gray's Inn, London and has practice experience in Hong Kong.

Mr. Chung Shui Ming, Timpson, GBS, JP, 60, has been an Independent Non-Executive Director of the Company since 2006. He is also members of the Audit Committee, the Remuneration Committee, Nomination and Corporate Governance Committee of the Company. Mr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited, Miramar Hotel and Investment Company Limited, China Overseas Grand Oceans Group Ltd and China Everbright Limited (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an independent director of China State Construction Engineering Corporation Limited and China Everbright Bank Corporation Limited (listed on the Shanghai Stock Exchange) and an Outside Director of China Mobile Communications Corporation. He holds a bachelor of science degree from the University of Hong Kong and a master's degree of business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Besides, he is currently a member of the National Committee of the 11th Chinese People's Political Consultative Conference.

Directors and Senior Management

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

Dr. Cheng Chi Pang, 55, has been an Independent Non-Executive Director of the Company since 2006. He is also the chairman of the Audit Committee, members of the Remuneration Committee, the Nomination and Corporate Governance Committee of the Company. He holds a bachelor degree in Business, a master degree in Business Administration and a master degree of Laws as well as and a doctorate degree of philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has approximately 31 years of experience in auditing, business advisory and financial management.

Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of Price Waterhouse, now PricewaterhouseCoopers. Dr. Cheng is currently the senior partner of Leslie Cheng & Co. Certified Public Accountants, the chairman of L & E Consultants Limited, a non-executive director of Wai Kee Holdings Limited and Build King Holdings Limited and an independent non-executive director and chairman of the audit committee of China Ting Group (Holdings) Limited, Tianjin Port Development Holdings Limited and Fortune Sun (China) Holdings Limited.

Mr. Wang Hong Bo, 58, has been an Independent Non-Executive Director of the Company since 2006. He is also a member of the Audit Committee of the Company. Mr. Wang has extensive experience and expertise in the paper industry in China and was appointed as the Deputy Head of Yantai Packaging Decoration Factory in 1990.

PROFILE OF SENIOR MANAGEMENT

Mr. Lin Xin Yang, 42, joined the Group in 2003 and has served as the General Manager of Dongguan Nine Dragons Paper Industries Co., Ltd. in charge of supervision and management since December 2010. Prior to joining the Group, he worked for Shandong Huazhong Paper Co., Ltd.. Mr. Lin has over 19 years of experience in pulp and paper manufacturing, equipment and production management. Mr. Lin graduated from Northwest Institute of Light Industry Pulp and Paper Engineering (currently Shaanxi University of Science and Technology) and is a senior engineer in the paper manufacturing industry.

Mr. Meng Feng, 40, has served as the General Manager of Nine Dragons Paper Industries (Taicang) Co., Ltd. in charge of supervision and management since December 2010. Mr. Meng has over 19-year production management experience in the large-scale paper manufacturing industry. Prior to joining the Group, he worked in Shandong Chenming Paper Industries Co., Ltd as a senior management and also acted as the general manager of a subsidiary. He graduated from Shandong Weifang Radio & Television Institute (major in Economic Information & Management Professional).

Mr. Zhou Chuan Hong, 51, joined the Group in July 2002. He has served as the General Manager of Nine Dragons Paper Industries (Tianjin) Co. Ltd. in charge of supervision and management since September 2007. Mr. Zhou has over 24 years of experience in equipment, project management and business management in the paper manufacturing industry. Prior to joining the Group, he worked in Shandong Huazhong Paper Co., Ltd.. He graduated from South China Institute of Technology (currently South China University of Technology) and is an engineer.

Mr. Li Jian Bo, 46, joined the Group in 2008 and has served as the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. in charge of supervision and management since 2009. Prior to joining the Group, he worked as the General Manager of Sichuan Rui Song Paper Co. Ltd.. Mr. Li has over 25 years of experience in production, technology and management in the paper manufacturing industry. He graduated from the Southwestern University of Finance and Economics and holds a master degree of Business Administration of Fudan University.

Directors and Senior Management

Mr. Li Yong Xiang, 43, joined the Group in April 1998 and has served as the General Manager of Nine Dragons Pulp and Paper (Leshan) Co., Ltd. in charge of operations and management since July 2012. Prior to joining the Group, he worked for Jiangxi Fuzhou Paper Co., Ltd.. Mr. Li has over 20 years of experience in pulp and paper manufacturing, equipment and production management. Mr. Li graduated from Jiangxi Broadcasting Television University and is a senior engineer in the paper manufacturing industry.

Mr. Xin Gang, 38, has served as the General Manager of Nine Dragons Paper Industries (Quanzhou) Co., Ltd. in charge of supervision and management since June 2010. Mr. Xin joined the Group in 1998 and has over 16 years of manufacturing, technology and management experience in the paper manufacturing industry. He graduated from Shandong Institute of Light Industry in 1996 with a bachelor degree in Pulp and Paper Manufacturing.

Mr. Zhang Yongchun, 45, joined the Group in June 1999. He has served as the General Manager of Nine Dragons Paper Industries (Shenyang) Co. Ltd. in charge of supervision and management since June 2011. Mr. Zhang has over 22 years of experience in equipment installment and maintenance, and production management in the paper manufacturing industry. Prior to joining the Group, he worked in Jilin Paper Co., Ltd.. He graduated from Jilin University with a bachelor degree in Science.

Mr. Zhang Du Ling, 42, joined as the Group's General Manager of the Sales Department in charge of sales management. He joined the Group in July 1998. Prior to joining the Group, he worked as the Manager of the sales department of Dongguan Chung Nam Paper Manufacturing Co., Ltd.. He has approximately 16 years of experience in sales and marketing in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Huang Tie Min, 49, joined as the Group's General Manager of the Development Engineering Department in charge of the Group's new project expansion and engineering management. Mr. Huang joined the Group in 1996 and has approximately 27 years of construction and administrative management experience in the paper manufacturing industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor degree in Engineering. Ms. Gao Jing, Mr. Huang's spouse, is an Executive Director of the Company.

Mr. Ng Kwok Fan, Benjamin, 56, has served as the Group's Deputy General Manager and Assistant to Chairlady in charge of corporate administration and investor relations since February 2006. Prior to joining the Group, Mr. Ng worked in several international marketing communications groups and public companies listed in Hong Kong and overseas. He has extensive experience in advertising, marketing and corporate finance. He graduated from the University of Hong Kong and is a member of the Certified General Accountants Association of Canada and the CFA Institute.

Mr. Chu Yiu Kuen, Ricky, 41, has served as the Group's Deputy Chief Financial Officer in charge of financial operation since October 2008. Mr. Chu has more than 18 years of experience in auditing, accounting and finance. Prior to joining the Group, Mr. Chu had worked in a major international accounting firm for over 8 years and the Listing Division of the Stock Exchange for over 2 years where he accumulated extensive experience in floatation and business advisory of a wide variety of business. Mr. Chu obtained a bachelor degree in Economics and is a member of both Certified Public Accountants of Australia and Hong Kong Institute of Certified Public Accountants.

Mr. ZHONG Hong Xiang, 44, has served as the Group's General Manager of the Paper Making Technology Department in charge of paper making production and technology. Mr. Zhong joined the Group since 1996 and has over 22 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining the Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated from Fujian College of Forestry with a diploma in Stock Preparation and Paper Manufacturing Technology.

Mr. Zhang Chuang, 45, has served as Chief Information Officer of the Group in charge of the planning and construction of corporate information system since September 2008. Prior to joining the Group, he worked at Lenovo Group as an IT director responsible for global application system operation, and occupied as an IT manager at General Motor and Dupont respectively. Graduated from Tsinghua University, he has 19 years of IT management experience in the manufacturing industry. He holds a bachelor degree in Electronic Engineering and a master degree in Computer Science as well as a master degree in Business Administration in Queens' University, Canada.

Directors' Report

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for FY2012.

PRINCIPAL BUSINESSES

The Group primarily manufactures linerboard, high-performance corrugating medium, certain types of coated duplex board and printing and writing paper. The Group also manufactures specialty paper, wood and bamboo pulp and produces unbleached kraft pulp.

RESULTS AND APPROPRIATIONS

The results of the Group for the FY2012 are set out in the accompanying financial statements on page 63.

An interim dividend of RMB2.0 cents (equivalent to approximately HK2.5 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, which is expected to be paid on Friday, 18 January 2013 subject to the approval of 2012 AGM. The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 18 December 2012. 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.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on pages 25 to 26.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2012 are set out in note 9 to the financial Statements.

PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

Details of the movements in the property, plant and equipment, and land use rights of the Group during the year are set out in notes 6 and 7 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 13 to the financial statements.

RESERVES

Details of the change in reserves of the Group and the Company during the Year are set out in note 14 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 June 2012, the Company's reserve available for cash distribution and/or distribution in specie, representing the retained earnings, amounted to RMB782,982,000 (30 June 2011: RMB514,858,000). In addition, the Company's share premium account and contributed surplus of RMB8,724,348,000 and RMB2,074,700,000, respectively, as at 30 June 2012 may be distributed to shareholders in certain circumstance prescribed by Section 54 of the Companies Act 1981 of Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, approximately 54.7% of the aggregate amount of purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 42.5% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's five largest customers was approximately 4.5% of total turnover of the Group.

ACN, a company owned by Ms. Cheung, is one of the Group's five largest suppliers. Ms. Cheung is the chairlady, executive director and controlling shareholder of the Company. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun. Save as disclosed herein, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executive Directors

Ms. Cheung
Mr. Liu
Mr. Zhang
Mr. Lau Chun Shun
Mr. Zhang Yuanfu
Ms. Gao Jing

Independent non-executive Directors

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

In accordance with the Company's Bye-laws, at each annual general meeting, every director will be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at the annual general meeting at which he retires. The election of each Director is done through a separate resolution.

Mr. Zhang, Mr. Lau Chun Shun, Mr. Chung Shui Ming, Timpson and Dr. Cheng Chi Pang will retire at the 2012 AGM under the provision of Bye-law 87 and, being eligible, will offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2012, the Directors and chief executive of the Company and their associates had the following interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

The Company

(A) Interests in the Company

The table below sets out the aggregate long positions in the Shares and underlying shares of the Directors and the chief executive of the Company as at 30 June 2012.

		Number of Shares			Number of underlying shares (in respect of share options)			
Name of Directors	**Long Position/ Short Position**	**Personal Interests**	**Family Interests**	**Corporate Interests** (Note1)	**Personal Interests**	**Family Interests**	**Total**	**Approximate percentage of shareholdings**
Ms. Cheung	Long Position	55,352,758	27,094,184	2,992,120,000	–	–	3,074,566,942	65.94%
Mr. Liu	Long Position	27,094,184	55,352,758	2,992,120,000	–	–	3,074,566,942	65.94%
Mr. Zhang	Long Position	21,814,821	–	–	–	–	21,814,821	0.47%
Mr. Lau Chun Shun	Long Position	–	–	2,992,120,000	450,000	–	2,992,570,000	64.18%
Mr. Zhang Yuanfu	Long Position	300,000	–	–	2,400,000	–	2,700,000	0.06%
Ms. Gao Jing	Long Position	200,000	400,000	–	–	–	600,000	0.01%
Ms. Tam Wai Chu, Maria	Long Position	1,216,670	–	–	–	–	1,216,670	0.03%
Mr. Chung Shui Ming, Timpson	Long Position	1,017,496	–	–	–	–	1,017,496	0.02%
Dr. Cheng Chi Pang	Long Position	700,002	–	–	–	–	700,002	0.02%

(B) Interests in Associated Corporation — Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficial owner	37,073	37.073%
	Long Position	Interest of spouse	37,053	37.053%
Mr. Liu	Long Position	Founder of The Liu Family Trust	37,053	37.053%
		Interest of spouse	37,073	37.073%
Mr. Zhang	Long Position	Founder and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of trusts (Note 4)	52,927	52.927%

Notes:

(1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung; (ii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

(2) The Zhang Family Trust is irrevocable trust. The Liu Family Trust and The Golden Nest Trust are revocable trusts.

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

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

(5) Details of the share options granted under the 2006 Share Option Scheme are set out on pages 33 to 36 in the section of Remuneration Committee.

Save as disclosed above, none of the Directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation as at 30 June 2012, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Directors or chief executive of the Company, as at 30 June 2012, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	Long Position/ Short Position	Capacity	No. of Shares held	Approximate percentage of total issued Shares
Best Result (Note)	Long Position	Beneficial Owner	2,992,120,000	64.17%
Ms. Cheung	Long Position	Beneficial Owner	2,992,120,000	64.17%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Liu Family Trust	2,992,120,000	64.17%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	64.17%

Note:

Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung; (ii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at 30 June 2012, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out in the Connected Transactions and note 29 to the consolidated accounts of this Annual Report respectively.

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

DONATIONS

The Group's charitable and other donations during the Year amounted to approximately RMB11,944,000 (2011: approximately RMB11,544,000).

CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company during FY2012.

On 9 February 2010, the Group entered into a 3-year facility agreement with Bank of China (Hong Kong) Limited, Bank of China Limited, Macau branch and China Development Bank Corporation in an aggregate amount of US$500 million.

On 30 June 2011, the Company entered into a facility agreement with China Development Bank Corporation, Hong Kong Branch ("CDB HK") in an aggregate amount of RMB1 billion of which RMB800 million was for a term of 1 year and RMB200 million was for a term of 3 years.

On 14 August 2012, the Company entered into a facility agreement with CDB HK in an aggregate amount of USD350 million of which USD100 million was for a term of 1 year and USD250 million was for a term of 3 years.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for FY2012.

RELATED PARTY TRANSACTIONS

Details of related party transactions conducted during the ordinary course of business, which cover all transactions with related parties which constitute connected transactions as defined under the Listing Rules, are set out in note 29 to the financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

CONNECTED TRANSACTIONS

During FY2012 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions constitute continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

(1) Exempted Continuing Connected Transactions

(a) Forestry Wood Logs and Clips Supply Agreement

ND Xing An is owned as to 55% by the Company and as to 45% by China Inner Mongolia Forestry. China Inner Mongolia Forestry is a connected person of the Company by virtue of it being substantial shareholder of ND Xing An, a non-wholly owned subsidiary of the Company. On 16 May 2011, ND Xing An and China Inner Mongolia Forestry entered into a supply agreement (the "Forestry Wood Logs and Clips Supply Agreement") whereby China Inner Mongolia Forestry agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group from 1 July 2011 to 30 June 2014.

During FY2012, the transactions between the Group and China Inner Mongolia Forestry under the Forestry Wood Logs and Clips Supply Agreement were less than 1% (other than the profits ratio) as determined in accordance with Rule 14.07 of the Listing Rules. Thus, such transactions constituted de minimis continuing connected transactions of the Company, which were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) Come Sure Raw Paper Materials Supply Agreement

On 29 July 2010, Mass Winner Holdings Limited, a company wholly owned by Come Sure Group (Holdings) Limited ("Come Sure") and Crown Gold Limited, a company wholly owned by Mr. Zhang, entered into a joint venture agreement to establish a joint venture company to engage in the manufacturing and sale of corrugated paperboard and paper-based packaging products. Turbo Best Holdings Limited, the joint venture, was owned as to 60% by Mass Winner Holdings Limited and as to 40% by Crown Gold Limited and became an associate of Mr. Zhang. The supply of raw paper materials to Come Sure and its subsidiaries, including supplies to Turbo Best Holdings Limited, pursuant to the master purchase agreement entered into between the Group and Come Sure (the "Come Sure Raw Paper Materials Supply Agreement") constitute continuing connected transactions for the Company.

During FY2012, the transactions between the Group and Come Sure under the Come Sure Raw Paper Materials Supply Agreement were less than 0.1% (other than the profits ratio) as determined in accordance with Rule 14.07 of the Listing Rules. Thus, such transactions constituted de minimis continuing connected transactions of the Company, which were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(c) Taicang Utilities Purchase Agreement

Taicang Packaging is a company which is held as to 100% by Ms. Cheung, Mr. Liu and Mr. Zhang. On 16 May 2011, Taicang Packaging and the Company entered into a purchase agreement (the "Taicang Utilities Purchase Agreement"), pursuant to which Taicang Packaging agreed to purchase utilities supply (water, electricity and gas) from members of the Group from 1 July 2011 to 30 June 2014.

During FY2012, the transactions between the Group and Taicang Packaging under the Taicang Utilities Purchase Agreement were less than 0.1% (other than the profits ratio) as determined in accordance with Rule 14.07 of the Listing Rules. Thus, such transactions constituted de minimis continuing connected transactions of the Company, which were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(d) Taicang Wastepaper Supply Agreement

On 16 May 2011, Taicang Packaging and the Company entered into a supply agreement (the "Taicang Wastepaper Supply Agreement"), pursuant to which Taicang Packaging agreed to supply wastepaper to members of the Group from 1 July 2011 to 30 June 2014.

During FY2012, the transactions between the Group and Taicang Packaging under the Taicang Wastepaper Supply Agreement were less than 0.1% (other than the profits ratio) as determined in accordance with Rule 14.07 of the Listing Rules. Thus, such transactions constituted de minimis continuing connected transactions of the Company, which were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) Non-Exempt Continuing Connected Transactions

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

(a) Longteng Packaging Paperboard Purchase Agreement

Dongguan Longteng is a company which is held as to 70% by Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung. On 16 May 2011, Dongguan Longteng and the Company entered into a purchase agreement (the "Longteng Packaging Paperboard Purchase Agreement"), pursuant to which Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2011 to 30 June 2014.

During FY2012, the actual amount of transactions under the Longteng Packaging Paperboard Purchase Agreement were RMB364 million and was within the annual cap of RMB600 million for FY2012 for the Longteng Packaging Paperboard Purchase Agreement approved by the independent shareholders at the special general meeting held on 27 June 2011.

(b) Longteng Packaging Materials and Chemicals Supply Agreement

On 16 May 2011, Dongguan Longteng and the Company entered into a supply agreement (the "Longteng Packaging Materials and Chemicals Supply Agreement"), pursuant to which Dongguan Longteng agreed to supply packaging materials and chemicals for the production of paperboard products to members of the Group from 1 July 2011 to 30 June 2014.

During FY2012, the actual amount of transactions under the Longteng Packaging Materials and Chemicals Supply Agreement were RMB264 million and was within the annual cap of RMB500 million for FY 2012 for the Longteng Packaging Materials and Chemicals Supply Agreement approved by the independent shareholders at the special general meeting held on 27 June 2011.

(c) ACN Recovered Paper Supply Agreement

ACN is indirectly wholly owned by Ms. Cheung. On 16 May 2011, ACN and the Company entered into a supply agreement (the "ACN Recovered Paper Supply Agreement"), pursuant to which ACN agreed to supply recovered paper to members of the Group from 1 July 2011 to 30 June 2014.

During FY2012, the actual amount of transactions under the ACN Recovered Paper Supply Agreement were RMB10,816 million and was within the annual cap of RMB16,600 million for FY2012 for the ACN Recovered Paper Supply Agreement approved by the independent shareholders at the special general meeting held on 27 June 2011.

(d) Taicang Packaging Paperboard Purchase Agreements

On 16 May 2011 and 23 May 2011, Taicang Packaging and the Company entered into purchase agreements (the "Taicang Packaging Paperboard Purchase Agreements"), pursuant to which Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from 1 July 2011 to 30 June 2014.

During FY2012, the actual amount of transactions under the Taicang Packaging Paperboard Purchase Agreements were RMB131 million and was within the annual cap of RMB300 million for FY2012 for the Taicang Packaging Paperboard Purchase Agreements approved by the independent shareholders at the special general meeting held on 27 June 2011.

Directors' Report

Annual Review Of Continuing Connected Transactions

The continuing connected transactions mentioned above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(iii) in accordance with the relevant agreements governing such transactions; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the non-exempt continuing connected transactions in accordance with Main Board Listing Rule 14A.38.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the applicable laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 32 to the financial statements.

AUDITOR

The Group's financial statements for FY2012 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution to re-appoint them and to authorize the Directors to fix their remuneration will be proposed at the 2012 AGM.

On behalf of the Board
Cheung Yan
Chairman
Hong Kong, 25 September 2012

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 61 to 116, which comprise the consolidated and company balance sheets as at 30 June 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 September 2012

Balance Sheets

	Note	Consolidated 30 June 2012 RMB'000	Consolidated 30 June 2011 RMB'000	Company 30 June 2012 RMB'000	Company 30 June 2011 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**42,360,533**	38,628,163	**1,255**	1,601
Land use rights	7	**1,557,628**	1,515,520	**—**	—
Intangible assets	8	**230,264**	234,827	**—**	—
Investments in subsidiaries	9	**—**	—	**2,441,193**	2,438,928
Deferred income tax assets	16	**24,993**	16,682	**—**	—
		44,173,418	40,395,192	**2,442,448**	2,440,529
Current assets					
Inventories	10	**4,195,911**	2,557,583	**—**	—
Trade and bills receivables	11	**2,920,754**	3,502,487	**—**	—
Other receivables and prepayments	11	**2,534,669**	1,805,464	**3,376**	11,772
Amounts due from subsidiaries	11	**—**	—	**10,132,409**	10,043,919
Tax recoverable		**18,671**	42,216	**—**	—
Restricted cash		**3,678**	97,450	**—**	—
Cash and cash equivalents	12	**4,364,539**	2,500,254	**13,504**	8,506
		14,038,222	10,505,454	**10,149,289**	10,064,197
Total assets		**58,211,640**	50,900,646	**12,591,737**	12,504,726
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	13	**9,202,356**	9,187,231	**9,202,356**	9,187,231
Other reserves	14	**1,181,590**	1,200,373	**2,091,842**	2,105,216
Retained earnings					
— Proposed final dividend	26	**233,146**	373,007	**233,146**	373,007
— Unappropriated retained earnings		**10,933,429**	9,839,100	**549,836**	141,851
		21,550,521	20,599,711	**12,077,180**	11,807,305
Non-controlling interests		**431,268**	420,949	**—**	—
Total equity		**21,981,789**	21,020,660	**12,077,180**	11,807,305

Balance Sheets

	Note	Consolidated 30 June 2012 RMB'000	Consolidated 30 June 2011 RMB'000	Company 30 June 2012 RMB'000	Company 30 June 2011 RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	15	**21,192,466**	20,973,492	**511,318**	306,773
Deferred income tax liabilities	16	**1,137,487**	905,322	**–**	–
Other payables	17	**55,406**	–	**–**	–
Deferred government grants		**13,024**	–	**–**	–
		22,398,383	21,878,814	**511,318**	306,773
Current liabilities					
Trade and bills payables	17	**5,731,338**	2,311,222	**–**	–
Other payables and deposits received	17	**2,710,266**	2,492,577	**3,239**	8,533
Amounts due to subsidiaries	17	**–**	–	**–**	28,422
Current income tax liabilities		**287,576**	194,176	**–**	–
Borrowings	15	**5,102,288**	3,003,197	**–**	353,693
		13,831,468	8,001,172	**3,239**	390,648
Total liabilities		**36,229,851**	29,879,986	**514,557**	697,421
Total equity and liabilities		**58,211,640**	50,900,646	**12,591,737**	12,504,726
Net current assets		**206,754**	2,504,282	**10,146,050**	9,673,549
Total assets less current liabilities		**44,380,172**	42,899,474	**12,588,498**	12,114,078

Ms. Cheung Yan
Chairlady

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 68 to 116 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 30 June 2012 RMB'000	2011 RMB'000
Sales	18	**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	19	**62,690**	84,777
Selling and marketing costs		**(667,903)**	(526,400)
Administrative expenses		**(662,194)**	(627,463)
Operating profit		**3,070,017**	3,157,712
Finance income	22	**46,696**	21,257
Finance costs	22	**(1,208,646)**	(775,220)
Profit before income tax		**1,908,067**	2,403,749
Income tax expense	23	**(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	25	**0.3046**	0.4227
— diluted	25	**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 26.

The notes on pages 68 to 116 are an integral part of these consolidated financial statements.

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

The notes on pages 68 to 116 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 13)	**Other reserves** RMB'000 (Note 14)	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 July 2010	9,093,747	1,222,588	8,813,879	19,130,214	246,528	19,376,742
Comprehensive income						
Profit for the year	—	—	1,967,838	1,967,838	47,220	2,015,058
Other comprehensive income:						
— Currency translation differences	—	(17,680)	—	(17,680)	(11,036)	(28,716)
— Cash flow hedges	—	(7,790)	—	(7,790)	—	(7,790)
Total other comprehensive income	—	(25,470)	—	(25,470)	(11,036)	(36,506)
Total comprehensive income	—	(25,470)	1,967,838	1,942,368	36,184	1,978,552
Transactions with owners						
2010 final and 2011 interim dividends paid to equity holders of the Company	—	—	(561,577)	(561,577)	—	(561,577)
Dividends paid to non-controlling interests	—	—	—	—	(24,037)	(24,037)
Appropriation to other reserves	—	8,033	(8,033)	—	—	—
Share options granted to directors and employees	—	3,971	—	3,971	—	3,971
Exercise and lapse of share options	93,484	(8,749)	—	84,735	—	84,735
Non-controlling interest arising on business combination	—	—	—	—	162,274	162,274
Total transactions with owners	93,484	3,255	(569,610)	(472,871)	138,237	(334,634)
Balance at 30 June 2011	9,187,231	1,200,373	10,212,107	20,599,711	420,949	21,020,660

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 13)	**Other reserves** RMB'000 (Note 14)	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 July 2011	9,187,231	1,200,373	10,212,107	20,599,711	420,949	21,020,660
Comprehensive income						
Profit for the year	–	–	1,420,152	1,420,152	38,406	1,458,558
Other comprehensive income:						
— Currency translation differences	–	(5,409)	–	(5,409)	(4,168)	(9,577)
— Cash flow hedges	–	(753)	–	(753)	–	(753)
Total other comprehensive income	–	(6,162)	–	(6,162)	(4,168)	(10,330)
Total comprehensive income	–	(6,162)	1,420,152	1,413,990	34,238	1,448,228
Transactions with owners						
2011 final and 2012 interim dividends paid to equity holders of the Company	–	–	(465,684)	(465,684)	–	(465,684)
Dividends paid to non-controlling interests	–	–	–	–	(23,919)	(23,919)
Share options granted to directors and employees	–	2,265	–	2,265	–	2,265
Exercise and lapse of share options	15,125	(14,886)	–	239	–	239
Total transactions with owners	15,125	(12,621)	(465,684)	(463,180)	(23,919)	(487,099)
Balance at 30 June 2012	9,202,356	1,181,590	11,166,575	21,550,521	431,268	21,981,789

The notes on pages 68 to 116 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 30 June 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	27(a)	**6,043,184**	4,357,565
Income tax paid		**(108,533)**	(153,625)
Interest paid		**(1,913,995)**	(1,301,731)
Net cash generated from operating activities		**4,020,656**	2,902,209
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(573,083)
Payment for property, plant and equipment		**(4,236,321)**	(8,192,410)
Proceeds from disposal of property, plant and equipment	27(b)	**12,470**	94,291
Payment for acquisition of land use rights		**(340,949)**	(181,401)
Proceeds from government grants for purchase of property, plant and equipment and land use rights		**290,150**	98,356
Deposits paid for acquisition of land use rights		**–**	(102,850)
Interest received		**46,696**	21,257
Net cash used in investing activities		**(4,227,954)**	(8,835,840)
Cash flows from financing activities			
Exercise of share options		**239**	84,735
Proceeds from borrowings		**19,852,239**	13,466,217
Repayments of borrowings		**(17,273,590)**	(6,836,643)
Dividends paid to non-controlling interests		**(23,919)**	(24,037)
Dividends paid to equity holders of the Company		**(465,684)**	(561,577)
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	12	**4,364,539**	2,500,254

The notes on pages 68 to 116 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") mainly 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").

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

(a) Amendments to existing standards and interpretations adopted by the Group as of 1 July 2011

The following amendments to existing standards and interpretations are mandatory for the Group's financial year beginning 1 July 2011. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group and the Company.

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
Hong Kong International Financial Reporting Interpretations Committee ("HK(IFRIC)") — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

The following new standards, interpretations and amendments to existing standards have been issued but are not effective for the financial year beginning 1 July 2011 and have not been early adopted by the Group:

HKFRS 1 (Amendment)	Government Loans [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	Disclosures of Interest in Other Entities [2]
HKFRS 13	Fair Value Measurement [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]
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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2012.

(a) Subsidiaries

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Investments in subsidiaries

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2. Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation *(continued)*

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings, restricted cash and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains/(losses)".

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	24 years
Plant and machinery	15 – 30 years
Furniture, fixtures and equipment	5 – 10 years
Motor vehicles, transportation and logistic	8 – 15 years

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

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

2.6 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.7 Land use rights

Land use rights in the balance sheet represent up-front prepayment made for operating leases for land use rights paid and payable to the counterparties. Land use rights are carried at cost and are charged to the consolidated income statement on a straight-line basis over the respective periods of the leases which range from 30 years to 50 years.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2. Summary of significant accounting policies *(continued)*

2.8 Intangible assets *(continued)*

(b) Other intangible assets arising from business combinations

(i) Trademark

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

(ii) Patent

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

(iii) Customer relationship

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

(iv) Computer software

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

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies *(continued)*

2.10 Financial assets

(a) Classification

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

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

(b) Recognition and measurement

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.12.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Impairment of financial assets

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

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

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

2. Summary of significant accounting policies *(continued)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operation capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade, bills and other receivables

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

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

2.15 Restricted cash, cash and cash equivalents

Amounts include cash in hand, deposits held at call with banks.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, bills and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Current and deferred income tax

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

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

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

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

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

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

2. Summary of significant accounting policies *(continued)*

2.21 Employee benefits

(a) Pension obligations

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

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all eligible employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate income and HK$1,000 to HK$1,250, as appropriate. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

(b) Employee leave entitlements

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

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

(c) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

2. Summary of significant accounting policies *(continued)*

2.21 Employee benefits *(continued)*

(c) Share-based compensation *(continued)*

When the options are exercised, the Company issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue and other income recognition

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

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

(a) Sales of goods

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

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Sales of electricity

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

2.24 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies *(continued)*

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plants and equipment are deducted from the cost of additions of the related assets and consequently are effectively recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related assets by way of reduced depreciation/amortisation charges.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where applicable.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The sales transactions of the Group are denominated in United States Dollars ("US$"), Hong Kong Dollars ("HK$") and RMB. There are purchases of raw materials and acquisition of plant and equipment that are required to be settled in US$, HK$, EURO, Great Britain Pound ("GBP") and Japanese Yen ("JPY"). RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

To manage the Group's exposure to fluctuations in foreign exchange rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments were used to hedge material exposure. At 30 June 2012, if RMB had weakened/strengthened by 2.0% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2012 would have been RMB70,353,000 lower/higher (at 30 June 2011, if RMB had weakened/strengthened by 1.0% against US$, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB42,609,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

At 30 June 2012, if RMB had weakened/strengthened by 2.0% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2012 would have been RMB25,422,000 lower/higher (at 30 June 2011, if RMB had weakened/strengthened by 1.0% against HK$, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB7,812,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of HK$-denominated cash and cash equivalents, trade and other receivables and borrowings.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk *(continued)*

At 30 June 2012, if RMB had weakened/strengthened by 16.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2012 would have been RMB167,147,000 lower/higher (at 30 June 2011, if RMB had weakened/strengthened by 1.0% against EURO, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB14,250,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of EURO-denominated cash and cash equivalents, trade and other payables and borrowings.

(b) Interest rate risk

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

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

At 30 June 2012, if interest rates on borrowings had been 25 basis point higher/lower with all other variables held constant, post-tax profit for the year would have been RMB26,886,000 lower/higher (at 30 June 2011, if interest rates on borrowings had been 25 basis points higher/lower, with all other variables held constant, post-tax profit for the year ended 30 June 2011 would have been RMB24,585,000 lower/higher), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

Credit risk arises from restricted cash, cash at bank and bank deposits, trade, bills receivables and other receivables.

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

The table below shows the restricted cash, cash at bank and bank deposit balances of the major counterparties with external credit ratings as at 30 June 2012.

Counterparties with external credit rating (Note)

	30 June 2012 RMB'000	30 June 2011 RMB'000
Aa3	**19,345**	7,692
A1	**2,084,321**	1,276,657
A3	**1,012,909**	380,027
Baa2	**1,474**	5,947
Baa3	**342,683**	196,415
Ba1	**3,513**	—
Ba2	**—**	71,338
others	**805,640**	657,954
	4,269,885	2,596,030

Note: The source of credit rating is from Moody's.

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

Credit risk related to receivables is the risk that the receivables cannot be collected on the due date. The Group has policies in place to ensure that sales of goods are made to customers with a good credit quality based on assessment of ageing of trade receivables, repayment history, the customers' financial position and other factors.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprises undrawn borrowing facility (Note 15) and cash and cash equivalents (Note 12) on the basis of expected cash flow.

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 30 June 2012				
Borrowings	**6,431,108**	**9,525,124**	**11,596,272**	**1,913,013**
Trade, bills and other payables	**7,504,993**	**55,406**	**–**	**–**
At 30 June 2011				
Borrowings	4,140,587	9,570,555	10,174,137	3,347,185
Trade, bills and other payables	3,744,690	–	–	–
Company				
At 30 June 2012				
Borrowings	**17,956**	**526,765**	**–**	**–**
Other payables	**3,239**	**–**	**–**	**–**
At 30 June 2011				
Borrowings	363,082	9,389	313,734	–
Other payables	8,533	–	–	–
Amounts due to subsidiaries	28,422	–	–	–

Note: Interest on borrowings is calculated on borrowings held as at 30 June 2012 and 2011, respectively. Floating-rate interest is estimated using the current interest rate as at 30 June 2012 and 2011, respectively.

3. Financial risk management *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

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

The gearing ratio is calculated as follows:

	30 June 2012 RMB'000	30 June 2011 RMB'000
Total borrowings (Note 15)	**26,294,754**	23,976,689
Less: cash and cash equivalents and restricted cash	**(4,368,217)**	(2,597,704)
Net debt	**21,926,537**	21,378,985
Total equity	**21,981,789**	21,020,660
Gearing ratio	**99.7%**	101.7%

3.3 Fair value estimation

The carrying amounts of trade, bills and other receivables, cash at bank and bank deposits, trade, bills and other payables and short-term borrowings approximate their fair values due to their short term nature. The fair values of long-term borrowings are discussed in Note 15(j).

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated recoverable amounts of intangible assets with indefinite useful lives

Determining whether intangible assets with indefinite useful lives are impaired requires an estimation of the value-in-use calculation. These calculations require the use of estimates (Note 8).

(b) Useful lives of plant and machinery

The Group's management determines the estimated useful lives and related depreciation expense for its plant and machinery for paper manufacturing. The estimate is based on the expected lifespan of the paper machines. It could change significantly as result of technical innovations in response to industry cycles. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. Critical accounting estimates and judgements *(continued)*

(b) Useful lives of plant and machinery *(continued)*

Should the actual useful lives of the paper manufacturing plant and machinery be 10% differ from management's estimate, the carrying amount of the plant and machinery as at 30 June 2012 would be RMB373,043,000 (2011: RMB293,743,000) higher or RMB455,941,000 (2011: RMB359,019,000) lower.

(c) Plant and machinery under construction

Plant and machinery under construction is tested for its functionality in order to ascertain that it is capable of operating in a manner intended by management. Cost of testing after deducting the net proceeds from selling any items produced during testing period are capitalised as cost to the plant and machinery under construction. Plant and machinery under construction are transferred to property, plant and equipment and depreciated when they are ready for intended use. The determination of intended use requires significant judgement.

Had these plant and machinery under construction, which had been transferred to property, plant and equipment during the year ended 30 June 2012, been capable to operate in the manner intended by management one month earlier or later, net profit for the year ended 30 June 2012 would have been RMB77,995,000 lower (2011: RMB6,799,000 higher) and RMB32,896,000 higher (2011: RMB1,912,000 lower), respectively.

(d) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group follow the guidance of HKAS 36 to determine whether an asset is impaired. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling goods of similar nature. It could change significantly as a result of change in market condition. Write-downs on inventories are recognised where events or changes in circumstances indicate that the value of the inventories may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories is recognised in the period in which such estimate has been changed.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements *(continued)*

(f) Provision for impairment of receivables

The Group makes provision for impairment in receivables based on an assessment of the recoverability of receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the receivables and impairment is recognised in the period in which such estimate has been changed.

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

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

(h) Income taxation and deferred taxation

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

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

5. Segment information

Management has determined the operating segments based on the reports reviewed by the directors of the Company, which are used to allocate resources and assess performance.

The Group is principally engaged in the manufacture and sales of packaging paper, recycled printing and writing paper, pulp and high value specialty paper products in the PRC. Management review the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the directors of the Company regards that there is only one segment which is used to make strategic decisions.

The Group is domiciled in the PRC. The revenue from external customers attributable to the PRC for the year ended 30 June 2012 is RMB24,239,684,000 (2011: RMB21,052,628,000), and the total of its revenue from external customers from other countries is RMB2,930,053,000 (2011: RMB3,334,277,000). The breakdown of the major products of the total sales is disclosed in Note 18.

As at 30 June 2012, the total of non-current assets other than deferred tax assets located in the PRC is RMB44,045,506,000 (2011: RMB40,254,831,000), and the total of these non-current assets located in other countries is RMB102,919,000 (2011: RMB123,679,000).

6. Property, plant and equipment

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Transportation, logistic and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 July 2010						
Cost	4,364,591	21,444,737	395,224	438,525	6,898,016	33,541,093
Accumulated depreciation	(690,500)	(2,430,411)	(126,378)	(136,348)	–	(3,383,637)
Net book amount	3,674,091	19,014,326	268,846	302,177	6,898,016	30,157,456
Year ended 30 June 2011						
Opening net book amount	3,674,091	19,014,326	268,846	302,177	6,898,016	30,157,456
Acquisition of subsidiaries	295,600	988,110	1,742	77,087	40,511	1,403,050
Additions	6,681	78,147	127,098	39,798	8,081,638	8,333,362
Transfer	476,559	1,922,893	17,019	33,366	(2,449,837)	–
Tax benefit (Note (a))	–	(98,356)	–	–	–	(98,356)
Disposals (Note 27)	(2,254)	(45,787)	(2,051)	(126,177)	–	(176,269)
Depreciation (Note 20)	(205,530)	(678,088)	(45,776)	(46,001)	–	(975,395)
Exchange differences	(3,820)	(11,469)	(20)	(312)	(64)	(15,685)
Closing net book amount	4,241,327	21,169,776	366,858	279,938	12,570,264	38,628,163
At 30 June 2011						
Cost	5,135,711	24,254,411	534,768	441,905	12,570,264	42,937,059
Accumulated depreciation	(894,384)	(3,084,635)	(167,910)	(161,967)	–	(4,308,896)
Net book amount	4,241,327	21,169,776	366,858	279,938	12,570,264	38,628,163

Group

	Buildings RMB'000	**Plant and machinery RMB'000**	**Furniture, fixtures and equipment RMB'000**	**Transportation, logistic and motor vehicles RMB'000**	**Construction in progress RMB'000**	**Total RMB'000**
Year ended 30 June 2012						
Opening net book amount	**4,241,327**	**21,169,776**	**366,858**	**279,938**	**12,570,264**	**38,628,163**
Additions	**33,566**	**71,603**	**2,178**	**61,466**	**4,966,983**	**5,135,796**
Transfer	**1,644,995**	**10,034,958**	**7,753**	**44,561**	**(11,732,267)**	**–**
Tax benefit (Note (a))	**–**	**(76,635)**	**–**	**–**	**–**	**(76,635)**
Disposals (Note 27)	**(5,855)**	**(10,303)**	**(1,321)**	**(4,180)**	**(333)**	**(21,992)**
Depreciation (Note 20)	**(260,594)**	**(924,399)**	**(53,041)**	**(62,498)**	**–**	**(1,300,532)**
Exchange differences	**(1,073)**	**(3,051)**	**(5)**	**(67)**	**(71)**	**(4,267)**
Closing net book amount	**5,652,366**	**30,261,949**	**322,422**	**319,220**	**5,804,576**	**42,360,533**
At 30 June 2012						
Cost	**6,872,259**	**34,365,421**	**541,724**	**565,008**	**5,804,576**	**48,148,988**
Accumulated depreciation	**(1,219,893)**	**(4,103,472)**	**(219,302)**	**(245,788)**	**–**	**(5,788,455)**
Net book amount	**5,652,366**	**30,261,949**	**322,422**	**319,220**	**5,804,576**	**42,360,533**

Notes to the Consolidated Financial Statements

6. Property, plant and equipment *(continued)*

Company

	Furniture, fixtures and equipment RMB'000	**Motor vehicles** RMB'000	**Total** RMB'000
At 1 July 2010			
Cost	63	2,750	2,813
Accumulated depreciation	(32)	(833)	(865)
Net book amount	31	1,917	1,948
Year ended 30 June 2011			
Opening net book amount	31	1,917	1,948
Depreciation	(12)	(335)	(347)
Closing net book amount	19	1,582	1,601
At 30 June 2011			
Cost	63	2,750	2,813
Accumulated depreciation	(44)	(1,168)	(1,212)
Net book amount	19	1,582	1,601
Year ended 30 June 2012			
Opening net book amount	**19**	**1,582**	**1,601**
Depreciation	**(12)**	**(334)**	**(346)**
Closing net book amount	**7**	**1,248**	**1,255**
At 30 June 2012			
Cost	**63**	**2,750**	**2,813**
Accumulated depreciation	**(56)**	**(1,502)**	**(1,558)**
Net book amount	**7**	**1,248**	**1,255**

(a) During the year, the Group has received tax benefit of RMB76,635,000 (2011: RMB98,356,000) relating to the purchase of qualified equipment manufactured in the PRC. The amount has been deducted from the cost of additions of the plant and machinery.

(b) Certain property, plant and equipment of the Group with carrying values of approximately RMB1,457,287,000 as at 30 June 2012 (2011: RMB522,195,000) had been pledged for the borrowings of the Group (Note 15).

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

	For the year ended 30 June **2012** **RMB'000**	2011 RMB'000
Cost of goods sold	**1,098,513**	823,292
Other expenses	**2,249**	4,843
Administrative expenses	**128,253**	99,305
Selling and marketing costs	**71,517**	47,955
Total depreciation expenses	**1,300,532**	975,395

(d) As at 30 June 2012, all buildings are located in the mainland China.

7. Land use rights — Group

	Land use rights RMB'000
At 1 July 2010	
Cost	1,423,252
Accumulated amortisation	(123,645)
Net book amount	1,299,607
Year ended 30 June 2011	
Opening net book amount	1,299,607
Acquisition of subsidiaries	74,400
Additions	177,305
Amortisation (Note 20)	(31,081)
Exchange differences	(4,711)
Closing net book amount	1,515,520
At 30 June 2011	
Cost	1,674,957
Accumulated amortisation	(159,437)
Net book amount	1,515,520
Year ended 30 June 2012	
Opening net book amount	**1,515,520**
Additions	**76,988**
Amortisation (Note 20)	**(33,551)**
Exchange differences	**(1,329)**
Closing net book amount	**1,557,628**
At 30 June 2012	
Cost	**1,751,945**
Accumulated amortisation	**(194,317)**
Net book amount	**1,557,628**

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

Amortisation of RMB33,551,000 (2011: RMB31,081,000) is included in the "cost of goods sold" of the consolidated income statement.

As at 30 June 2012, the Group is in the process of applying the title certificates for certain of its land use rights with an aggregate carrying value of RMB228,749,000 (2011: RMB244,375,000). However, the directors of the Company are of the opinion that substantially all risks and rewards of these land use rights have already been transferred to the Group.

Certain land use rights of the Group with carrying values of approximately RMB71,870,000 as at 30 June 2012 (2011: RMB73,557,000) had been pledged for the borrowings of the Group (Note 15).

Notes to the Consolidated Financial Statements

8. Intangible assets — Group

	Goodwill RMB'000	Trademark RMB'000	Patent RMB'000	Customer relationship RMB'000	Computer software RMB'000	Total RMB'000
At 1 July 2010						
Cost	221,830	56,357	4,524	30,709	9,030	322,450
Accumulated amortisation and impairment charge	(75,136)	–	(1,132)	(6,142)	(497)	(82,907)
Net book amount	146,694	56,357	3,392	24,567	8,533	239,543
Year ended 30 June 2011						
Opening net book amount	146,694	56,357	3,392	24,567	8,533	239,543
Amortisation (Note 20)	–	–	(566)	(3,071)	(1,079)	(4,716)
Closing net book amount	146,694	56,357	2,826	21,496	7,454	234,827
At 30 June 2011						
Cost	221,830	56,357	4,524	30,709	9,030	322,450
Accumulated amortisation and impairment charge	(75,136)	–	(1,698)	(9,213)	(1,576)	(87,623)
Net book amount	146,694	56,357	2,826	21,496	7,454	234,827

	Goodwill RMB'000	**Trademark RMB'000**	**Patent RMB'000**	**Customer relationship RMB'000**	**Computer software RMB'000**	**Total RMB'000**
Year ended 30 June 2012						
Opening net book amount	**146,694**	**56,357**	**2,826**	**21,496**	**7,454**	**234,827**
Amortisation (Note 20)	**–**	**–**	**(566)**	**(3,071)**	**(926)**	**(4,563)**
Closing net book amount	**146,694**	**56,357**	**2,260**	**18,425**	**6,528**	**230,264**
At 30 June 2012						
Cost	**221,830**	**56,357**	**4,524**	**30,709**	**9,030**	**322,450**
Accumulated amortisation and impairment charge	**(75,136)**	**–**	**(2,264)**	**(12,284)**	**(2,502)**	**(92,186)**
Net book amount	**146,694**	**56,357**	**2,260**	**18,425**	**6,528**	**230,264**

Amortisation of RMB4,563,000 (2011: RMB4,716,000) is included in the "administrative expenses" of the consolidated income statement.

8. Intangible assets — Group *(continued)*

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, which is based on management's past experience and its expectation for the market development and is consistent with their business plan. Cash flows beyond the ten-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations:

	30 June 2012
Gross margin (Note (i))	**17%**
Long-term growth rate (Note (ii))	**1%**
Discount rate (Note (iii))	**16%**

Note:

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

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

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

As at 30 June 2012, management of the Group was of the view there was no impairment of goodwill (2011: Nil).

As at 30 June 2012, if the budgeted gross margin applied to the cash flow projections had been 5% lower, or if a long-term growth rate of 0% was applied in the value-in-use calculation, or if the discount rate applied in the value-in-use calculation had been 5% higher, with other variables held at constant, the recoverable amount of goodwill would still exceed its carrying value and no impairment will be required.

(b) Impairment test for trademark

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

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

	30 June 2012
Royalty rate (Note (i))	**2%**
Long-term growth rate (Note (ii))	**4%**
Discount rate (Note (iii))	**14%**

Note:

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

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

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

8. Intangible assets — Group *(continued)*

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

As at 30 June 2012, management of the Group was of the view there was no impairment of trademark (2011: Nil).

As at 30 June 2012, if the royalty rate, or the long-term growth rate applied to the cash flow projections had been 5% lower, or if the discount rate applied in the valuation had been 5% higher, with other variables held at constant, the recoverable amount of trademark would still exceed its carrying value and no impairment will be required.

9. Investments in subsidiaries — Company

	30 June 2012 RMB'000	30 June 2011 RMB'000
Investments in unlisted shares, at cost	**2,386,700**	2,386,700
Share options granted to employees of subsidiaries	**54,493**	52,228
	2,441,193	2,438,928

The following is a list of the principal subsidiaries as at 30 June 2012:

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI"), limited liability company	Investment holdings/PRC	US$10,000	100%
Indirectly held:				
Nine Dragons Worldwide Investment Limited	Hong Kong, limited liability company	Investment holdings/PRC	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$238,024,000	99.9%
Dongguan Sea Dragon Paper Industries Company Limited [1]	PRC, limited liability company	Manufacture of paper/PRC	US$193,300,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$164,040,000	99.9%
Nine Dragons Paper Industries (Taicang) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$450,720,000	99.5%

9. Investments in subsidiaries — Company *(continued)*

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity interest held
Indirectly held:				
Nine Dragons Paper Industries (Chongqing) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$230,760,000	99.9%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited [2]	PRC, limited liability company	Manufacture of pulp and paper/PRC	RMB163,640,000	55%
Nine Dragons Paper Industries (Tianjin) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$97,520,000	99.9%
Shine Dragon Paper Industries (Tianjin) Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$68,360,000	99.9%
Hebei Yongxin Paper Co., Ltd. [1]	PRC, limited liability company	Manufacture of paper/PRC	US$68,995,000	78.13%
Cheng Yang Paper Mill Co., Ltd.	Vietnam, limited liability company	Manufacture of paper/Vietnam	US$30,000,000	60%

The English names of those subsidiaries incorporated in the PRC represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

Kind of legal entities:

[1] Sino-foreign equity joint venture enterprise

[2] Domestic enterprise

Notes to the Consolidated Financial Statements

10. Inventories — Group

	30 June 2012 RMB'000	30 June 2011 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

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Trade receivables				
— third parties (Note (d))	**1,723,931**	2,003,478	**—**	—
Bills receivable				
— third parties (Note (f))	**1,195,924**	1,499,009	**—**	—
— related parties (Note (b) & 29(d))	**899**	—	**—**	—
	2,920,754	3,502,487	**—**	—
Value-added tax receivables	**1,739,450**	1,119,291	**—**	—
Other receivables and deposits				
— third parties	**484,465**	454,454	**—**	—
— related parties (Note (b) & 29(d))	**117**	9,036	**3,376**	11,772
Prepayments				
— third parties	**310,637**	222,683	**—**	—
	2,534,669	1,805,464	**3,376**	11,772
Amounts due from subsidiaries (Note (c))	**—**	—	**10,132,409**	10,043,919
	5,455,423	5,307,951	**10,135,785**	10,055,691

(a) As at 30 June 2012, the fair value of trade, bills and other receivables approximate their carrying amounts.

11. Trade, bills and other receivables and prepayments *(continued)*

(b) The amounts due are unsecured, interest free and have a credit period of 60 days.

(c) Amounts due from subsidiaries are unsecured, interest free and repayable upon demand. The amounts are mainly denominated in the following currencies:

	Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000
RMB	**3,794,056**	3,096,018
HK$	**3,921,573**	4,390,188
US$	**2,397,260**	2,557,713
Others	**19,520**	—
	10,132,409	10,043,919

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

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

	Group	
	30 June 2012 RMB'000	30 June 2011 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.

(e) Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

Trade receivables are analysed below:

	Group	
	30 June 2012 RMB'000	30 June 2011 RMB'000
Fully performing under credit term (Note (i))	**1,689,486**	1,916,633
Past due but not impaired (Note (ii))	**34,445**	86,845
Total trade receivables	**1,723,931**	2,003,478

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

11. Trade, bills and other receivables and prepayments *(continued)*

(e) *(continued)*

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

	Group	
	30 June 2012 RMB'000	30 June 2011 RMB'000
0–30 days	**11,000**	26,192
31–60 days	**15,444**	50,871
61–90 days	**4,325**	5,731
Over 90 days	**3,676**	4,051
	34,445	86,845

(f) Bills receivables from third parties are normally with maturity period of 90 to 180 days (30 June 2011: 90 to 180 days).

(g) The carrying amounts of trade, bills and other receivables are denominated in the following currencies:

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
RMB	**4,937,700**	4,829,347	**–**	–
HK$	**117,786**	153,011	**3,376**	11,772
Others	**89,300**	102,910	**–**	–
	5,144,786	5,085,268	**3,376**	11,772

(h) Movements on the provision for impairment of other receivables are as follows:

	Group	
	30 June 2012 RMB'000	30 June 2011 RMB'000
Balance at 1 January	**19,000**	–
Provision for impairment during the year	**–**	19,000
Unused amounts reversed	**(19,000)**	–
Balance at 30 June	**–**	19,000

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

12. Cash and cash equivalents

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Cash at bank and in hand	**4,153,005**	2,422,097	**13,504**	8,506
Short-term time deposits	**211,534**	78,157	**—**	—
	4,364,539	2,500,254	**13,504**	8,506
Denominated in:				
RMB	**3,484,871**	1,826,151	**5,336**	—
HK$	**228,679**	160,978	**2,793**	2,688
US$	**583,677**	417,817	**5,328**	5,654
Others	**67,312**	95,308	**47**	164
	4,364,539	2,500,254	**13,504**	8,506

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Maximum exposure to credit risk	**4,266,207**	2,498,580	**13,504**	8,506

The maximum exposure to credit risk is the carrying amount of bank balances and short-term time deposits.

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are placed for periods of three months or less depending on the immediate cash requirement of the Group. As at 30 June 2012, the weighted average effective interest rate of these deposits was 1.8% (2011: 2.0%).

Notes to the Consolidated Financial Statements

13. Share capital

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid						
At 1 July 2010		4,629,554,167	462,955	475,132	8,618,615	9,093,747
Exercise of share options	14(b)	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	14(b)	**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**

The total authorised number of ordinary shares as at 30 June 2012 is 8,000,000,000 shares (2011: 8,000,000,000 shares) with a par value of HK$0.1 per share (2011: HK$0.1 per share).

14. Other reserves

Group

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000 (Note (b))	Statutory reserve and enterprise expansion fund RMB'000 (Note (c))	Currency translation reserve RMB'000	Cash flow hedge reserve RMB'000	Total RMB'000
At 1 July 2010	660,542	98,980	34,541	450,050	(30,068)	8,543	1,222,588
Transfer from net profit	–	–	–	8,033	–	–	8,033
Share options granted to directors and employees	–	–	3,971	–	–	–	3,971
Exercise and lapse of share options	–	–	(8,749)	–	–	–	(8,749)
Currency translation differences	–	–	–	–	(17,680)	–	(17,680)
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 22)	–	–	–	–	–	(7,790)	(7,790)
At 30 June 2011	660,542	98,980	29,763	458,083	(47,748)	753	1,200,373

14. Other reserves *(continued)*

Group

	Contributed surplus RMB'000 (Note (a))	Capital reserve RMB'000	Share option reserve RMB'000 (Note (b))	Statutory reserve and enterprise expansion fund RMB'000 (Note (c))	Currency translation reserve RMB'000	Cash flow hedge reserve RMB'000	Total RMB'000
At 1 July 2011	660,542	98,980	29,763	458,083	(47,748)	753	1,200,373
Share options granted to directors and employees	–	–	2,265	–	–	–	2,265
Exercise and lapse of share options	–	–	(14,886)	–	–	–	(14,886)
Currency translation differences	–	–	–	–	(5,409)	–	(5,409)
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 22)	–	–	–	–	–	(753)	(753)
At 30 June 2012	660,542	98,980	17,142	458,083	(53,157)	–	1,181,590

Company

	Contributed surplus RMB'000 (Note (d))	Share option reserve RMB'000 (Note (b))	Cash flow hedge reserve RMB'000	Total RMB'000
At 1 July 2010	2,074,700	34,541	8,543	2,117,784
Share options granted to directors and employees	—	3,971	—	3,971
Exercise and lapse of share options	—	(8,749)	—	(8,749)
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 22)	—	—	(7,790)	(7,790)
At 30 June 2011	2,074,700	29,763	753	2,105,216
At 1 July 2011	**2,074,700**	**29,763**	**753**	**2,105,216**
Share options granted to directors and employees	**–**	**2,265**	**–**	**2,265**
Exercise and lapse of share options	**–**	**(14,886)**	**–**	**(14,886)**
Cash flow hedge reserve released to set off the impact of hedged items that affected the income statement (Note 22)	**–**	**–**	**(753)**	**(753)**
At 30 June 2012	**2,074,700**	**17,142**	**–**	**2,091,842**

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

Notes to the Consolidated Financial Statements

14. Other reserves *(continued)*

(b) Share options reserve

A summary of the share option schemes, details of the movement in share options and valuation of the share options are set out on pages 33 to 36 of the Company's annual report for the year ended 30 June 2012.

(c) Statutory reserve and enterprise expansion fund

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

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

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

15. Borrowings

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Non-current				
— Long-term bank and other borrowings	**20,102,047**	18,490,119	**511,318**	306,773
— Club term loan (Note (a))	**–**	2,483,373	**–**	–
— Medium-term note (Note (b))	**1,090,419**	–	**–**	–
	21,192,466	20,973,492	**511,318**	306,773
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 loan (Note (a))	**2,456,100**	831,944	**–**	–
— Short-term commercial paper (Note (c))	**996,571**	–	**–**	–
— Senior notes (Note (d))	**–**	353,693	**–**	353,693
	5,102,288	3,003,197	**–**	353,693
	26,294,754	23,976,689	**511,318**	660,466

15. Borrowings *(continued)*

(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) As at 30 June 2012, borrowings of RMB663,208,000 (30 June 2011: RMB250,547,000) are secured by certain property, plant and equipment (Note 6) and land use rights (Note 7) of the Group, borrowings of RMB21,372,597,000 (30 June 2011: RMB21,607,256,000) are guaranteed by certain subsidiaries within the Group.

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

	Group		**Company**	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
6 months or less	**16,837,463**	17,039,415	**313,620**	660,466
6–12 months	**5,220,569**	5,355,233	**–**	–
1–5 years	**4,236,722**	1,582,041	**197,698**	–
	26,294,754	23,976,689	**511,318**	660,466

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

Group

	30 June 2012				
	Bank and other borrowings RMB'000	**Club term loan RMB'000**	**Short-term commercial paper RMB'000**	**Medium-term note RMB'000**	**Total 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**

15. Borrowings *(continued)*

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

	30 June 2011			
	Bank and other borrowings RMB'000	Club term loan RMB'000	Senior notes RMB'000	Total 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

Company

	30 June 2012	30 June 2011		
	Bank borrowings RMB'000	Bank borrowings RMB'000	Senior notes RMB'000	Total RMB'000
Within 1 year	**—**	—	353,693	353,693
Between 1 and 2 years	**511,318**	—	—	—
Between 2 and 5 years	**—**	306,773	—	306,773
	511,318	306,773	353,693	660,466

(h) The repayment terms of the borrowings are analysed as follows:

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Wholly repayable within 5 years	**21,837,445**	20,109,069	**511,318**	660,466
Not wholly repayable within 5 years	**4,457,309**	3,867,620	**—**	—
	26,294,754	23,976,689	**511,318**	660,466

15. Borrowings *(continued)*

(i) The effective interest rates as at 30 June 2012 are as follows:

	Group				Company	
	30 June 2012				30 June 2012	
	RMB	HK$	US$	Euro	US$	RMB
Long-term bank and other borrowings	**6.31%**	**2.53%**	**4.20%**	**4.58%**	**3.15%**	**4.00%**
Short-term bank borrowings	**6.95%**	**–**	**3.73%**	**–**	**–**	**–**
Club term loan	**5.99%**	**–**	**2.06%**	**–**	**–**	**–**
Medium-term note and Short-term commercial paper	**6.78%**	**–**	**–**	**–**	**–**	**–**

	Group				Company
	30 June 2011				30 June 2011
	RMB	HK$	US$	Euro	US$
Long-term bank borrowings	5.83%	1.75%	2.97%	4.57%	3.06%
Short-term bank borrowings	4.92%	1.49%	3.36%	–	–
Club term loan	5.76%	–	1.76%	–	–
Senior notes	–	–	9.88%	–	9.88%

(j) The carrying amounts of short-term borrowings and current portion of long-term borrowings approximate their fair values.

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date. As the Group's non-current borrowings are mainly carried at floating rates, as at 30 June 2012, the carrying values of non-current borrowings approximate their fair values.

(k) The carrying amounts of all the Group's borrowings as at 30 June 2012 are denominated in the following currencies:

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
RMB	**19,121,071**	17,524,458	**197,698**	–
US$	**3,964,227**	4,154,206	**313,620**	660,466
HK$	**1,999,429**	1,184,469	**–**	–
Euro	**1,210,027**	1,113,556	**–**	–
	26,294,754	23,976,689	**511,318**	660,466

Notes to the Consolidated Financial Statements

15. Borrowings *(continued)*

(l) The Group has the following undrawn borrowing facilities:

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
At floating rates:				
— expiring within one year	**14,711,124**	9,814,093	**632,490**	800,000
— expiring beyond one year	**6,628,483**	5,386,517	**1,581,225**	200,000
	21,339,607	15,200,610	**2,213,715**	1,000,000

16. Deferred income tax — Group

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	30 June 2012 RMB'000	30 June 2011 RMB'000
Deferred tax assets:		
— Deferred tax asset to be recovered within 12 months	**(24,993)**	(16,682)
Deferred income tax liabilities to be payable within 12 months	**2,142**	2,142
Deferred income tax liabilities to be payable after more than 12 months	**1,135,345**	903,180
	1,137,487	905,322
Deferred tax liabilities (net)	**1,112,494**	888,640

The net movement on the deferred income tax assets and liabilities is as follows:

	For the year ended 30 June	
	2012 RMB'000	2011 RMB'000
Beginning of the year	**888,640**	710,863
Recognised in the consolidated income statement (Note 23)	**224,031**	141,595
Acquisition of subsidiaries	**—**	36,803
Exchange differences	**(177)**	(621)
End of the year	**1,112,494**	888,640

16. Deferred income tax — Group *(continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities	**Accelerated tax depreciation** RMB'000
At 1 July 2010	710,863
Charged to the consolidated income statement	161,983
Acquisition of subsidiaries	36,803
Exchange differences	(621)
At 30 June 2011	909,028
At 1 July 2011	**909,028**
Charged to the consolidated income statement	**282,756**
Exchange differences	**(177)**
At 30 June 2012	**1,191,607**

Deferred income tax assets	**Accelerated tax amortisation** RMB'000	**Tax losses** RMB'000	**Total** RMB'000
At 1 July 2010	—	—	—
Credited to the consolidated income statement	—	(20,388)	(20,388)
At 30 June 2011	—	(20,388)	(20,388)
At 1 July 2011	**—**	**(20,388)**	**(20,388)**
Credited to the consolidated income statement	**(30,483)**	**(28,242)**	**(58,725)**
At 30 June 2012	**(30,483)**	**(48,630)**	**(79,113)**

Notes to the Consolidated Financial Statements

16. Deferred income tax — Group *(continued)*

(a) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. The Group did not recognise deferred tax assets of RMB55,419,000 (2011: RMB40,294,000) in respect of tax losses amounting to RMB306,557,000 (2011: RMB226,850,000) as at 30 June 2012 as management believes it is more likely than not that such tax losses would not be utilised before they expire, or would not be utilised in the foreseeable future. As at 30 June 2012, the tax losses carried forward will be expired in the following years:

	30 June 2012 RMB'000	30 June 2011 RMB'000
2012	**331**	1,081
2013	**1,345**	1,345
2014	**1,123**	4,039
2015	**569**	1,925
2016	**23,570**	25,309
2017	**29,969**	—
Tax losses with no expiry date	**249,650**	193,151
	306,557	226,850

(b) Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008. Deferred income tax liabilities of approximately RMB646,256,000 (2011: approximately RMB486,112,000) have not been provided for in these consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Group's PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not reverse in the foreseeable future.

17. Trade, bills and other payables and deposits received

	Group		Company	
	30 June 2012 RMB'000	30 June 2011 RMB'000	**30 June 2012 RMB'000**	30 June 2011 RMB'000
Trade payables (Note (d))				
— third parties	**1,608,962**	358,563	**—**	—
— related parties (Note 29)	**939,772**	614,173	**—**	—
	2,548,734	972,736	**—**	—
Bills payable				
— third parties (Note (b))	**3,182,604**	1,338,486	**—**	—
	5,731,338	2,311,222	**—**	—
Deposits from customers				
— third parties	**669,931**	815,753	**—**	—
— related party (Note 29)	**—**	22,693	**—**	—
Other payables				
— third parties (Note (c))	**2,026,754**	1,562,007	**3,239**	8,533
Staff welfare benefits payable	**68,987**	92,124	**—**	—
Less: other payables included in non-current liabilities	**(55,406)**	—	**—**	—
	2,710,266	2,492,577	**3,239**	8,533
Amounts due to subsidiaries (Note (a))	**—**	—	**—**	28,422
	8,441,604	4,803,799	**3,239**	36,955

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

(b) Bills payables from third parties are normally with maturity period of 90 to 180 days (30 June 2011: 90 to 180 days)

(c) Other payables mainly represent payables for acquisition of property, plant and equipment.

Notes to the Consolidated Financial Statements

17. Trade, bills and other payables and deposits received *(continued)*

(d) The ageing analysis of trade payables as at 30 June 2012 is as follows:

	Group	
	30 June 2012 RMB'000	30 June 2011 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

18. Sales

Turnover and revenue of the Group for the year are as follow:

	For the year ended 30 June	
	2012 RMB'000	2011 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

19. Other income/(expenses) and other gains/(losses), net

	For the year ended 30 June	
	2012 RMB'000	2011 RMB'000
Other income		
— subsidy income	**94,807**	47,904
— sales of electricity	**117,806**	193,206
Other expenses		
— cost of sales of electricity	**(100,196)**	(174,555)
Other gains/(losses) — net		
— net foreign exchange (losses)/gains on operating activities	**(54,496)**	51,115
— loss on disposal of property, plant and equipment	**(9,412)**	(52,803)
— others	**14,181**	19,910
	62,690	84,777

20. 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	
	2012	2011
	RMB'000	RMB'000
Depreciation (Note 6)	**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 8)	**4,563**	4,716
Employee benefit expenses (Note 21)	**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
Transportation	**239,776**	228,398
Operating leases		
— Land use rights (Note 7)	**33,551**	31,081
— Buildings	**2,602**	2,404
Auditor's remuneration	**6,900**	6,900
Non-deductible value-added tax for indirect export sales	**70,673**	61,878
(Reversal of)/provision for impairment of receivables	**(19,000)**	19,000
Other expenses	**173,460**	348,808
	24,162,410	21,313,970

21. Employee benefit expenses

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	**999,796**	677,279
Share options granted to directors and employees (Notes 14)	**2,265**	3,971
Pension costs — defined contribution plans (Note (a))	**25,738**	22,717
Medical benefits	**6,503**	5,882
Other allowances and benefits	**13,233**	6,050
	1,047,535	715,899

(a) Pensions costs — defined contribution plans

The details of retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement are as follows:

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Gross scheme contributions	**25,738**	22,717

Notes to the Consolidated Financial Statements

21. Employee benefit expenses *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of each of the directors of the Company for the year ended 30 June 2012 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan ("Ms. Cheung")	4,181	1,673	–	–	–	–	5,854
Mr. Liu Ming Chung ("Mr. Liu")	3,972	1,464	–	–	–	–	5,436
Mr. Zhang Cheng Fei ("Mr. Zhang")	3,821	782	–	1,059	–	–	5,662
Mr. Zhang Yuan Fu	815	–	2,815	–	300	10	3,940
Mr. Lau Chun Shun	333	–	265	–	642	3	1,243
Ms. Gao Jing	239	–	182	246	–	–	667
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	430	–	–	108	–	–	538
Mr. Chung Shui Ming, Timpson	430	–	–	108	–	–	538
Dr. Cheng Chi Pang	430	–	–	108	–	–	538
Mr. Wang Hong Bo	240	–	–	–	–	–	240
	14,891	3,919	3,262	1,629	942	13	24,656

The remuneration of each of the directors of the Company for the year ended 30 June 2011 is set out below:

Name of director	Fees RMB'000	Allowance RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors							
Ms. Cheung Yan	4,095	1,471	–	–	–	–	5,566
Mr. Liu Ming Chung	3,890	1,278	–	–	–	–	5,168
Mr. Zhang Cheng Fei	3,685	688	–	–	–	–	4,373
Mr. Zhang Yuan Fu	853	–	2,123	–	507	10	3,493
Mr. Lau Chun Shun	348	–	–	–	1,133	5	1,486
Ms. Gao Jing	288	–	82	–	–	–	370
Independent non-executive directors							
Ms. Tam Wai Chu, Maria	450	–	–	113	–	–	563
Mr. Chung Shui Ming, Timpson	450	–	–	113	–	–	563
Dr. Cheng Chi Pang	450	–	–	113	–	–	563
Mr. Wang Hong Bo	288	–	–	–	–	–	288
	14,797	3,437	2,205	339	1,640	15	22,433

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or has agreed to waive any emoluments during the year presented.

21. Employee benefit expenses *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2012 include four (2011: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2011: one) individual during the year are as follows:

	For the year ended 30 June	
	2012 **RMB'000**	2011 RMB'000
Pension costs	**—**	—
Salaries, share options, other allowances and benefits in kind	**3,132**	2,387
	3,132	2,387

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2012	2011
RMB2,000,001 to RMB4,000,000	**1**	1

22. Finance income and finance costs

	For the year ended 30 June	
	2012 **RMB'000**	2011 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 charge	**(324,057)**	(243,987)
Exchange gains on financing activities	**287,905**	93,126
Hedge reserve released	**753**	7,790
	(1,208,646)	(775,220)

The capitalisation interest rate applied to funds borrowed generally and used for the development of construction in progress is 5.98% for the year ended 30 June 2012 (2011: 5.09%).

Notes to the Consolidated Financial Statements

23. 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 (Note 16)	**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 ended 30 June 2012 (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 7.5% to 15% for the Group's financial year ended 30 June 2012 (2011: 7.5% to 15%).

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average rate applied to the results of the companies as follows:

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit before taxation	**1,908,067**	2,403,749
Tax calculated at applicable tax rates of the respective companies (Note)	**507,193**	584,809
Effect of tax holidays and preferential tax rates	**(115,668)**	(213,684)
Add:		
Tax losses for which no deferred income tax asset was recognised	**16,815**	11,132
Expenses not deductible	**42,859**	22,123
Less:		
Utilisation of previously unrecognised tax losses	**(1,690)**	(15,689)
Income tax expense	**449,509**	388,691

Note:

The weighted average applicable tax rate is based on tax calculated at applicable tax rates of the respective companies over the profit before taxation for the year ended 30 June 2012, of which is 26.6% (2011: 24.3%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the applicable tax rates of certain PRC subsidiaries and the change in relative profitability of the companies within the Group.

24. Retained earnings of the Company

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Beginning of the year	**514,858**	918,684
Profit for the year	**733,808**	157,751
Dividends	**(465,684)**	(561,577)
End of the year	**782,982**	514,858
Representing		
— Proposed final dividend	**233,146**	373,007
— Unappropriated retained earnings	**549,836**	141,851

25. 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

26. 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 (Note (a))	**93,258**	93,245
Final dividend, proposed, of RMB5.0 cents (2011: RMB8.0 cents) per ordinary share (Note (b))	**233,146**	373,007
	326,404	466,252

(a) An interim dividend for the six months ended 31 December 2011 of RMB2.0 cents per ordinary share, totalling approximately RMB93,258,000 (six months ended 31 December 2010: RMB2.0 cents per ordinary share, totalling approximately RMB93,245,000) has been approved in a meeting held by the BoD on 27 February 2012.

(b) At a meeting held on 25 September 2012, the BoD proposed a final dividend of RMB5.0 cents per ordinary share, totalling approximately RMB233,146,000 for the year ended 30 June 2012. 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 2013.

A final dividend for the year ended 30 June 2011 of RMB8.0 cents per ordinary share, totalling approximately RMB373,007,000 has been declared in the Company's Annual General Meeting on 21 November 2011 and paid during the year.

27. Consolidated statement of cash flows

(a) Cash generated from operations

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit for the year	**1,458,558**	2,015,058
Adjustments for		
Income tax expense (Note 23)	**449,509**	388,691
Depreciation (Note 6)	**1,300,532**	975,395
Amortisation (Notes 7 and 8)	**38,114**	35,797
(Reversal of)/provision for impairment of receivables	**(19,000)**	19,000
Share options granted to directors and employees (Note 21)	**2,265**	3,971
Loss on disposal of property, plant and equipment (Note (b))	**9,412**	52,803
Finance income (Note 22)	**(46,696)**	(21,257)
Negative goodwill	**–**	(2,189)
Finance costs (Note 22)	**1,208,646**	775,220
Exchange (gains)/losses on operating activities	**(4,158)**	31,431
	4,397,182	4,273,920
Changes in working capital		
Inventories	**(1,638,328)**	1,365,249
Changes in restricted cash	**93,772**	(97,450)
Trade, bills and other receivables, and prepayments	**(121,239)**	(1,364,487)
Derivative financial instruments	**–**	(1,922)
Trade, bills and other payables, and deposits received	**3,311,797**	182,255
Cash generated from operations	**6,043,184**	4,357,565

(b) Disposal of property, plant and equipment

	For the year ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net book amount of property, plant and equipment (Note 6)	**21,992**	176,269
Loss on disposal of property, plant and equipment	**(9,412)**	(52,803)
Other receivables	**(110)**	(29,175)
Proceeds from disposal of property, plant and equipment	**12,470**	94,291

28. Commitments

(a) Capital commitments

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

	30 June 2012 RMB'000	30 June 2011 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 RMB'000	30 June 2011 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

29. Related party transactions

(a) Name and relationship with related parties

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

(b) Transactions with related parties

For the year ended 30 June 2012, the Group had the following significant transactions with related parties. These transactions are conducted in the normal course of the Group's business:

	For the year ended 30 June	
	2012 **RMB'000**	2011 RMB'000
Sales of goods:		
Taicang Packaging	**130,644**	92,131
Purchase of recovered paper (net of claims):		
ACN	**10,815,576**	8,277,842
Taicang Packaging	**12,104**	16,911
	10,827,680	8,294,753

All the above transactions are entered into with the relevant related parties at mutually agreed terms.

(c) Key management compensation

Compensation for key management other than those compensation for directors as disclosed in Note 21 is as follows:

	For the year ended 30 June	
	2012 **RMB'000**	2011 RMB'000
Salaries and other short-term employee benefits	**22,775**	21,077
Share options	**2,855**	3,324
	25,630	24,401

Notes to the Consolidated Financial Statements

29. Related party transactions *(continued)*

(d) Balances with related parties

	30 June 2012 RMB'000	30 June 2011 RMB'000
Balances due from:		
— Taicang Packaging	**1,016**	9,036

The amounts are unsecured, interest free and have a credit period of 60 days.

	30 June 2012 RMB'000	30 June 2011 RMB'000
Balances due to:		
— ACN	**939,772**	613,970
— Taicang Packaging	**–**	22,896
	939,772	636,866

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

30. Ultimate holding company

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

31. Comparative figures

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

32. Subsequent events

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 15).

INVESTOR RELATIONS

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

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

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

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

SHAREHOLDERS

As at 30 June 2012, the Group had over 4,100 non-institutional shareholders.

FINANCIAL CALENDAR

FY2012 interim results Announcement	published on 27 February 2012
FY2012 annual results Announcement	published on 25 September 2012
Closure of register of members for determining the entitlement of the attendance of the 2012 AGM	4 December 2012 to 6 December 2012 (both dates inclusive)
2012 AGM	6 December 2012
Ex-dividend date for final dividend	12 December 2012
Latest time to lodge transfer with the Share Registrar for entitlement of the final dividend	4:30 p.m. on 13 December 2012
Closure of register of members for determining the entitlement of the final dividend	14 December 2012 to 18 December 2012 (both dates inclusive)
Distribution of FY2012 final dividend#	18 January 2013

subject to Shareholders' approval of the final dividend at the 2012 AGM

ANNUAL GENERAL MEETING

The 2012 AGM will be held on Thursday, 6 December 2012. The notice of the 2012 AGM which constitutes part of the circular to Shareholders will be sent together with this Annual Report. The notice of 2012 AGM and the proxy form will also be available on the website of HKExnews at www.hkexnews.hk under Listing Company Information and the website of the Company at www.ndpaper.com.

Investor Relations

SHARE INFORMATION

Shares listing

The Shares of ND Paper have been listed on the Main Board of the Stock Exchange (Stock Code: 2689) since March 2006.

Ordinary shares

Issued Shares as at 30 June 2012:	4,662,920,811 Shares
Nominal Value:	HK$0.1 per Share
Board Lot:	1,000 Shares

Dividend

Dividend per Share for the year ended 30 June 2012	
— Interim Dividend:	RMB2 cents per Share
— Final Dividend:	RMB5 cents per Share

Share registrar and transfer office

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

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

Investor relations contact

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

Stock Code

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

Website

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

Definition

2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2012 AGM	Annual General Meeting to be held on 6 December 2012
ACN	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, is indirectly wholly owned by Ms. Cheung
Associate(s)	has the meaning ascribed to it under the Listing Rules
Best Result	Best Result Holdings Limited, a company incorporated under the laws of BVI, is a substantial shareholder of the Company
Board	The board of directors of the Company
BVI	the British Virgin Islands
Bye-laws	the bye-laws of ND Holdings
China Inner Mongolia Forestry	China Inner Mongolia Forestry Industry Co., Ltd., a state-owned enterprise
Company or ND Holdings or ND Paper	Nine Dragons Paper (Holdings) Limited, a company which was incorporated in Bermuda on 17 August 2005 under the companies Act 1981 as an exempt Company with limited liability
Director(s)	the director(s) of the Company or any one of them
Dongguan Longteng	Dongguan Longteng Industrial Co., Ltd. (東莞市龍騰實業有限公司) (former name: Dongguan Longteng Paper Co., Ltd. 東莞龍騰紙業有限公司), a limited liability company established in the PRC in May 2003
FY	Financial year ended/ending 30 June
Group	The Company and its subsidiaries
HKD/HK$	Hong Kong dollars
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR	The Hong Kong Special Administrative Region of the People's Republic of China or HKSAR China
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Mr. Liu	Mr. Liu Ming Chung, an executive Director, the Deputy Chairman and the Chief Executive Officer of the Company

Definition

Mr. Zhang	Mr. Zhang Cheng Fei, an executive Director and the Deputy Chief Executive Officer of the Company
Ms. Cheung	Ms. Cheung Yan, an executive Director and the Chairlady of the Company
ND Xing An	Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited (玖龍興安漿紙 (內蒙古) 有限公司), an equity joint venture established in the PRC on 16 February 2004. ND Xing An is 55% indirectly owned by the Company and 45% owned by China Inner Mongolia Forestry
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share(s)	Ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
sq.ft	square feet
sq.m	square metre
Taicang Packaging	Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝 (太倉) 有限公司), a wholly foreign owned enterprise established in the PRC on 9 April 2002
The Liu Family Trust	a trust set up Mr. Liu as the settlor and BNP Paribas Jersey Trust Corporation Limited as the trustee
tpa	tonnes per annum
USD/US$	US dollars, the lawful currency of the United States
Year	the twelve months ended 30 June 2012
%	per cent

This 2011/12 Annual Report ("Annual Report") (in both English and Chinese versions) has been posted on the Company's website at www.ndpaper.com and on the website of HKExnews at www.hkexnews.hk.

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

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

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

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

玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

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