玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Sales increased by 36.7% to RMB17,946.0 million.
- Gross profit rose by 60.3% to RMB3,912.6 million.
- Gross margin increased from 18.6% to 21.8%.
- Profit attributable to shareholders increased by 30.4% to RMB2,166.5 million.
- Basic earnings per share increased from RMB0.3835 to RMB0.4792.
- Proposed final dividend per share of RMB10 cents (equivalent to approximately HK11.56 cents).

FINANCIAL RESULTS

The board of directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the year ended 30 June 2010 ("FY2010"), together with the comparative figures for the last financial year ("FY2009").

CONSOLIDATED INCOME STATEMENT

		For the year ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Sales	*2*	**17,946,032**	13,128,585
Cost of goods sold	*3*	**(14,033,437)**	(10,687,076)
Gross profit		**3,912,595**	2,441,509
Other gains – net	*4*	**42,366**	7,023
Selling and marketing costs	*3*	**(355,090)**	(382,742)
Administrative expenses	*3*	**(479,849)**	(320,853)
Operating profit		**3,120,022**	1,744,937
Gain on repurchase of senior notes	*14(a)*	**–**	594,039
Finance costs – net	*5*	**(541,120)**	(502,214)
Profit before income tax		**2,578,902**	1,836,762
Income tax expense	*6*	**(359,263)**	(175,491)
Profit for the year		**2,219,639**	1,661,271
Profit attributable to:			
Equity holders of the Company		**2,166,452**	1,661,122
Non-controlling interests		**53,187**	149
		2,219,639	1,661,271
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	*7*	**0.4792**	0.3835
– diluted	*7*	**0.4746**	0.3822
Dividends	*8*	**555,199**	151,736

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

	Note	30 June 2010 RMB'000	30 June 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**30,157,456**	27,011,394
Land use rights	*9*	**1,299,607**	1,185,815
Intangible assets	*10*	**239,543**	234,647
		31,696,606	28,431,856
Current assets			
Inventories	*11*	**3,764,989**	1,500,869
Trade and other receivables	*12*	**3,385,855**	2,040,339
Derivative financial instruments		**–**	441
Tax recoverable		**29,695**	–
Restricted cash		**–**	44,171
Cash and cash equivalents		**2,340,967**	1,508,542
		9,521,506	5,094,362
Total assets		**41,218,112**	33,526,218
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*13*	**9,093,747**	6,539,269
Other reserves		**1,222,588**	1,250,050
Retained earnings			
– Proposed final dividend		**462,955**	151,736
– Unappropriated retained earnings		**8,350,924**	6,752,267
		19,130,214	14,693,322
Non-controlling interests		**246,528**	199,043
Total equity		**19,376,742**	14,892,365

	Note	**30 June 2010**	30 June 2009
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Other payables		**–**	397,905
Deferred government grants		**7,258**	13,870
Borrowings	*14*	**14,604,056**	12,724,507
Deferred income tax liabilities		**710,863**	558,695
		15,322,177	13,694,977
Current liabilities			
Derivative financial instruments		**1,922**	–
Trade and other payables	*15*	**4,288,535**	3,674,389
Current income tax liabilities		**173,145**	161,246
Borrowings	*14*	**2,055,591**	1,103,241
		6,519,193	4,938,876
Total liabilities		**21,841,370**	18,633,853
Total equity and liabilities		**41,218,112**	33,526,218
Net current assets		**3,002,313**	155,486
Total assets less current liabilities		**34,698,919**	28,587,342

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Profit for the year	**2,219,639**	1,661,271
Adjustments for non-cash items/income tax/finance costs	**895,598**	(263,999)
Changes in working capital	**(3,196,309)**	2,532,068
Net cash (used in)/generated from operating activities	**(81,072)**	3,929,340
Net cash used in investing activities	**(4,320,249)**	(3,739,294)
Net cash generated from/(used in) financing activities	**5,253,140**	(236,394)
Net increase/(decrease) in cash and cash equivalents	**851,819**	(46,348)
Cash and cash equivalents at beginning of the year	**1,508,542**	1,562,873
Exchange losses on cash and cash equivalents	**(19,394)**	(7,983)
Cash and cash equivalents at end of the year	**2,340,967**	1,508,542

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

During the year ended 30 June 2010, the Group has adopted HKAS 1 (revised), "Presentation of financial statements" and HKFRS 7 (amendment), "Financial instruments: disclosures".

- HKAS 1 (revised), "Presentation of financial statements". It prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

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

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

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

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

The other standards, amendments and interpretations effective for the Group's accounting periods beginning on or after 1 July 2009 do not have any significant impact on the Group's consolidated financial statements.

The Group has not early adopted any standards, amendments and interpretations to existing standards that are not yet effective.

2. SALES

Sales recognised during the year are as follows:

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

3. EXPENSES BY NATURE

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

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

Note: Performance conditions are attached to share options granted on 17 November 2006 under the 2006 Share Options Scheme. The performance condition for the year ended 30 June 2009 was not met and the directors consider that the performance targets attached to the remaining two tranches of the share options would not be met in future periods. Share option expense of approximately RMB94,091,000 related to these share options that previously charged to income statement was reversed during the year ended 30 June 2009.

4. OTHER GAINS – NET

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

5. FINANCE COSTS – NET

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

6. INCOME TAX EXPENSE

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

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2010 (2009: Nil).

(b) PRC corporate income tax

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

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

7. EARNINGS PER SHARE

– Basic

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

– Diluted

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

	For the year ended 30 June	
	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**2,166,452**	1,661,122
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,520,533**	4,331,725
Adjustments for share options *(shares in thousands)*	**44,054**	14,461
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,564,587**	4,346,186
Diluted earnings per share *(RMB per share)*	**0.4746**	0.3822

8. DIVIDENDS

	For the year ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Interim dividend, RMB2.0 cents (2009: nil) per ordinary share	**92,244**	–
Final dividend, proposed, of RMB10 cents (2009: RMB3.50 cents) per ordinary share	**462,955**	151,736
	555,199	151,736

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

9. CAPITAL EXPENDITURES

	Land use rights	**Property, plant and equipment**
	RMB'000	*RMB'000*
Year ended 30 June 2009		
Opening net book amount	1,185,424	23,536,557
Optimisation on construction in progress *(Note)*	–	381,368
Additions	27,270	4,043,476
Tax benefit	–	(174,538)
Disposals	–	(4,823)
Amortisation/depreciation *(Note 3)*	(24,195)	(759,849)
Exchange differences	(2,684)	(10,797)
Closing net book amount as at 30 June 2009	1,185,815	27,011,394
Year ended 30 June 2010		
Opening net book amount	**1,185,815**	**27,011,394**
Optimisation on construction in progress ***(Note)***	**–**	**89,179**
Additions	**144,627**	**4,125,705**
Tax benefit	**–**	**(105,400)**
Disposals	**–**	**(26,669)**
Amortisation/depreciation ***(Note 3)***	**(27,722)**	**(925,894)**
Exchange differences	**(3,113)**	**(10,859)**
Closing net book amount as at 30 June 2010	**1,299,607**	**30,157,456**

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

10. INTANGIBLE ASSETS

	RMB'000
Year ended 30 June 2009	
Opening net book amount as at 1 July 2008	238,284
Amortisation *(Note 3)*	(3,637)
Closing net book amount as at 30 June 2009	234,647
Year ended 30 June 2010	
Opening net book amount as at 1 July 2009	**234,647**
Addition	**9,030**
Amortisation *(Note 3)*	**(4,134)**
Closing net book amount as at 30 June 2010	**239,543**

11. INVENTORIES

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

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

12. TRADE AND OTHER RECEIVABLES

	30 June 2010	30 June 2009
	RMB'000	*RMB'000*
Trade receivables due from:		
– third parties	**1,522,682**	1,024,289
– related parties	**247,250**	8,865
	1,769,932	1,033,154
Less: provision for impairment of receivables	**–**	(30,024)
Trade receivables – net	**1,769,932**	1,003,130
Bills receivable	**779,139**	374,878
Prepayments	**171,804**	379,787
Other receivables	**664,980**	282,544
	3,385,855	2,040,339

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

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

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

13. SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
			HK$'000	*RMB'000*	*RMB'000*	*RMB'000*
Issued and fully paid						
At 1 July 2008		4,330,862,099	433,086	448,822	6,078,164	6,526,986
Exercise of share options		4,442,600	444	392	11,891	12,283
At 30 June 2009		4,335,304,699	433,530	449,214	6,090,055	6,539,269
At 1 July 2009		**4,335,304,699**	**433,530**	**449,214**	**6,090,055**	**6,539,269**
Placement of shares	*(b)*	**264,285,000**	**26,429**	**23,285**	**2,503,090**	**2,526,375**
Placing expenses	*(b)*	**–**	**–**	**–**	**(50,891)**	**(50,891)**
Exercise of share options		**29,964,468**	**2,996**	**2,633**	**76,361**	**78,994**
At 30 June 2010		**4,629,554,167**	**462,955**	**475,132**	**8,618,615**	**9,093,747**

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

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

14. BORROWINGS

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

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

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

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

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

15. TRADE AND OTHER PAYABLES

As at 30 June 2010, the ageing analysis of trade payables is as follows:

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

16. COMMITMENTS

(a) Capital commitments

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

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

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

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

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

DIVIDENDS

An interim dividend of RMB2.00 cents (equivalent to approximately HK2.27 cents) (2008: Nil) per share was paid to shareholders on 10 May 2010.

The Board has resolved to recommend the payment of a final dividend of RMB10 cents (equivalent to approximately HK11.56 cents) per share for FY2010, which is expected to be paid on Friday, 26 November 2010 subject to the approval of the forthcoming annual general meeting dated 22 November 2010. The final dividend will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 17 November 2010. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.86497 as at 27 September 2010 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 18 November 2010 to Monday, 22 November 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 17 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Being the largest containerboard manufacturer in Asia and one of the leading producers in the world, ND Paper primarily produces a broad variety of packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board. Equipped with multiple production lines with flexible configuration, the Group offers its customers a diversified product portfolio with various types, sizes, grades, burst indices, stacking strengths, basis weights, printability and brands in an efficient manner.

At present, the Group's total design production capacity has reached 8.82 million tpa, among which 23 packaging paperboard production lines of advanced international standards are operating in China. These include 4.60 million tpa for linerboard, 3.00 million tpa for high performance corrugating medium and 0.95 million tpa for coated duplex board. The Group's total sales volume of packaging paperboard products has set a new record in FY2010, hitting 6.43 million tonnes, representing a year-on-year increase of 22.5%. During FY2010, Tianjin base commenced production in September 2009 and went through its ramp-up process smoothly. It has achieved its operational targets and performed satisfactorily.

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

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

Business Strategy

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

Optimization of Resources Allocation and Production Capacity Scale Expansion to Meet Market Demand

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

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

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

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

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

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

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

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

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

(Breakdown by product category)

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

(Capacity mix by product category)

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

(Distribution by location)

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

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

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

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

Standardizing the Group's management systems

In order to better regulate the operations and performance of the Group's various bases and business functions, the Group timely seized the opportunity arising from the economic downturn as a result of the financial tsunami and was able to procure favourable terms in engaging SAP, a service provider with ample experience, to establish an advanced and comprehensive management systems platform for the Group, of which the enterprise resource planning (ERP) system has been successfully implemented in Taicang and Chongqing bases in August and September respectively whereas implementation in Dongguan and Tianjin bases is expected to be completed within 2010. The aim is to informationize and unify the management of the operational data of various bases including production, recycling, sales, procurement, materials control, logistics, receivables and payables, in order to enhance the overall management standards and efficiency of the various departments under the Group. This can build a solid foundation for the Group's further developments and efficiency enhancement in future. During FY2010, the Group continued to obtain ISO9001 certification on its quality management system.

Controlling costs and diversifying sources of supplies

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

Meanwhile, in face of the fluctuations in recovered paper prices in the international market, the Group significantly increased the purchase volume of domestic recovered paper, thus strengthening its ability of passing through recovered paper price fluctuations to its customers in a timely manner, achieving steady profit growth. Domestic recovered paper accounted for approximately 23% of the Group's total recovered paper procurement in FY2010, with Taicang base achieving approximately 27%, and over 50% in Chongqing and Tianjin bases already. As the market continues to mature and domestic demand growth is sustained, the Group will further strengthen its domestic recovered paper procurement according to the price differences between domestic and imported recovered paper. It is expected that the proportion of domestic recovered paper purchased by the Group will exceed 30% by the end of 2010.

Invest in infrastructure facilities to achieve economies of scale

(1) Power Resources

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

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

(2) Land Resources

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

(3) Transportation infrastructure

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

Continue to place high emphasis on environmental protection

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

ND Paper has always adhered to the philosophy of "no environment, no paper", with all of the Group's key environmental indicators outperforming industry averages. It has received environmental awards and accolades many times, gaining the recognization and endorsement from the government and the community. For example, Dongguan base was consecutively granted the "Green Enterprise Management Award", and was named both the "Harmonious Labour Relations Enterprise in the PRC Paper Industry" and "Top 10 Enterprises in the PRC Light Industry – Paper Sector for 2009" by the China Paper Association. It was also named as the "National High and New-Tech Enterprise" and "Guangdong Famous Brand". During FY2010, the Group continued to obtain ISO14001 environmental management certification.

Opportunities brought forth by industry consolidation

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

Emphasis on a people-oriented strategy

The Group adheres to the corporate philosophy of "people-oriented, fair and just", with the belief that only human resources of excellence can enhance the overall competitiveness and cohesive spirit of the Group. As of 30 June 2010, the Group had approximately 12,900 full-time staff in Hong Kong and mainland China. Expenses related to employees (including directors' emoluments) for FY2010 amounted to approximately RMB585.3 million. The Group places emphasis on personnel training and strives to implement continuous staff development programs. It provides occupational training and promotion opportunities, building a larger platform for the staff to develop their career whilst reserving future talents for the Group for meeting the personnel requirement arising from the Group's product diversification, increase in the number of bases and an increasingly extensive customer network, thus achieving a mutually beneficial win-win model for the Group and its staff. In FY2010, the Group continued to have OHSAS 18001 certification for its occupational health and safety management system.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB17,946.0 million for FY2010, representing an increase of approximately 36.7% as compared with the last financial year. The major contributor of the Group's revenue was still its paper packaging business which accounted for approximately 97.3% of the revenue, with the remaining revenue of approximately 2.7% generated from its pulp and high value special paper products business.

The Group's revenue for FY2010 increased by approximately 36.7% as compared with the last financial year, as a result of both increase on average selling price and increase in sales volume of its packaging paperboard products. Revenue of linerboard, high performance corrugating medium and coated duplex board for FY2010 accounted for approximately 54.5%, 27.0% and 15.8% respectively of the total revenue, compared to 48.9%, 27.1% and 19.7% respectively in the last financial year.

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

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

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

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

Gross profit

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

Other gains – net

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

Selling expenses and marketing costs

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

Administrative expenses

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

Operating profit

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

Finance costs – net

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

Income Taxation

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

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

Net profit

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

Dividend

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

Working capital

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

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

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

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

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

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

Liquidity and financial resources

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

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

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

Debts Management

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

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

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

Treasury policies

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

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

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

(b) Minimise currency risk

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

Cost of borrowing

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

Capital expenditures

For FY2010, the Group invested approximately RMB4,359.5 million for the construction of factory buildings, purchase of plants and machineries, equipments and land use rights. These capital expenditures were fully financed by internal resources and bank borrowings.

Capital commitments

The Group made capital expenditure commitments mainly for machineries of approximately RMB5,179.0 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the construction of PM27/28, PM29/30 and PM31-34 for the expansion of the Group's production capacity and improvement of certain existing production lines for a better cost control and enhancement of their profitability.

Contingencies

As at FY2010, the Group had no material contingent liabilities.

FUTURE OUTLOOK

Looking ahead into 2011, the global economic recovery, the State's promotion of domestic demand and vigorous implementation of environmental policies for sustainable economic growth are all bringing unlimited opportunities to large scale paper enterprises. The Group will undoubtedly be able to capture market opportunities, leveraging on the solid foundation of its network of four major bases as well as their experienced management and adequate financial resources, and accomplish flexible and prudent programs for new production capacity, new products and new bases according to market needs and actual conditions. The Group will also maintain its passion for the paper industry as always and develop continuously with a focused approach, establishing the "hundred-year brand" of ND Paper as a benchmark for leading industry developments. By striving for the best return for its shareholders, the Group will be able to demonstrate credibly to investors its development potentials.

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 FY2010.

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiary companies for FY2010 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, PricewaterhouseCoopers. The unqualified auditor's report will be included in the annual report to shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During FY2010, the Group was in compliance with the provisions of the Code on Corporate Governance Practices and, where appropriate, the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors, who have confirmed that, during FY2010, they were in compliance with provisions of the Model Code.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Monday, 22 November 2010. The notice of annual general meeting will be published on the websites of HKEXnews at www.hkexnews.hk under "Listed Company information and the Company at www.ndpaper.com.

APPRECIATION

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

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

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

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

By Order of the Board
Cheung Yan
Chairlady

Hong Kong, 27 September 2010

* *for identification purpose only*