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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

- Sales increased by 16.6% to approximately RMB14.7 billion.
- Gross profit increased by 17.0% to approximately RMB2,351.8 million.
- Gross profit margin slightly increased from 15.9% to approximately 16.0%.
- Profit for the Period decreased by 20.2% to approximately RMB677.2 million.
- Basic earnings per share decreased from RMB0.18 to RMB0.14.
- Interim dividend per share of RMB2.0 cents (equivalent to approximately HK2.47 cents).

FINANCIAL RESULTS

The Board of Directors (“Board”) of Nine Dragons Paper (Holdings) Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group” or “ND Paper”) for the six months ended 31 December 2012 (the “Period”), together with the comparative figures for the corresponding period of last year.

* for identification purpose only

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 31 December	
		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales	5	14,725,654	12,633,975
Cost of goods sold	6	(12,373,837)	(10,623,659)
Gross profit		2,351,817	2,010,316
Other income/(expenses) and other gains/(losses) — (net)		87,606	(1,731)
Selling and marketing costs	6	(363,375)	(318,716)
Administrative expenses	6	(428,326)	(357,319)
Operating profit		1,647,722	1,332,550
Finance income	7	23,467	11,093
Finance costs	7	(804,416)	(262,572)
Profit before income tax		866,773	1,081,071
Income tax expense	8	(189,622)	(232,741)
Profit for the Period		677,151	848,330
Profit attributable to:			
Equity holders of the Company		658,469	836,527
Non-controlling interests		18,682	11,803
		677,151	848,330
Earnings per share for profit attributable to equity holders of the Company <i>(expressed in RMB per share)</i>			
— basic	9	0.14	0.18
— diluted	9	0.14	0.18

Details of Dividends payable to equity holders of the Company attributable to the profit for the Period are set out in note 10.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 31 December	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the Period	677,151	848,330
Other comprehensive income		
Currency translation differences	(1,259)	(10,108)
Cash flow hedges	—	(753)
	<hr/>	<hr/>
Other comprehensive income for the Period	(1,259)	(10,861)
	<hr/>	<hr/>
Total comprehensive income for the Period	675,892	837,469
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
— Equity holders of the Company	657,688	829,995
— Non-controlling interests	18,204	7,474
	<hr/>	<hr/>
	675,892	837,469
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2012 (Unaudited) RMB'000	30 June 2012 (Audited) RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	11	45,086,646	42,360,533
Land use rights	11	1,541,298	1,557,628
Intangible assets	12	227,983	230,264
Deferred income tax assets		43,330	24,993
		<hr/>	<hr/>
Total non-current assets		46,899,257	44,173,418
		<hr/>	<hr/>
Current assets			
Inventories	13	3,177,220	4,195,911
Trade and bills receivables	14	3,536,236	2,920,754
Other receivables and prepayments	14	2,209,001	2,534,669
Tax recoverable		6,536	18,671
Restricted cash		129	3,678
Cash and cash equivalents		7,654,031	4,364,539
		<hr/>	<hr/>
Total current assets		16,583,153	14,038,222
		<hr/>	<hr/>
Total assets		63,482,410	58,211,640
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	9,202,356	9,202,356
Other reserves	16	1,182,348	1,181,590
Retained earnings			
— Proposed dividend		93,258	233,146
— Unappropriated retained earnings		11,498,640	10,933,429
		<hr/>	<hr/>
		21,976,602	21,550,521
		<hr/>	<hr/>
Non-controlling interests		447,797	431,268
		<hr/>	<hr/>
Total equity		22,424,399	21,981,789
		<hr/>	<hr/>

		31 December 2012 (Unaudited) RMB'000	30 June 2012 (Audited) RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	17	25,106,223	21,192,466
Deferred income tax liabilities		1,241,568	1,137,487
Other payables	18	105,995	55,406
Deferred government grants		1,198	13,024
		<hr/>	<hr/>
Total non-current liabilities		26,454,984	22,398,383
		<hr/>	<hr/>
Current liabilities			
Trade and bills payables	18	5,184,398	5,731,338
Other payables and deposits received	18	3,424,745	2,710,266
Current income tax liabilities		354,807	287,576
Borrowings	17	5,639,077	5,102,288
		<hr/>	<hr/>
Total current liabilities		14,603,027	13,831,468
		<hr/>	<hr/>
Total liabilities		41,058,011	36,229,851
		<hr/>	<hr/>
Total equity and liabilities		63,482,410	58,211,640
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		1,980,126	206,754
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		48,879,383	44,380,172
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 31 December	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
Cash generated from operations	2,795,530	299,003
Income tax paid	(20,932)	(73,642)
Interest paid	(1,008,952)	(866,830)
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	1,765,646	(641,469)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,883,676)	(2,538,767)
Payment for acquisition of land use rights	(30,445)	(334,342)
Proceeds from disposal of property, plant and equipment	11,708	10,448
Proceeds from government grants for purchase of property, plant and equipment and land use rights	3,560	273,822
Interest received	23,467	11,093
Proceeds from disposal of subsidiaries	4,212	—
	<hr/>	<hr/>
Net cash used in investing activities	(2,871,174)	(2,577,746)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from borrowings	16,834,825	12,160,995
Repayments of borrowings	(12,431,025)	(6,640,901)
Dividend paid to equity holders of the Company	—	(372,426)
Dividend paid to a non-controlling shareholder	—	(12,589)
Exercise of share options	—	239
	<hr/>	<hr/>
Net cash generated from financing activities	4,403,800	5,135,318
	<hr/>	<hr/>
Net increase in cash and cash equivalents	3,298,272	1,916,103
Cash and cash equivalents at beginning of the Period	4,364,539	2,500,254
Exchange losses on cash and cash equivalents	(8,780)	(21,035)
	<hr/>	<hr/>
Cash and cash equivalents at end of the Period	<u>7,654,031</u>	<u>4,395,322</u>

1. General information

Nine Dragons Paper (Holdings) Limited (the “Company”) was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Company and its subsidiaries (together the “Group”) are principally engaged 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 address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed consolidated interim financial information is presented in thousands of Renminbi (“RMB”), unless otherwise stated. The condensed consolidated interim financial information was approved for issue on 23 February 2013.

The condensed consolidated interim financial information has not been audited.

2. Basis of preparation

The condensed consolidated interim financial information for the Period has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 June 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

3. Accounting policies

The accounting policies and method of computation used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2012, except for the adoption of new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are effective to the Group for accounting periods beginning on or after 1 July 2012. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

4. Segment information

The Group is principally engaged in the manufacture and sale 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.

5. Sales

Sales recognised during the Period are as follows:

	Six months ended 31 December	
	2012	2011
	RMB’000	RMB’000
Sales of packaging paper	13,546,104	12,485,191
Sales of recycled printing and writing paper	1,003,666	—
Sales of high value specialty paper products	100,919	93,941
Sales of pulp	74,965	54,843
	<u>14,725,654</u>	<u>12,633,975</u>

6. Expenses by nature

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

	Six months ended 31 December	
	2012	2011
	RMB'000	RMB'000
Depreciation of property, plant and equipment (<i>note 11</i>)	814,565	513,234
Less: amount charged to other expenses	(4,847)	(1,228)
	809,718	512,006
Amortisation of land use rights (<i>note 11</i>)	17,252	17,862
Amortisation of intangible assets (<i>note 12</i>)	2,281	2,285
Employee benefit expenses	529,718	496,837
Changes in finished goods	307,172	(72,081)
Raw materials and consumables used (net of claims)	11,174,836	10,027,585

7. Finance income and finance costs

	Six months ended 31 December	
	2012	2011
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	23,467	11,093
Finance costs:		
Interest on borrowings		
— wholly repayable within five years	(608,714)	(581,204)
— not wholly repayable within five years	(189,155)	(169,690)
	(797,869)	(750,894)
Other incidental borrowing cost	(24,846)	(8,575)
Less: interest and other incidental borrowing costs capitalised	178,780	368,652
	(643,935)	(390,817)
Bills discount charge	(147,527)	(156,268)
Exchange (losses)/gains on financing activities	(12,954)	283,760
Hedge reserve released	—	753
	(804,416)	(262,572)

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.2% for the Period (2011: 5.8%).

8. Income tax expense

	Six months ended 31 December	
	2012 RMB'000	2011 RMB'000
Current tax		
— Hong Kong profits tax	—	—
— PRC corporate income tax	103,858	143,952
	<u>103,858</u>	<u>143,952</u>
Deferred income tax	85,764	88,789
	<u>189,622</u>	<u>232,741</u>

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided for as the Group did not have any estimated assessable profits during the Period (2011:nil).

(b) PRC corporate income tax

PRC corporate income tax has been calculated on the estimated assessable profit for the Period at the rates of taxation applicable to the respective subsidiaries.

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 RMB730,449,000 (30 June 2012: approximately RMB646,256,000) have not been provided for in the condensed consolidated financial information 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.

9. Earnings per share

— Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Period.

	Six months ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	658,469	836,527
Weighted average number of ordinary shares in issue (shares in thousands)	4,662,921	4,662,666
Basic earnings per share (RMB per share)	0.14	0.18

— *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 market share price of the Company's shares during the Period) 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.

	Six months ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	658,469	836,527
Weighted average number of ordinary shares in issue (<i>shares in thousands</i>)	4,662,921	4,662,666
Adjustments for share options (<i>shares in thousands</i>)	2,241	2,762
Weighted average number of ordinary shares for diluted earnings per share (<i>shares in thousands</i>)	4,665,162	4,665,428
Diluted earnings per share (<i>RMB per share</i>)	0.14	0.18

10. Dividend

	Six months ended 31 December	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend (<i>note (b)</i>)	93,258	93,258

(a) A 2012 final dividend of RMB5.0 cents (2011 final: RMB8.0 cents) per ordinary share, totalling approximately RMB233,146,000 (2011 final: RMB372,426,000) has been approved in the Company's Annual General Meeting on 6 December 2012 and paid in January 2013.

(b) The directors recommend the payment of an interim dividend of RMB2.0 cents (2011 interim: RMB2.0 cents) per ordinary share, totalling approximately RMB93,258,000 for the Period (2011 interim: RMB93,258,000). Such interim dividend has been approved in the meeting of board of directors of the Company on 23 February 2013. This interim financial information does not reflect this interim dividend payable.

11. Property, plant and equipment and land use rights

Property, plant and equipment	Land use rights
<i>RMB'000</i>	<i>RMB'000</i>

Six months ended 31 December 2011

Opening net book amount as at 1 July 2011	38,628,163	1,515,520
Additions	3,179,947	141,248
Tax benefit	(85,987)	—
Disposals	(27,425)	—
Exchange difference	(4,167)	(1,390)
Depreciation/amortisation charges (<i>note 6</i>)	(513,234)	(17,862)
	<hr/>	<hr/>
Closing net book amount as at 31 December 2011	<u>41,177,297</u>	<u>1,637,516</u>

Six months ended 31 December 2012

Opening net book amount as at 1 July 2012	42,360,533	1,557,628
Additions	3,573,082	1,066
Tax benefit	(3,560)	—
Disposals	(28,450)	—
Exchange difference	(394)	(144)
Depreciation/amortisation charges (<i>note 6</i>)	(814,565)	(17,252)
	<hr/>	<hr/>
Closing net book amount as at 31 December 2012	<u>45,086,646</u>	<u>1,541,298</u>

12. Intangible assets

RMB'000

Six months ended 31 December 2011

Opening net book amount as at 1 July 2011	234,827
Amortisation (<i>note 6</i>)	(2,285)
	<hr/>
Closing net book amount as at 31 December 2011	<u>232,542</u>

Six months ended 31 December 2012

Opening net book amount as at 1 July 2012	230,264
Amortisation (<i>note 6</i>)	(2,281)
	<hr/>
Closing net book amount as at 31 December 2012	<u>227,983</u>

13. Inventories

	31 December 2012 RMB'000	30 June 2012 RMB'000
Raw materials	2,236,164	2,947,683
Finished goods	941,056	1,248,228
	<hr/> 3,177,220 <hr/>	<hr/> 4,195,911 <hr/>

14. Trade, bills and other receivables and prepayments

	31 December 2012 RMB'000	30 June 2012 RMB'000
Trade receivables (<i>note (b)&(c)</i>)	1,473,539	1,723,931
Bills receivable (<i>note (d)</i>)	2,062,697	1,196,823
	<hr/> 3,536,236 <hr/>	<hr/> 2,920,754 <hr/>
Value-added tax receivables	1,581,463	1,739,450
Other receivables and deposits	445,920	484,582
Prepayments	181,618	310,637
	<hr/> 2,209,001 <hr/>	<hr/> 2,534,669 <hr/>

(a) As at 31 December 2012, the fair value of trade, bills and other receivables approximate their carrying amounts.

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

(c) As at 31 December 2012, the ageing analysis of trade receivables is as follows:

	31 December 2012 RMB'000	30 June 2012 RMB'000
0–30 days	1,234,451	1,264,556
31–60 days	207,358	432,609
61–90 days	18,671	18,432
Over 90 days	13,059	8,334
	<hr/> 1,473,539 <hr/>	<hr/> 1,723,931 <hr/>

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.

(d) Bill receivables are normally with maturity period of 90 to 180 days (30 June 2012: 90 to 180 days).

15. Share capital

	Number of ordinary shares <i>Shares in thousands</i>	Nominal value of ordinary shares <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 31 December 2011					
Balances as at 1 July 2011	4,662,593	466,259	477,981	8,709,250	9,187,231
Exercise of share options	328	33	27	15,098	15,125
	<u>4,662,921</u>	<u>466,292</u>	<u>478,008</u>	<u>8,724,348</u>	<u>9,202,356</u>
Six months ended 31 December 2012					
Balances as at 31 December 2012 and 1 July 2012	<u>4,662,921</u>	<u>466,292</u>	<u>478,008</u>	<u>8,724,348</u>	<u>9,202,356</u>

16. Other reserves

	Contributed surplus <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Share options reserve <i>RMB'000</i>	Statutory reserve and enterprise expansion fund <i>RMB'000</i>	Currency translation reserve <i>RMB'000</i>	Cash flow hedge reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 31 December 2011							
Balance as 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	—	—	243	—	—	—	243
Exercise of share options	—	—	(14,886)	—	—	—	(14,886)
Currency translation differences	—	—	—	—	(5,779)	—	(5,779)
Cash flow hedge reserve released to set off the impact of hedged items that affected income statement	—	—	—	—	—	(753)	(753)
	<u>660,542</u>	<u>98,980</u>	<u>15,120</u>	<u>458,083</u>	<u>(53,527)</u>	<u>—</u>	<u>1,179,198</u>
Six months ended 31 December 2012							
Balance as at 1 July 2012	660,542	98,980	17,142	458,083	(53,157)	—	1,181,590
Share options granted to directors and employees	—	—	1,539	—	—	—	1,539
Currency translation differences	—	—	—	—	(781)	—	(781)
	<u>660,542</u>	<u>98,980</u>	<u>18,681</u>	<u>458,083</u>	<u>(53,938)</u>	<u>—</u>	<u>1,182,348</u>
Balance as at 31 December 2012	<u>660,542</u>	<u>98,980</u>	<u>18,681</u>	<u>458,083</u>	<u>(53,938)</u>	<u>—</u>	<u>1,182,348</u>

17. Borrowings

	31 December 2012 RMB'000	30 June 2012 RMB'000
Non-current		
— Long-term bank and other borrowings	22,319,585	20,102,047
— Medium-term note (<i>note (a)</i>)	2,786,638	1,090,419
	25,106,223	21,192,466
Current		
— Short-term bank borrowings	3,576,634	514,836
— Current portion of long-term bank and other borrowings	1,365,243	1,134,781
— Short-term commercial paper (<i>note (b)</i>)	697,200	996,571
— Current portion of Club term loan (<i>note (c)</i>)	—	2,456,100
	5,639,077	5,102,288
	30,745,300	26,294,754

- (a) On 17 October 2012 and 6 November 2012, the Group issued two medium-term notes of RMB600 million and RMB1,100 million respectively for a term of two years. The Medium-term notes will be redeemed on 19 October 2014 and 8 November 2014, respectively.
- (b) On 26 December 2012, the Group issued a short-term commercial paper of RMB700 million for a term of one year. The short-term commercial paper will be redeemed on 27 December 2013.
- (c) The Club term loan had been fully repaid on 3 September 2012.
- (d) The maturity of the borrowings is as follows:

	31 December 2012			
	Bank and other borrowings RMB'000	Short-term commercial paper RMB'000	Medium- term note RMB'000	Total RMB'000
Within 1 year	4,941,877	697,200	—	5,639,077
Between 1 and 2 years	7,610,100	—	2,786,638	10,396,738
Between 2 and 5 years	13,110,975	—	—	13,110,975
Over 5 years	1,598,510	—	—	1,598,510
	27,261,462	697,200	2,786,638	30,745,300

30 June 2012

	Bank and other borrowings	Club term loan	Short-term commercial paper	Medium- term note	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>21,751,664</u>	<u>2,456,100</u>	<u>996,571</u>	<u>1,090,419</u>	<u>26,294,754</u>

(e) The carrying amounts of the Group's borrowings as at 31 December 2012 are denominated in the following currencies:

	31 December 2012	30 June 2012
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	19,902,877	19,121,071
US\$	8,000,232	3,964,227
HK\$	2,073,366	1,999,429
Euro	768,825	1,210,027
	<u>30,745,300</u>	<u>26,294,754</u>

18. Trade, bills and other payables and deposits received

	31 December 2012	30 June 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payable (<i>note (a)</i>)	2,539,100	2,548,734
Bills payable	2,645,298	3,182,604
	<u>5,184,398</u>	<u>5,731,338</u>
Deposits from customers	770,879	669,931
Dividends payable	261,618	28,472
Other payables	2,430,826	1,998,282
Staff welfare benefits payable	67,417	68,987
Less: other payables included in non-current liabilities	(105,995)	(55,406)
	<u>3,424,745</u>	<u>2,710,266</u>

(a) The ageing analysis of trade payables as at 31 December 2012 is as follows:

	31 December 2012 RMB'000	30 June 2012 RMB'000
0–90 days	2,289,258	2,269,360
91–180 days	195,680	175,543
181–365 days	22,425	50,636
Over 365 days	31,737	53,195
	<u>2,539,100</u>	<u>2,548,734</u>

19. Commitments

(a) Capital commitments

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

	31 December 2012 RMB'000	30 June 2012 RMB'000
Authorised but not contracted for		
Not later than one year	241,211	—
Later than one year and not later than five years	—	—
	<u>241,211</u>	<u>—</u>
Contracted but not provided for		
Not later than one year	440,065	1,138,257
Later than one year and not later than five years	174,675	223,716
	<u>614,740</u>	<u>1,361,973</u>
	<u>855,951</u>	<u>1,361,973</u>

(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:

	31 December 2012 RMB'000	30 June 2012 RMB'000
Not later than one year	2,688	3,205
Later than one year but not later than five years	3,781	5,580
Later than five years	16,838	17,367
	<u>23,307</u>	<u>26,152</u>

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.

Since mid-2012, although the global economy was still affected by European debt crisis and the sluggish consumption growth in western countries, it appeared to become more stable as compared to the severe conditions in the first half of 2012. With market sentiment gradually recovering from the previous austerity environment in China, the paper manufacturing industry began to bottom out and show signs of moderate recovery, supporting progressive increases in selling prices of the Group's products and moderate rebound of the Group's profit during the Period. Leveraging upon its sizable scale and extensive experience of its operation team, during the Period the Group maintained its leadership advantages in the paper manufacturing industry and continued to maintain a balance between sales and production as well as normal inventory levels. All paper machines were operating well and at nearly full capacity. Two newly constructed paper machines also commenced production smoothly, leading to a record high in total monthly sales volume of the Group in December 2012.

As at 31 December 2012, the Group's total design production capacity reached 12.55 million tpa, including the two paper machines newly added during the Period, namely PM34 in Tianjin base (coated duplex board, food grade and pharmaceutical grade white board) and PM33 in Chongqing base (coated duplex board, food grade and pharmaceutical grade white board), each with a design production capacity of 550,000 tpa. These two paper machines completed construction and commenced production in July and November last year respectively, and are progressing well during their optimization stage. The various products manufactured by these paper machines address the supply shortage in their respective markets due to insufficient local production. Recognition and popularity of these products among customers not only gain additional market share for the Group and assure the realization of reasonable long-term returns from the newly added production capacities, but also further enhance economies of scale of the Tianjin and Chongqing bases.

Newly constructed paper machines commenced production in 2012 and now under optimization

Paper machine	Location	Product	Design production capacity	Date of production commencement
PM34	Tianjin	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	July 2012
PM33	Chongqing	Coated duplex board, food grade and pharmaceutical grade white board	550,000 tpa	November 2012

With an expanding production capacity scale, the Group continues to increase its purchase of recovered paper. In terms of domestic recovered paper purchase, approximately 25% of the Group's purchase of recovered paper was sourced in China during the Period.

Business Strategy and Development Plans

The Group has successfully transitioned from its fast development stage to a steady growth stage. Nevertheless, the management and staff at all levels continued to work diligently, striving for strengthening internal cost control and elevating production efficiency, continuously improving on the optimization and enhancement of existing paper machine capacities, as well as lowering finance expense. Meanwhile, the Group will continue to formulate its future business plans based on the different market development of each base, and consider expanding beyond packaging paperboard to paper types offering market potential. In line with such improving economies of scale and business diversification, the Group may elevate its profitability progressively to bring better long-term investment return for its shareholders.

Under the current production capacity expansion plan, the Group's nationwide geographical coverage on the packaging paperboard market is gradually taking shape. With the new Quanzhou and Shenyang bases commencing production successively within two years, the Group will have full coverage over the key manufacturing hubs in China. The construction of PM35 and PM36 in Quanzhou base, primarily for the production of kraftlinerboard and testlinerboard, with a design production capacity of 350,000 tpa and 300,000 tpa respectively, is scheduled to be completed and commence production by the end of June 2013. As for PM37 in the Shenyang base, primarily for the production of kraftlinerboard with a production capacity of 350,000 tpa, it is scheduled to commence production before the end of June 2014. Meanwhile, PM39 is being constructed by the Group in Leshan base. With a design production capacity of 300,000 tpa, the machine is scheduled to commence production by the end of December 2013 and will produce high performance corrugating medium for supply to customers in the local market, using 100% local recovered paper as raw material. The completion of construction and production commencement of the abovementioned four new paper machines will further realize economies of scale for the Group by enlarging its total production capacity scale to 13.85 million tpa by the end of 2014, representing another increase of more than 10% from the total annual production capacity as at the end of 2012. In addition to these four new paper machines, in 2015 PM38 in Shenyang base is scheduled to commence production by the end of the year, bringing the Group's total production capacity to over 14 million tpa.

Newly constructed 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

Newly constructed 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

Newly constructed 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 key production bases in China

(Breakdown by product category)

(million tpa)	December 2012	December 2013	December 2014
Linerboard	6.13	6.78	7.13
Corrugating medium	3.10	3.40	3.40
Coated duplex board	2.60	2.60	2.60
Recycled printing and writing paper	0.45	0.45	0.45
Total	12.28	13.23	13.58

(Distribution by product category)

	December 2012	December 2013	December 2014
Linerboard	49.9%	51.2%	52.5%
Corrugating medium	25.2%	25.7%	25.0%
Coated duplex board	21.2%	19.7%	19.2%
Recycled printing and writing paper	3.7%	3.4%	3.3%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(Distribution by location)

	December 2012	December 2013	December 2014
Dongguan	42.7%	39.7%	38.7%
Taicang	24.7%	22.9%	22.3%
Chongqing	11.0%	10.2%	9.9%
Tianjin	17.5%	16.2%	15.8%
Quanzhou	—	4.9%	4.8%
Shenyang	—	—	2.6%
Hebei Yongxin	4.1%	3.8%	3.7%
Leshan	—	2.3%	2.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Number of paper machines for packaging paperboard and printing and writing paper in the Group's key production bases in China**(Distribution by location)**

(No. of machines)	December 2012	December 2013	December 2014
Dongguan	15	15	15
Taicang	8	8	8
Chongqing	3	3	3
Tianjin	5	5	5
Quanzhou	—	2	2
Shenyang	—	—	1
Hebei Yongxin	2	2	2
Leshan	—	1	1
Total	<u>33</u>	<u>36</u>	<u>37</u>

Fulfill corporate social responsibility proactively

With ongoing intensive implementation of guiding policies related to environmental protection and emission reduction under the “12th 5-Year Program” of the government, the Group has achieved real-time monitoring on the operation of its environmental management facilities at each base. It outperforms the standards required by the government in every key index and continues to obtain ISO14001 environmental management certification.

“Respecting and caring for our staff” is one of the key elements of the Group’s management culture. Whether in terms of training, career promotion, accommodation and catering, leisure activities and facilitation of good physical and mental health, considerable resources are provided to its staff and sense of belonging of the staff is hence raised. As at 31 December 2012, the Group employed a total of approximately 18,800 full-time staff and continued to obtain OHSAS18001 certification for its occupational health and safety management system.

FINANCIAL REVIEW

Sales

The Group achieved a revenue of approximately RMB14,725.7 million for the Period, representing an increase of approximately 16.6% over the corresponding period last year. The major contributor of the Group’s revenue was still from its paper packaging business which accounted for approximately 92.0% of the total group revenue, with the remaining revenue generated from its recycled printing and writing paper, pulp and high value specialty paper products business.

The increase of Group’s sales is mainly a result of substantial increase in the Group’s sales volume. The sales volume of linerboard, high performance corrugating medium and coated duplex board for the period increased by approximately 19.8%, 11.0% and 103.1% respectively, as compared with the corresponding period last year, while recycled printing and writing paper was only commenced commercial operation in the second half of FY2012.

The Group’s annual design production capacity of packaging paperboard and recycled printing and writing paper as at 31 December 2012 was 12.4 million tpa, comprising 6.2 million tpa of linerboard, 3.1 million tpa of high performance corrugating medium, 2.6 million tpa of coated duplex board and 0.5 million tpa of recycled printing and writing paper. The Group’s sales volume of packaging paperboard and recycled printing and writing paper increased by 32.5% to approximately 5.3 million tonnes in the Period from approximately 4.0 million tonnes in the corresponding period last year. The increase of the sales volume of packaging paper board 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 the second half of FY2012.

The majority of the Group’s sales continued to be realised from the domestic market. For the six month ended 31 December 2012 and 2011, sales related to domestic consumption represented approximately 91.1% and 87.3% of the Group’s total sales respectively, while the remaining sales are denominated in foreign currencies which primarily represented indirect export made to foreign invested processing enterprises in China.

During the Period, sales to the Group's top five customers in aggregate accounted for approximately 4.7% (2011: 4.8%) of the total revenue, out of which the single largest customer accounted for approximately 1.4% (2011: 1.5%).

Gross Profit

The gross profit for the Period was approximately RMB2,351.8 million, representing an increase of 17.0% as compared with approximately RMB2,010.3 million in the same period last year. The gross profit margin for the Period slightly increased from 15.9% to 16.0%.

Selling and marketing costs

Selling and marketing costs increased by 14.0% from approximately RMB318.7 million in the same period last year to approximately RMB363.4 million in the Period. The increase in the selling and marketing costs was due to more geographical coverage in the Period after the newly launched of PMs. As a percentage of the Group's revenue, the selling and marketing costs remained relatively stable at approximately 2.5% in the Period and in the same period last year.

Administrative expenses

Administrative expenses increased from approximately RMB357.3 million in the period last year to approximately RMB428.3 million in the Period. As a percentage of group revenue, the administrative expenses slightly increased from 2.8% in the same period last year to 2.9% in the Period. The increase during the Period under review was mainly a result of additional management and administrative costs incurred to support the commencement of new PMs.

Operating Profit

The Group's operating profit for the Period was approximately RMB1,647.7 million, representing an increase of RMB315.1 million or 23.6% over the approximately RMB1,332.6 million of the same period last year.

Finance Costs

The finance costs for the Period was approximately RMB804.4 million, representing an increase of approximately RMB541.8 million over approximately RMB262.6 million in the same period last year. The increase in finance cost was mainly due to the decrease in foreign exchange gains on financing activities of approximately RMB283.8 million derived by loans denominated in foreign currencies in the same period last year, and substantial decrease for interest capitalised in property, plant and equipment from approximately RMB368.7 million in the same period last year to approximately RMB178.8 million in the Period.

Despite the total borrowings were raised from approximately RMB26,294.8 million as at 30 June 2012 to approximately RMB30,745.3 million as at 31 December 2012, the finance cost decreased from approximately RMB946.1 million in the second half of FY2012 to approximately RMB804.4 million in the Period, of which a deduction of approximately RMB141.7 million. The Group achieved sequential finance cost reduction through increase total foreign currency borrowings with a lower effective interest rate.

Income Tax

The Group's income tax expenses decreased from approximately RMB232.7 million in the same period last year to approximately RMB189.6 million. The Group's effective tax rate slightly increased from 21.5% in the same period last year to 21.9% in the Period.

Net Profit and Net Profit Margin

The profit attributable to the equity holders of the Company for the Period was approximately RMB658.5 million, representing a decrease of 21.3% over the same period last year. Whilst the net profit margin decreased from 6.6% in the same period last year to 4.5% in the Period.

Working Capital

The level of inventory as at 31 December 2012 decreased by 24.3% to approximately RMB3,177.2 million from approximately RMB4,195.9 million as at 30 June 2012. Inventories mainly comprise raw materials (mainly recovered paper, spare parts and coal) of approximately RMB2,236.2 million and finished goods of approximately RMB941.0 million.

The turnover days for raw materials and finished products were approximately 33 days and 14 days respectively during the Period, compared to 33 days and 24 days in the same period last year.

The trade and bills receivables as at 31 December 2012 were approximately RMB3,536.2 million, increased by 21.1% from approximately RMB2,920.8 million as at 30 June 2012. The turnover days for debtors were 18 days, compared to 29 days in the same period last year. As at 31 December 2012, the trade receivables with age less than 60 days accounted for 97.8% of the total trade receivables.

The trade and bills payable decreased by 9.5% to approximately RMB5,184.4 million as at 31 December 2012 from approximately RMB5,731.3 million as at 30 June 2012. The turnover days for creditors were 76 days, compared to 65 days in the same period last year.

Liquidity and Financial Resources

The working capital and long-term investment funding requirements of the Group during the Period was primarily satisfied by the Group's operating cash flows, issue of short-term commercial paper and medium-term note by the Group's subsidiaries in the PRC, and bank borrowings.

In terms of the Group's available financial resources as at 31 December 2012, the Group had bank and cash balances of approximately RMB7,654.2 million (including restricted cash of approximately RMB0.1 million) and total undrawn bank facilities of approximately RMB18,596.3 million.

As at 31 December 2012, the shareholders' funds were approximately RMB21,976.6 million, an increase of RMB426.1 million from that as at 30 June 2012.

The Group had outstanding borrowings as at 31 December 2012 of approximately RMB30,745.3 million. The short-term and long-term borrowings amounted to approximately RMB5,639.1 million and RMB25,106.2 million respectively, accounting for 18.3% and 81.7% of the total borrowings respectively. As at the end of the Period, about 97.9% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio for the Group as at 31 December 2012 increased to approximately 103.0% from 99.7% as at 30 June 2012. The Board will closely monitor the Group's net debt to total equity ratio and reduce the bank borrowings gradually.

Treasury Policies

The Group has established treasury policies with the objectives of achieving effective control of treasury operations and of 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 exchange rates and interest rates on specific transactions and foreign currency borrowings, currency structured instruments and other appropriate financial instruments will be used to hedge material exposure, if any.

It is the policy of the Group not to enter into any derivative contracts purely 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 compares 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 foreign currency borrowings. As at 31 December 2012, total foreign currency borrowings amounted to the equivalent of RMB10,842.4 million (30 June 2012: RMB7,173.7 million) and RMB loans amounted to RMB19,902.9 million (30 June 2012: RMB19,121.1 million), representing 35.3% (30 June 2012: 27.3%) and 64.7% (30 June 2012: 72.7%) of the Group's borrowings respectively.

Capital Expenditures

The Group's payments for the construction of factory buildings, purchase of plant and machinery, and equipment during the Period were approximately RMB2,883.7 million as compared to RMB2,538.8 million in the same period last year.

Capital Commitments and Contingencies

The Group made capital expenditure commitments mainly for machinery of approximately RMB614.7 million, which were contracted but not provided for in the financial statements as at 31 December 2012. These commitments were mainly related to the construction of PM35 and PM36 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 productivity.

As of 31 December 2012, the Group had no material contingent liabilities.

OUTLOOK

It is expected that the global economy will continue to see slow recovery in 2013, while China's economy will achieve growth amidst general stability. With the gradual improvement of macro environment, sentiment in the industry may recover progressively. The market environment will be better in 2013 than 2012, and the whole paper manufacturing industry will move towards a more positive direction. The government is intensifying its efforts on the environmental protection policy on paper manufacturing industry and the enforcement thereof, thus providing the Group with favorable room for development. The continuous increase in domestic consumption in the Chinese market provides tremendous growth potential for paper manufacturing industry. Coupled with its dedicated efforts in cost control and optimization of debt portfolio, the Group will be able to increase its operation efficiency and improve on its finance cost, resulting in further improvement of its operating results in various aspects, such as sales, market share and profitability, thereby creating better investment return for its shareholders.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB2.0 cents (equivalent to approximately HK2.47 cents) per share for the Period, which is expected to be payable to the shareholders by post on or before Thursday, 30 May 2013. The dividend will be payable to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 16 May 2013. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 to RMB0.81065 as at 22 February 2013 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 Monday, 20 May 2013 to Wednesday, 22 May 2013, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m., on Thursday, 16 May 2013.

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

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

AUDIT COMMITTEE REVIEW

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Appendix 14 — Corporate Governance Code (the "Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period, save and except for the deviation set out below:

The Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. However, two independent non-executive Directors were unable to attend the annual general meeting of Company held on 6 December 2012 due to other important engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (the "Model Code")

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

APPRECIATION

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

By Order of the Board
Cheung Yan
Chairlady

Hong Kong, 23 February 2013

As at the date of this announcement, the executive directors are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Zhang Yuanfu and Ms. Gao Jing; the independent non-executive directors are Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo.

* *For identification purposes only*