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 2010

FINANCIAL HIGHLIGHTS

- Sales increased by 45.0% to approximately RMB12,615.0 million.
- Gross profit rose by 23.7% to approximately RMB2,275.4 million.
- Gross profit margin decreased from 21.1% to approximately 18.0%.
- Profit for the period increased by 22.9% to approximately RMB1,301.0 million.
- Net profit margin decreased from 12.2% to approximately 10.3%.
- Basic earnings per share increased from RMB0.23 to approximately RMB0.27.
- Interim dividend per share of RMB2.00 cents (equivalent to approximately HK2.37 cents).

FINANCIAL RESULTS

The Board of Directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the six months ended 31 December 2010 (the "Period"), together with the comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 31 December 2010 RMB'000	2009 RMB'000
Sales	*5*	**12,615,040**	8,700,136
Cost of goods sold	*6*	**(10,339,618)**	(6,860,698)
Gross profit		**2,275,422**	1,839,438
Other gains/(losses) – net	*7*	**89,280**	(2,862)
Selling and marketing costs	*6*	**(229,971)**	(155,772)
Administrative expenses	*6*	**(367,033)**	(237,549)
Operating profit		**1,767,698**	1,443,255
Finance costs – net	*8*	**(275,177)**	(236,766)
Profit before income tax		**1,492,521**	1,206,489
Income tax expense	*9*	**(191,497)**	(147,769)
Profit for the period		**1,301,024**	1,058,720
Profit attributable to:			
Equity holders of the Company		**1,267,338**	1,037,287
Non-controlling interests		**33,686**	21,433
		1,301,024	1,058,720
Earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*			
– basic	*10*	**0.27**	0.23
– diluted	*10*	**0.27**	0.23
Dividend	*11*	**93,245**	92,244

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Profit for the period	**1,301,024**	1,058,720
Other comprehensive income		
Currency translation differences	**(11,343)**	(7,365)
Cash flow hedges	**(1,306)**	(17,630)
Total comprehensive income for the period	**1,288,375**	1,033,725
Total comprehensive income attributable to:		
– Equity holders of the Company	**1,258,475**	1,015,061
– Non-controlling interests	**29,900**	18,664
	1,288,375	1,033,725

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	31 December 2010 (Unaudited) RMB'000	30 June 2010 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**34,746,444**	30,157,456
Land use rights	12	**1,345,064**	1,299,607
Intangible assets	13	**237,100**	239,543
Total non-current assets		**36,328,608**	31,696,606
Current assets			
Inventories	14	**2,967,401**	3,764,989
Trade and other receivables	15	**5,248,479**	3,385,855
Tax recoverable		**30,815**	29,695
Restricted cash		**9,307**	–
Cash and cash equivalents		**2,162,558**	2,340,967
Total current assets		**10,418,560**	9,521,506
Total assets		**46,747,168**	41,218,112
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**9,185,820**	9,093,747
Other reserves	17	**1,211,153**	1,222,588
Retained earnings			
– Proposed dividend		**93,245**	462,955
– Unappropriated retained earnings		**9,518,038**	8,350,924
		20,008,256	19,130,214
Non-controlling interests		**271,689**	246,528
Total equity		**20,279,945**	19,376,742

	Note	31 December 2010 (Unaudited) RMB'000	30 June 2010 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		**–**	7,258
Borrowings	*18*	**17,674,395**	14,604,056
Deferred income tax liabilities		**790,506**	710,863
Total non-current liabilities		**18,464,901**	15,322,177
Current liabilities			
Trade and other payables	*19*	**5,524,343**	4,288,535
Current income tax liabilities		**181,372**	173,145
Borrowings	*18*	**2,296,607**	2,055,591
Derivative financial instruments		**–**	1,922
Total current liabilities		**8,002,322**	6,519,193
Total liabilities		**26,467,223**	21,841,370
Total equity and liabilities		**46,747,168**	41,218,112
Net current assets		**2,416,238**	3,002,313
Total assets less current liabilities		**38,744,846**	34,698,919

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit for the period	**1,301,024**	1,058,720
Adjustments for:		
Income tax expense	**191,497**	147,769
Depreciation	**489,600**	430,899
Amortisation	**19,175**	14,593
Provision/(reversal) of impairment for receivables	**19,000**	(30,024)
Loss on disposal of property, plant and equipment	**5,518**	2,255
Share options granted to directors and employees	**4,052**	6,631
Net losses arising from derivative financial instruments	**–**	8,181
Finance costs – net	**275,177**	236,766
Interest income	**(9,243)**	(3,923)
Subsidy income	**(12,196)**	–
Exchange losses/(gains) on cash and cash equivalents	**19,526**	(1,103)
Operating profit before working capital changes	**2,303,130**	1,870,764
Inventories	**797,588**	(338,596)
Trade and other receivables	**(1,807,225)**	(652,462)
Trade and other payables	**1,109,833**	137,704
Derivative financial instruments	**(1,922)**	–
Cash generated from operations	**2,401,404**	1,017,410
Income tax paid	**(53,523)**	(41,142)
Interest paid	**(516,956)**	(363,958)
Net cash generated from operating activities	**1,830,925**	612,310

	Unaudited Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Cash flows from investing activities		
Deposit for acquisition of subsidiaries	**(70,000)**	–
Purchase of property, plant and equipment	**(4,932,896)**	(1,627,203)
Payment for acquisition of land use rights	**(82,287)**	(115,456)
Proceeds from disposal of property, plant and equipment	**4,291**	5,897
Interest received	**9,243**	3,923
Net cash used in investing activities	**(5,071,649)**	(1,732,839)
Cash flows from financing activities		
Placement of shares	**–**	2,475,484
Proceeds from borrowings	**6,104,625**	5,315,685
Repayments of borrowings	**(2,699,905)**	(6,302,694)
Government grants received	**66,345**	55,779
Dividend paid to equity holders of the Company	**(468,326)**	(161,295)
Dividend paid to non-controlling interests	**(4,739)**	–
Exercise of share options	**83,841**	14,420
Net cash generated from financing activities	**3,081,841**	1,397,379
Net (decrease)/increase in cash and cash equivalents	**(158,883)**	276,850
Cash and cash equivalents at beginning of the period	**2,340,967**	1,508,542
Exchange (losses)/gains on cash and cash equivalents	**(19,526)**	1,103
Cash and cash equivalents at end of the period	**2,162,558**	1,786,495

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited 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 are principally engaged in the manufacture and sales of packaging paper, pulp and high value specialty board products in the PRC. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

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

This condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 23 February 2011.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This 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 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning of 1 July 2010

- HKFRS 1 (amendment), "Additional exemptions for first-time adopters" is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group as it is an existing HKFRSs preparer.

- HKFRS 1 (amendment), "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters" is effective for annual periods beginning on or after 1 July 2010. This is not relevant to the Group as it is an existing HKFRSs preparer.

- HKAS 32 (amendment), "Classification of rights issues" is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group as it has no rights issues.

- HK(IFRIC) – Int 19, "Extinguishing financial liabilities with equity instruments" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group.

- HKFRS 2 (amendment), "Group cash-settled share-based payment transaction" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such cash-settled share-based payment transaction.

- Second improvements to HKFRSs (2009) were issued in May 2009 by the HKICPA. All improvements are effective for annual periods beginning on or after 1 January 2010. These are not currently applicable to the Group.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of packaging paper, pulp and high value specialty board products. As the products and services provided by the Group's entities are all related to the manufacture and sale of paper and subject to similar business risks, no segment information has been prepared by the Group.

5. SALES

Sales recognised during the six months ended 31 December 2010 are as follows:

	Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Sales of packaging paper	**12,311,658**	8,429,439
Sales of pulp	**204,541**	159,610
Sales of high value specialty board products	**98,841**	111,087
	12,615,040	8,700,136

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 2010 *RMB'000*	2009 *RMB'000*
Depreciation of fixed assets *(note 12)*	**489,600**	432,137
Less: amount charged to other gains/(losses) – net	**(1,167)**	(2,596)
amount charged to construction in progress	**–**	(1,238)
	488,433	428,303
Employee benefit expense	**364,272**	277,076
Amortisation of intangible assets *(note 13)*	**2,443**	2,113
Changes in finished goods	**781,338**	(8,418)
Raw materials and consumables used (net of claims)	**8,957,671**	6,284,557
Transportation	**65,963**	78,037
Operating leases		
– land use rights *(note 12)*	**16,732**	12,480
– buildings	**1,022**	1,238
Non-deductible value added tax for export sales	**46,700**	48,374
Provision/(reversal) of impairment for receivables	**19,000**	(30,024)
Other expenses	**193,048**	160,283
	10,936,622	7,254,019

7. OTHER GAINS/(LOSSES) – NET

	Six months ended 31 December 2010 *RMB'000*	2009 *RMB'000*
Sales of electricity and coals	**6,465**	1,203
Interest income	**9,243**	3,923
Net foreign exchange gains/(losses) on operating activities	**45,575**	(2,562)
Net gains/(losses) arising from derivative financial instruments	**18,714**	(8,181)
Subsidy income	**12,196**	–
Others	**(2,913)**	2,755
	89,280	(2,862)

8. FINANCE COSTS – NET

	Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Interest expense	**224,282**	215,410
Bills discount charge	**100,500**	29,659
Other incidental borrowing costs	**4,437**	8,622
Exchange (gains)/losses on borrowings	**(52,736)**	705
Hedge reserve released	**(1,306)**	(17,630)
	275,177	236,766

9. INCOME TAX EXPENSE

	Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Current tax		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**111,252**	75,456
	111,252	75,456
Deferred income tax	**80,245**	72,313
	191,497	147,769

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the Period. 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.

10. 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 **2010**	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**1,267,338**	1,037,287
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,632,465**	4,423,976
Basic earnings per share *(RMB per share)*	**0.27**	0.23

– 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 **2010**	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**1,267,338**	1,037,287
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,632,465**	4,423,976
Adjustments for share options *(shares in thousands)*	**16,737**	47,446
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,649,202**	4,471,422
Diluted earnings per share *(RMB per share)*	**0.27**	0.23

11. DIVIDEND

	Six months ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Interim dividend *(note (b))*	**93,245**	92,244

(a) A 2010 final dividend of RMB10.0 cents (2009 final: RMB3.5 cents) per ordinary share, totalling approximately RMB468,326,000 (2009 final: RMB161,295,000) has been declared in the Company's Annual General Meeting on 22 November 2010 and paid in the Period.

(b) The directors recommend the payment of an interim dividend of RMB2.0 cents (2009 interim: RMB2.0 cents) per ordinary share, totalling approximately RMB93,245,000, for the Period (2009 interim: RMB92,244,000). Such interim dividend has been approved in the meeting of Board of the Company on 23 February 2011. This interim financial information does not reflect this interim dividend payable.

12. CAPITAL EXPENDITURE

	Land use rights	**Property, plant and equipment**
	RMB'000	*RMB'000*
Six months ended 31 December 2009		
Opening net book amount as at 1 July 2009	1,185,815	27,011,394
Optimisation on construction in progress	–	89,179
Additions	120,162	1,585,889
Tax benefit *(note (a))*	–	(55,779)
Disposals	–	(8,152)
Exchange difference	(1,024)	(8,902)
Amortisation/depreciation charges *(note 6)*	(12,480)	(432,137)
Closing net book amount as at 31 December 2009	1,292,473	28,181,492
Six months ended 31 December 2010		
Opening net book amount as at 1 July 2010	**1,299,607**	**30,157,456**
Additions	**64,097**	**5,155,293**
Tax benefit *(note (a))*	**–**	**(57,506)**
Disposals	**–**	**(9,809)**
Exchange difference	**(1,908)**	**(9,390)**
Amortisation/depreciation charges *(note 6)*	**(16,732)**	**(489,600)**
Closing net book amount as at 31 December 2010	**1,345,064**	**34,746,444**

(a) During the Period, the Group has received tax benefit of RMB57,506,000 (2009: RMB55,779,000) relating to the purchase of qualified equipment manufactured in the PRC. The amount has been deducted from the cost of additions of the plant and machinery.

13. INTANGIBLE ASSETS

	RMB'000
Six months ended 31 December 2009	
Opening net book amount as at 1 July 2009	234,647
Additions	9,164
Amortisation *(note 6)*	(2,113)
Closing net book amount as at 31 December 2009	241,698
Six months ended 31 December 2010	
Opening net book amount as at 1 July 2010	**239,543**
Amortisation *(note 6)*	**(2,443)**
Closing net book amount as at 31 December 2010	**237,100**

14. INVENTORIES

	31 December 2010	30 June 2010
	RMB'000	*RMB'000*
Raw materials	**1,711,204**	1,727,454
Finished goods	**1,256,197**	2,037,535
	2,967,401	3,764,989

15. TRADE RECEIVABLES

As at 31 December 2010, the ageing analysis of trade receivables is as follows:

	31 December 2010	30 June 2010
	RMB'000	*RMB'000*
0-30 days	**1,788,773**	1,320,934
31-60 days	**254,687**	277,064
61-90 days	**25,585**	43,652
Over 90 days	**5,921**	128,282
	2,074,966	1,769,932

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

16. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium**	**Total**
	Shares in thousands	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 31 December 2009					
Balances as at 1 July 2009	4,335,305	433,530	449,214	6,090,055	6,539,269
Placement of shares	264,285	26,429	23,285	2,503,090	2,526,375
Placing expenses	–	–	–	(50,891)	(50,891)
Exercise of share options	12,608	1,261	1,110	17,059	18,169
Balances as at 31 December 2009	4,612,198	461,220	473,609	8,559,313	9,032,922
Six months ended 31 December 2010					
Balances as at 1 July 2010	**4,629,554**	**462,955**	**475,132**	**8,618,615**	**9,093,747**
Exercise of share options	**32,718**	**3,272**	**2,822**	**89,251**	**92,073**
Balances as at 31 December 2010	**4,662,272**	**466,227**	**477,954**	**8,707,866**	**9,185,820**

17. OTHER RESERVES

	RMB'000
Six months ended 31 December 2009	
Balances as at 1 July 2009	1,250,050
Share options granted to directors and employees	6,631
Appropriation to other reserves	3,037
Exercise of share options	(3,749)
Currency translation differences	(4,596)
Cash flow hedge reserve released to set off the impact of hedged items that affected income statement *(note 8)*	(17,630)
Balances as at 31 December 2009	1,233,743
Six months ended 31 December 2010	
Balances as at 1 July 2010	**1,222,588**
Share options granted to directors and employees	**4,052**
Appropriation to other reserves	**1,608**
Exercise of share options	**(8,232)**
Currency translation differences	**(7,557)**
Cash flow hedge reserve released to set off the impact of hedged items that affected income statement *(note 8)*	**(1,306)**
Balances as at 31 December 2010	**1,211,153**

18. BORROWINGS

	31 December 2010 *RMB'000*	30 June 2010 *RMB'000*
Non-current		
– Long-term bank borrowings	**14,347,371**	10,896,284
– Club term loan	**3,014,420**	3,387,668
– Senior notes	**312,604**	320,104
	17,674,395	14,604,056
Current		
– Short-term bank borrowings	**953,294**	1,337,947
– Current portion of club term loan	**334,936**	–
– Current portion of long-term bank borrowings	**1,008,377**	717,644
	2,296,607	2,055,591
Total borrowings	**19,971,002**	16,659,647

19. TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2010 is as follows:

	31 December 2010	30 June 2010
	RMB'000	*RMB'000*
0 – 90 days	**1,951,575**	1,683,849
91 – 180 days	**58,617**	37,884
181 – 365 days	**34,805**	36,531
Over 365 days	**17,856**	17,445
	2,062,853	1,775,709

20. COMMITMENTS

(a) Capital commitments

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

	31 December 2010	30 June 2010
	RMB'000	*RMB'000*
Contracted but not provided for	**3,107,819**	5,179,034
Authorised but not contracted for	**706,467**	963,677
	3,814,286	6,142,711

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

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2010	30 June 2010
	RMB'000	*RMB'000*
Land and buildings		
– Not later than one year	**2,385**	2,829
– Later than one year but not later than five years	**2,052**	2,872
– Later than five years	**19,237**	19,507
	23,674	25,208

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Being the largest containerboard manufacturer in Asia, the Group primarily produces and sells a broad variety of packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as produces and sells pulp and specialty paper.

Since mid-2010, the PRC Government has put forth a series of credit tightening measures to prevent domestic economy from overheating. With a program focus on low carbon economy and emission reduction, the twelfth five-year program on national economic and social development ("12th 5-Year Program") has induced more rigorous enforcement of environmental regulations on the paper manufacturing industry. On the other hand, the packaging paperboard product industry continued to flourish as demand due to domestic consumption continued to grow. Faced with both challenges and opportunities, as an industry leader ND Paper drew upon its ample experience in market judgements and rode on its edges on resources, and was able to make solid progress in every business aspect from operations to future development.

The Group has established four major packaging paperboard production bases (Dongguan, Taicang, Chongqing and Tianjin) across China's main manufacturing hubs, making it the only packaging paperboard manufacturer covering all these four major markets in the PRC. In addition, the Group has a new medium-sized paper production base in Quanzhou, Fujian under construction which is planned to commence production in 2012. As for the northern and north-eastern markets, a new production base near Shenyang is in the pipeline which is planned to commence production in 2013. The Group has also entered into an agreement for the acquisition of 78.13% controlling equity interest in Hebei Yongxin Paper Co., Ltd. ("Hebei Yongxin"). As such, the Group's overall geographical coverage in the PRC market has basically taken shape.

The Group currently has a total design production capacity of 9.52 million tpa, including PM29 and PM30 which commenced production in Taicang base in December 2010, with design capacity of 400,000 tpa in kraftlinerboard and 300,000 tpa in light weight high performance corrugating medium respectively. This has resulted in approximately 8% increase in the Group's total design capacity during the Period. In January 2011, the Group has entered into a transaction to acquire 78.13% controlling equity interest of Hebei Yongxin from two subsidiaries of Shanghai Industrial Holdings Limited, which is expected to be completed on 31 March 2011. Such move will not only enlarge the Group's market share in northern China, but also create synergies for the Group's production base in Tianjin by the sharing of resources in procurement and sales.

Thanks to an effective pricing and sales strategy, the sales volume and revenue of the Group both hit record during the Period, with finished goods inventory gradually reducing to normal levels from high levels in the second quarter of 2010. Domestic sales had been growing steadily, representing approximately 85.5% of the total sales.

Optimizing resources allocation and continuously expanding production capacity

As the most resourceful paper manufacturing enterprise in the PRC, ND Paper is committed to the on-going optimization of its management systems. Established in 2009, the Group General Management Office clearly demonstrated its contribution by playing a significant role in effectively coordinating and standardizing operations of each base and department during the Period. With the ERP management system becoming online at all four major bases, the efficiency of the Group's resources deployment continued to improve. All these are laying profound foundation for ND Paper's future capacity expansion and risk control.

At present, capacity expansion and upgrading projects at the major production bases are being executed in an orderly manner. It is expected that, by the end of June 2011, four new paper machines (PM27 and PM28 in Dongguan and PM31 and PM32 in Tianjin) will commence production and three paper machines (PM3 in Dongguan, PM20 and PM21 in Taicang) will complete their upgrading. By then, the total design capacity of the Group will increase by approximately 20% to 11.45 million tpa, of which the capacity for manufacturing high-margin products will surge from the current 0.95 million tpa to 2.78 million tpa. In view of the PRC market conditions reflecting the Government's austerity measures for curbing inflation in this year, the Group's priorities are to ensure that these paper machines will be put into production as scheduled and progressively contribute to the Group's performance starting from FY12 (the twelve months ending 30 June 2012), thus elevating the overall profitability, economies of scale and investment returns of the Group.

PM34 in Tianjin base and PM33 in Chongqing base are both scheduled to commence production in FY12. They will bring to the Group a total additional production capacity of 1.1 million tpa for white board and duplex board, thus increasing the Group's total design production capacity to 12.55 million tpa, of which the capacity for high-margin products will further increase to 3.88 million tpa. With the Group's medium-sized paper manufacturing base in Quanzhou, Fujian and new base located in the vicinity of Shenyang planned to commence production in 2012 and 2013 respectively, the Group will then have a total design production capacity of 13.9 million tpa with an extensive operating network comprising six major production bases spanning all major markets in the PRC.

New paper machines commenced production in 2010

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

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

Paper machine	Location	Product	Design capacity	Scheduled completion date
PM20 (upgrade)	Taicang	Coated linerboard	430,000 tpa	Before end of Feb
PM21 (upgrade)	Taicang	Recycled printing and writing paper (including uncoated woodfree paper, copy paper, etc.)	200,000 tpa	Before end of Mar
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 Dec

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

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

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

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

Design capacities of the Group's six major bases in China (inclusive of Hebei Yongxin) (Breakdown by product category)

(million tpa)	December 2010	June 2011	June 2012	June 2013
Linerboard	5.00	5.30	5.30	6.65
Corrugating medium	3.30	3.10	3.10	3.10
Coated linerboard*	–	0.83	0.83	0.83
Coated duplex board*	0.95	1.50	2.60	2.60
Recycled printing and writing paper*	–	0.45	0.45	0.45
*High margin products sub-total	0.95	2.78	3.88	3.88
Total	9.25	11.18	12.28	13.63

(Capacity mix by product category)	December 2010	June 2011	June 2012	June 2013
Linerboard	54.0%	47.4%	43.1%	48.8%
Corrugating medium	35.7%	27.7%	25.2%	22.7%
Coated linerboard*	–	7.5%	6.8%	6.1%
Coated duplex board*	10.3%	13.4%	21.2%	19.1%
Recycled printing and writing paper*	–	4.0%	3.7%	3.3%
*High margin products sub-total	10.3%	24.9%	31.7%	28.5%
Total	100.0%	100.0%	100.0%	100.0%

(Distribution by location)	December 2010	June 2011	June 2012	June 2013
Dongguan	48.2%	47.0%	42.7%	38.5%
Taicang	34.6%	27.1%	24.7%	22.2%
Chongqing	8.6%	7.1%	11.0%	9.9%
Tianjin	8.6%	14.3%	17.5%	15.8%
Quanzhou	–	–	–	4.8%
Shenyang	–	–	–	5.1%
Hebei Yongxin	–	4.5%	4.1%	3.7%
Total	100.0%	100.0%	100.0%	100.0%

Number of paper machines in the Group's six major bases in China (By location)

(No. of machines)	December 2010	June 2011	June 2012	June 2013
Dongguan	13	15	15	15
Taicang	8	8	8	8
Chongqing	2	2	3	3
Tianjin	2	4	5	5
Quanzhou	–	–	–	2
Shenyang	–	–	–	2
Total	25	29	31	35

Controlling costs and diversifying sources of supplies

By further capitalizing on the advantages of ERP systems in management by strengthening the interactive coordination among various internal departments, the Group aspires to keep its inventory and costs under strict control, maximize the utilization of resources and reduce waste through reuse and recycling practices, so as to improve cost-efficiency and profitability as well as facilitate the Group's compliance with relevant environmental standards.

During the Period, slow economic recovery in western countries and an increasingly buoyant domestic demand in China had driven prices of recovered paper to hover at high levels, yet with much less volatility as compared with the previous period. Balanced by an increasingly sophisticated domestic recovered paper supply environment, the prices of imported recovered paper had also been relatively more stable. During the Period, the amount of domestic recovered paper accounted for approximately 30% of the Group's recovered paper purchase, with Chongqing base achieving over 70%. As in the past, the Group will continually seek new channels to further increase its domestic procurement of recovered paper. The proportion of domestic recovered paper purchased by the Group is expected to reach 40% by the end of 2011.

Continuing to place high emphasis on environmental protection

With energy conservation and emission reduction being a key focus, the 12th 5-Year Program is imposing more stringent requirements on environmental protection. Such a policy will bring a more favourable business environment to ND Paper, a company that has all along put much emphasis and efforts on environmental protection and energy conservation. The Group has constantly adhered to the philosophy of "no environment, no paper", with an "Environmental Protection Responsibility Statement" mandated on each base. With all key environmental management parameters of the Group outperforming state requirements, the Group won numerous incentives from the government. Apart from utilizing existing facilities to reduce water consumption and coal combustion, the Group has also materialized the dewatering and incineration of sludge and the incineration of light slag, which have significantly reduced coal consumption and curtailed the discharge of solid wastes. The Group has become the role model of environmental protection in the papermaking industry with a number of environmental protection awards granted by the government. Environmental protection is seen as an important cornerstone for building an enterprise that would thrive for a century, and the Group will persist on its commitment on environmental management facilities notwithstanding any change in the market environment. With more stringent environmental protection requirements and policies, more obsolete production capacities will be phased out sooner, thus creating a favourable competitive landscape for the Group.

FINANCIAL REVIEW

The Group continued to record growth in sales and net profit for the Period as compared with those in the corresponding period last year.

Sales

The Group's sales for the Period increased by approximately 45.0% over the corresponding period last year to approximately RMB12,615.0 million. The major contributor of the Group's sales was still from its paper packaging business which accounted for approximately 97.6% of the total Group sales, with the remaining sales generated from its pulp and high value special 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 corrugated medium and coated duplex board for the Period increased by approximately 16.2%, 24.8% and 5.1% respectively, as compared with the corresponding period last year.

The Group's annual design production capacity of packaging paperboard as at 31 December 2010 was 9.35 million tpa, comprising 5.1 million tpa of linerboard, 3.30 million tpa of high performance corrugating medium and 0.95 million tpa of coated duplex board. The Group's sales volume of packaging paperboard products increased by 17.6% to approximately 4.0 million tones in the Period from 3.4 million tonnes in the same period last year. The increase of the sales volume of packaging paper board 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. By end of December 2010, two new paper machines PM29 and PM30 in Taicang started their optimization and they are running very smooth currently.

The majority of the Group's sales continued to be realized from the domestic market, in particular from the corrugating medium and coated duplex board sectors. For the six months ended 31 December 2010 and 2009, sales related to domestic consumption represented approximately 85.5% and 85.0% of the Group's total sales respectively, while the remaining sales are denominated in foreign currencies which primarily represented indirect export sales made to foreign invested processing enterprises in China.

During the Period, sales to the Group's top five customers in aggregate accounted for approximately 4.6% (2009: 6.4%) of the total sales, out of which the single largest customer accounted for approximately 1.2% (2009: 2.1%).

Gross profit

The gross profit for the Period was approximately RMB2,275.4 million, representing an increase of approximately RMB436.0 million or 23.7% as compared with the RMB1,839.4 million in the same period last year while the gross profit margin for the Period decreased from 21.1% to approximately 18.0%.

Selling and marketing costs

Selling and marketing costs increased by approximately 47.6% from RMB155.8 million in the same period last year to approximately RMB230.0 million in the Period. The increase in the selling and marketing costs was due to larger sales volume and more geographical coverage. As a percentage of the Group's sales, the selling and marketing costs remained relatively stable at approximately 1.8% in the Period and in the same period last year.

Administrative expenses

Administrative expenses increased from RMB237.5 million in the period last year to approximately RMB367.0 million in the Period. As a percentage of Group sales, the administrative expenses increased from 2.7% in the same period last year to approximately 2.9% in the Period. The increase during the Period under review was mainly a result of additional management and the administrative costs incurred to support the commencement of new paper machines and new production bases.

Operating profit

The Group's operating profit for the Period was RMB1,767.7 million, representing an increase of RMB324.4 million or 22.5% over the RMB1,443.3 million of the same period last year. The operating profit margin for the Period decreased from 16.6% in the period last year to approximately 14.0% as gross profit margin decreased from 21.1% in the last period to approximately 18.0% in this Period.

Finance costs – net

The finance costs slightly increased from RMB236.8 million in the same period last year to approximately RMB275.2 million in the Period. The slight increase was the net result of the increase in interest capitalised and the increase in interest expenses mainly due to the fact that additional borrowings were raised from RMB12,840.4 million as at 31 December 2009 to approximately RMB19,971.0 million as at 31 December 2010 to fund the expansion of production capacity.

Income tax

The Group's income tax expenses increased from RMB147.8 million in the same period last year to approximately RMB191.5 million, which was mainly attributed by the substantial increase in assessable profits of the Group in the Period. The Group's effective tax rate remained relatively stable at 12.3% in the corresponding period last year and approximately 12.8% in the Period.

Net profit and net profit margin

The profit attributable to the equity holders of the Company for the Period was approximately RMB1,267.3 million, representing an increase of approximately 22.2% over the corresponding period last year. Whilst the net profit margin decreased from 12.2% in the corresponding period last year to approximately 10.3% in the Period.

Working capital

The level of inventory as at 31 December 2010 decreased by 21.2% to approximately RMB2,967.4 million from RMB3,765.0 million as at 30 June 2010. Inventories mainly comprised recovered paper, pulp and other raw materials of approximately RMB1,711.2 million and finished goods of approximately RMB1,256.2 million.

The turnover days for raw materials and finished products were approximately 30 days and 22 days respectively during the Period, compared to 37 days and 12 days in the corresponding period last year.

The trade receivables and bills receivable as at 31 December 2010 were RMB3,829.3 million, increased by approximately 50.2% from RMB2,549.1 million as at 30 June 2010. The turnover days for trade receivables and bills were 55 days, compared to 45 days in the corresponding period last year. As at 31 December 2010, the trade receivables with age less than 60 days accounted for approximately 98.5% of the total trade receivables.

The trade payables and bills payable increased by approximately 28.1% to RMB3,143.0 million as compared to the corresponding figure as at 30 June 2010. The turnover days for trade creditors were 55 days, compared to 52 days in the corresponding 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 and bank borrowings.

The Group's net cash inflow from operating activities for the Period increased from RMB612.3 million in the same period last year to approximately RMB1,830.9 million in the Period. The increase was attributable primarily to the changes in working capital, mainly from the decrease in period end finished goods inventory and increase in period end trade and other payables as a result of increase in sales and stock up more raw materials for the additional production capacity. In terms of the Group's available financial resources as at 31 December 2010, the Group had bank and cash balances of approximately RMB2,171.9 million (including restricted cash of approximately RMB9.3 million) and total undrawn bank facilities of approximately RMB17,663.9 million.

As at 31 December 2010, the shareholders' funds were approximately RMB20,279.9 million, an increase of RMB903.2 million from that as at 30 June 2010.

The Group had outstanding bank borrowings as at 31 December 2010 of approximately RMB19,971.0 million. The short-term and long-term borrowings amounted to approximately RMB2,296.6 million and RMB17,674.4 million respectively, accounting for 11.5% and 88.5 % of the total borrowings respectively. As at the end of the Period, about 99.6% of the Group's debts were on unsecured basis.

The net borrowings to total equity ratio for the Group as at 31 December 2010 increased to approximately 87.8% from 73.9% as at 30 June 2010.

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 were used to hedge material exposure.

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 2010, total foreign currency borrowings amounted to the equivalent of RMB4,841.6 million and RMB loans amounted to RMB15,129.4 million, representing 24.2% and 75.8% of the Group's borrowings respectively.

Capital expenditures

The Group invested approximately RMB5,155.3 million for the construction of factory buildings, purchase of plant and machinery, and equipment during the Period, as compared to RMB1,675.1 million in the corresponding period last year.

Capital commitments and contingencies

The Group made capital expenditure commitments mainly for machinery of approximately RMB3,107.8 million, which were contracted but not provided for in the financial statements as at 31 December 2010. These commitments were mainly related to the construction of new paper machines for the expansion of the Group's production capacity and improvement of certain existing production lines for enhancement of their profitability.

As of 31 December 2010, the Group had no material contingent liabilities.

Event occurring after the balance sheet date

On 12 January 2011, the Group entered into a sale and purchase agreement with a third party to acquire 78.13% equity interest in the Hebei Yongxin Paper Co., Ltd. at a consideration of RMB564,000,000. Hebei Yongxin Paper Co., Ltd. is principally engaged in the manufacture and sale of containerboard products.

OUTLOOK

Looking into the future, some tightening is expected to be seen in certain sectors in the first half of 2011, while global economic recovery remains sluggish. The overall market sentiment may thereby become conservative and volatile from time to time. Nevertheless, the future economic prospect of the PRC is still expected to grow in the longer term as compared to other economies. As to the paper industry, the consumption by a huge domestic population bodes well for demand growth for the Group. As to the Group, the progressive commencement of production of new bases and facilities will greatly expand its production scale. On products, the Group aims to improve its overall profitability by reaffirming its commitment to the research and development of new products and the optimization of its product portfolio. On purchase of raw materials, all the bases are increasing their proportion of domestic recovered paper purchase, with a view to maximizing the re-use of the enormous resources consumed by a 1.3 billion population. As the most resourceful paper manufacturing enterprise in the PRC, in 2011, the Group will continue to leverage on the unique advantages of its coverage of four major market hubs and abundant resources, and complete its plans of production expansion and enhancement of its existing product mix in a persistent and stage-by-stage manner, despite market conditions reflecting an austerity macroeconomic policy. The Group is steering its path toward building a complete strategic network comprising six bases and broadening its regional market coverage, striving for the best investment return for its shareholders in the foreseeable future.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

The Board has declared and approved an interim dividend of RMB2.00 cents (equivalent to approximately HK2.37 cents) per share for the Period, which is expected to be payable to the shareholders by post on or about Monday, 30 May 2011. 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 Tuesday, 17 May 2011. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 to RMB0.8448 as at 23 February 2011 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2011 to Friday, 20 May 2011, 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 Tuesday, 17 May 2011.

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

The audit committee meets at least four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit. The audit committee, together with the Company's management and its external auditor, PricewaterhouseCoopers, has reviewed the accounting principles and practices adopted by the Company and discussed over and reviewed the auditing and financial matters, including all significant aspects involving financial, operational and compliance controls.

All members of the audit committee are independent non-executive directors, namely, Dr. Cheng Chi Pang (Chairman), Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Mr. Wang Hong Bo.

CORPORATE GOVERNANCE PRACTICES

During the Period, 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.

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 2011

As at the date of this announcement, the executive directors are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Zhang Yuanfu, Mr. Lau Chun Shun 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.