玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

2005/06 Annual Report

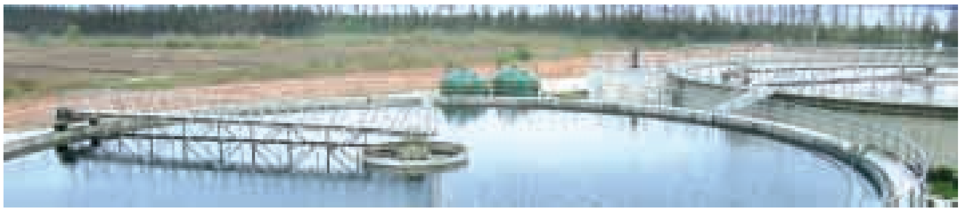
Sales across the Globe
Healthy Sustainable Growth

* *For indentification purposes only*

Contents

Printed on: "Nine Dragons" High Quality Kraftlinerboard (126g)

Corporate Information



Board of Directors

Executive Directors

Ms. Cheung Yan *(Chairman)*
Mr. Liu Ming Chung
(Deputy Chairman and Chief Executive Officer)
Mr. Zhang Cheng Fei
(Deputy Chief Executive Officer)
Ms. Gao Jing
Mr. Wang Hai Ying

Non-Executive Director

Mr. Lau Chun Shun

Independent Non-Executive Directors

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

Executive Committee

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

Audit Committee

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

Remuneration Committee

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

Authorised Representatives

Mr. Zhang Cheng Fei
Ms. Cheng Wai Chu, Judy

Qualified Accountant

Mr. Law Wang Chak, Waltery *FCPA, FCCA*

Company Secretary

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

Auditors

PricewaterhouseCoopers

Legal Advisers

Conyers Dill & Pearman (Bermuda)
Sidley Austin (Hong Kong)
Jingtian & Gongcheng (PRC)

Principal Bankers

Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications
China Merchants Bank

Compliance Adviser

Merrill Lynch Far East Limited

Financial Summary

Consolidated Income Statement	2006 (RMB million)	2005 (RMB million)	2004 (RMB million)	2003 (RMB million)
	For the year ended 30 June			
Sales	**7,902.2**	4,825.4	2,653.5	2,244.8
Cost of goods sold	**(6,041.3)**	(4,064.9)	(2,105.7)	(1,954.3)
Gross profit	**1,860.9**	760.5	547.8	290.5
Other gains – net	**357.0**	24.1	5.3	3.1
Selling and marketing costs	**(172.8)**	(91.5)	(60.2)	(51.0)
Administrative expenses	**(233.9)**	(135.0)	(67.3)	(39.1)
Operating profit	**1,811.2**	558.1	425.6	203.5
Finance costs	**(294.8)**	(179.8)	(85.1)	(62.1)
Profit before income tax	**1,516.4**	378.3	340.5	141.4
Income tax expense	**(116.3)**	(60.4)	(52.7)	(30.9)
Profit for the year	**1,400.1**	317.9	287.8	110.5
Profit attributable to:				
Equity holders of the Company	**1,374.8**	303.7	281.4	110.6
Minority interests	**25.3**	14.2	6.4	(0.1)

Consolidated Cash Flow Statement	2006 (RMB million)	2005 (RMB million)	2004 (RMB million)	2003 (RMB million)
	For the year ended 30 June			
Net cash generated from operating activities	**1,067.1**	1,063.0	341.3	35.3
Net cash used in investing activities	**(1,454.1)**	(1,537.3)	(827.2)	(692.7)
Net cash generated from financing activities	**2,556.0**	681.4	795.4	490.9
Net increase/(decrease) in bank and cash balances	**2,169.0**	207.1	309.5	(166.5)

Financial Summary

	As at 30 June			
Consolidated Balance Sheet	**2006 (RMB million)**	2005 (RMB million)	2004 (RMB million)	2003 (RMB million)
Total assets	**14,872.6**	**11,700.3**	**5,499.5**	**3,869.8**
Inventories	**932.0**	998.2	566.1	311.8
Trade receivables and bills receivable	**1,312.4**	763.3	447.3	472.0
Prepayments and other receivables	**246.6**	233.7	715.3	567.6
Bank and cash balances	**3,017.3**	1,310.9	746.9	252.2
Total current assets	**5,508.3**	**3,306.1**	**2,475.6**	**1,603.6**
Property, plant and equipment	**8,625.5**	7,640.0	2,864.9	2,115.7
Land use rights	**592.1**	607.5	159.0	150.5
Intangible asset	**146.7**	146.7	–	–
Total non-current assets	**9,364.3**	**8,394.2**	**3,023.9**	**2,266.2**
Total liabilities	**7,236.3**	9,292.8	4,370.2	3,102.2
Trade payables and bills payable	**1,516.8**	2,167.7	593.6	341.5
Other payables	**476.7**	646.7	671.2	459.0
Current income tax liabilities	**67.4**	44.5	30.1	4.0
Short-term borrowings	**2,176.9**	2,431.6	1,236.8	1,124.3
Total current liabilities	**4,237.8**	**5,290.5**	**2,531.7**	**1,928.8**
Long-term borrowings	**2,743.9**	3,817.3	1,725.5	1,080.9
Deferred income tax liabilities	**226.8**	169.8	103.7	77.3
Other payables	**27.8**	15.2	9.3	15.2
Total non-current liabilities	**2,998.5**	**4,002.3**	**1,838.5**	**1,173.4**
Net current assets/(liabilities)	**1,270.5**	**(1,984.4)**	**(56.1)**	**(325.2)**
Total assets less current liabilities	**10,634.8**	**6,409.8**	**2,967.8**	**1,941.0**
Capital and reserves attributable to equity holders of the Company	**7,541.4**	**2,321.9**	**1,049.0**	**767.4**
Minority interests	**94.9**	**85.6**	**80.3**	**0.2**

Financial Summary

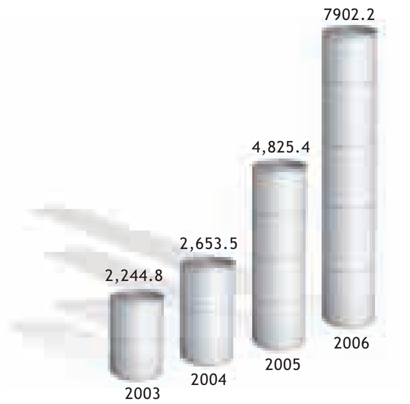
	As at or for the year ended 30 June			
Financial Ratios and Other Financial Information	**2006**	2005	2004	2003
EBITDA *(RMB million)*	**2,023.5**	721.2	513.9	286.7
Profitability ratios				
Gross profit margin[1] (%)	**23.5**	15.8	20.6	12.9
Operating profit margin[2] (%)	**22.9**	11.6	16.0	9.1
Net profit margin[3] (%)	**17.4**	6.3	10.6	4.9
EBITDA ratio (%)	**25.6**	14.9	19.4	12.8
Rate of return on equity[4] (%)	**18.2**	13.1	26.8	14.4
Rate of return on capital employed[5] (%)	**13.3**	5.4	8.8	5.3
Liquidity ratios				
Current ratio[6] (times)	**1.3**	0.6	1.0	0.8
Quick ratio[7] (times)	**1.1**	0.4	0.8	0.7
Inventory turnover[8] (days)	**56**	73	98	58
Trade receivable turnover[9] (days)	**61**	48	62	77
Trade payable turnover[10] (days)	**92**	158	103	64
Capital adequacy ratios				
Gearing ratio[11] (%)	**33.1**	53.4	53.9	57.0
Net borrowings to equity ratio[12] (%)	**25.2**	212.7	211.2	254.5
Interest coverage[13] (times)	**12.3**	3.5	5.8	4.2

(1) Gross profit margin is equal to gross profit divided by sales times 100%.
(2) Operating profit margin is equal to operating profit divided by sales times 100%.
(3) Net profit margin is equal to profit atributable to equity holders of the Company divided by sales times 100%.
(4) Rate of return on equity is equal to profit attributable to equity holders of the Company divided by capital and reserves attributable to equity holders of the Company times 100%.
(5) Rate of return on capital employed is equal to operating profit for the year net of the amount of operating profit for the year times effective tax rate divided by the sum of short-term borrowings, long-term borrowings and total equity (including minority interests) times 100%.
(6) Current ratio is equal to current assets divided by current liabilities.
(7) Quick ratio is equal to current assets net of inventories divided by current liabilities.
(8) Inventory turnover is equal to inventories divided by cost of goods sold times 365 days.
(9) Trade receivable turnover is equal to the sum of trade receivables and bills receivable divided by sales times 365 days.
(10) Trade payable turnover is equal to the sum of trade payables and bills payable divided by cost of goods sold times 365 days.
(11) Gearing ratio is equal to total borrowings divided by total assets times 100%.
(12) Net borrowings to equity ratio is equal to the sum of short-term borrowings, the current portion of long-term borrowings and long-term borrowings net of bank and cash balances and restricted cash divided by shareholders equity times 100%.
(13) Interest coverage is equal to EBITDA divided by bank borrowing interest net of interest income.

Financial Summary

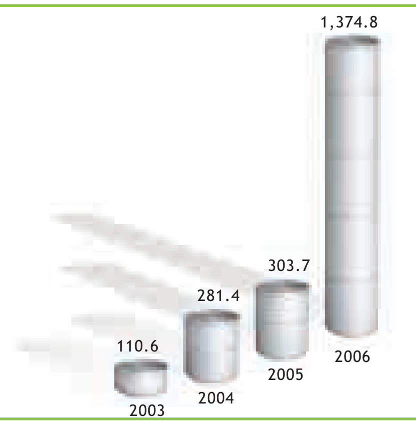
As at or for the year ended 30 June

RMB million



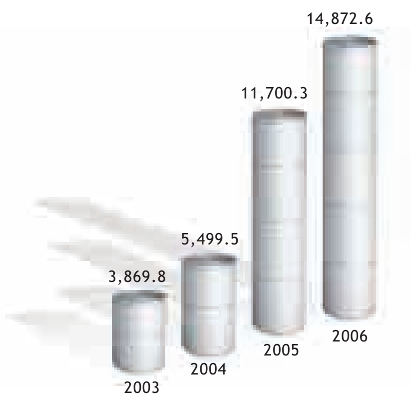
Sales

RMB million



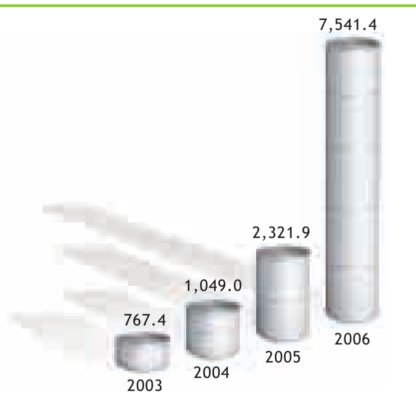
Profit attributable to equity holders of the Company

RMB million



Total assets

RMB million



Capital and reserves attributable to equity holders of the Company

Ten Major Achievements of ND Paper

I. Commencement of production of Phase I

In July 1998, the first paper machine, or PM1, with an annual designed production capacity of 200,000 tonnes of kraftlinerboard at the production base in Dongguan operated by a subsidiary of Nine Dragons Paper (Holdings) Limited ("ND Paper") achieved success in its test run. This event marked the entry of ND Paper to the packaging paperboard production industry in China and was a good start to its decade of business success.

II. Annual production capacity hitting one million tonnes

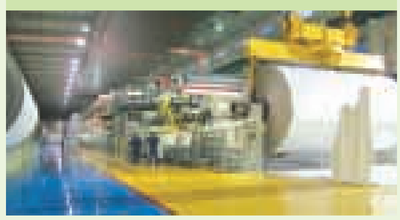
In June 2000 and in May 2002, ND Paper's PM2 and PM3 commenced operation to increase ND Paper's total annual production capacity to one million tonnes. It required ND Paper nine months to successfully install and commence operation of PM3, and this was then a new record for the installation of paper machines. Meanwhile, ND Paper also grew at a record speed to become a leading packaging paperboard manufacturer with an annual production capacity of one million tonnes in China.

III. Establishment of the Taicang production base

With unique insight, ND Paper identified the future development direction of the industry and purchased more than 3,800 acres of land in Taicang and Dongguan in 2000 to 2002. In November 2003, PM5 was installed and commenced operation. It was later acquired by ND Paper on 1 January 2005. In April 2005, PM8 had a successful test run and subsequently raised the total annual production capacity of the Taicang production base to 950,000 tonnes. The establishment of the Taicang production base proved ND Paper tobe a successful two-prong packaging paperboard production network covering the Pearl River Delta and the Yangtze River Delta.

IV. Commencement of production of coated duplex board with grey back

In October 2003, PM4 commenced production with a designed annual production capacity of coated duplex board with grey back of 450,000 tonnes, breaking the productivity record for standalone units around the world at the time. This paper machine integrated the most advanced technologies from Europe, America and Japan and the best ideas from industry participants. On 1 January 2005, ND Paper, which was previously engaged in the manufacturing of kraftlinerboard only, acquired PM 4 to take its first step towards product diversification.



Ten Major Achievements of ND Paper

V. Obtain ISO Quality and Environmental Standard and OHSAS Certifications

ND Paper successfully obtained the ISO Quality and Environmental Standard Certifications and the Occupational Health and Safety Management System Certification in 2003 to 2005. With the implementation of these effective controls, the Company's performance in product quality, environmental protection and work safety have been improving continuously. Besides, international management practices have also been incorporated to align the management standards of ND Paper with those of the international community.

VI. Successful establishment of ND Xing An

In February 2004, we successfully established Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An") as an equity joint venture with China Inner Mongolia Forestry Industry Co., Ltd., which owns abundant forestry resources. Subsequently, ND Xing An's annual production capacity of kraft pulp rose from the original 50,000 tonnes to 100,000 tonnes in 2005, and is gradually approaching the planned target of 300,000 tonnes and is moving towards a modernised conglomerate of forestry, kraft pulp and paper. The establishment of the joint venture also marked ND Paper's success in integrating the three elements into a complete chain, which together with the adoption of recycle waste paper for use as raw materials, further reinforced its image as a green enterprise.

VII. Two million tonnes productivity breakthrough and remarkable sales record

High performance corrugating medium production lines PM6 and PM7 commenced operations in October 2004 and subsequently bringing ND Paper's aggregate annual production capacity increased to 2.35 million tonnes in 1 January 2005. The addition of corrugating medium effectively expanded the variety and market reach of the Company. More encouraging is that ND Paper's products, given their high degree of popularity and market acceptance, recorded impressive sales across the board. We have secured a relatively large market share not only in Guangdong, but also across China, as the promising growth momentum in our productivity and sales continues.

VIII. 210MW thermal power generating units going on grid

In May 2005, our 210MW thermal power generating units successfully commenced on-grid power generation and became the largest among the industry in terms of power generation capacity. As a result, the total thermal power generating capacity of the Dongguan production base of ND Paper increased to 350MW, comparable to a medium-scale power plant. The on-grid power generation of the 210MW generating units not only assures ND Paper a stable and sufficient electricity supply and enhancement of efficiency, but also effectively eases the pressure on the local electricity supply, thus winning the applause of the local government and enterprises.

Ten Major Achievements of ND Paper

IX. PM9 and PM10 commenced operation to make ND Paper the No. 1 manufacturer in China

In December 2005, the corrugating medium production lines PM9 and PM10 came into operation, taking ND Paper's annual total production capacity to 3.3 million tonnes, making the Group the No. 1 manufacturer in China, the second largest in Asia and the eighth largest in the world. Within just a decade, ND Paper has successfully established and started 10 production lines, and grew rapidly into the leader of the packaging paperboard industry with an unmatched production scale.

X. Marching towards the global excellence

After a decade of experience in the industry, in 2006, ND Paper has entered the prime of its growth phase with a group management style. ND Paper has a well-established management system that emphasizes fairness and impartiality, coordination and a peaceful workplace atmosphere, which together embody the Nine Dragons Spirit of "dedicated and devoted, united and progressive, focusing on quality, honesty and reliability". ND Paper is becoming a modern business group with corporate practices in line with international standards. In the future, we will further build the Dongguan production base into a packaging paperboard manufacturing hub with an annual production capacity of five million tonnes; the Taicang production base will grow to achieve an annual production capacity of four million tonnes; and ND Xing An will become an integrated production base of forestry, kraft pulp and paper with a combined annual production capacity of 300,000 tonnes.

ND Paper was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 3 March 2006, and was included in the MSCI standard index, the MSCI Global Value and Growth Index and the Hang Seng Index within half a year after listing. With 10 years outstanding track record, ND Paper is making steady and confident strides towards excellence to create a glorious future.


Strength

Chairman's Statement

Dear Shareholders,

I am pleased to present to you the first annual report of Nine Dragons Paper (Holdings) Limited ("ND Paper" or the "Company") since our listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 March 2006. The year ended on 30 June 2006 marked the 10th anniversary of the operation of ND Paper and its subsidiaries (the "Group") in China. During the year, our leadership in the packaging paperboard manufacturing industry further strengthened as our business continued to expand rapidly with flying colours.

During the year under review, the Group harvested encouraging results with substantial growth in both turnover and profit compared with the last financial year. Our operating infrastructure grew rapidly and our financial performance showed positive results in line with our expansion strategy. For the year, we recorded total revenue and gross profit of approximately RMB7,902,156,000 and RMB1,860,874,000 respectively, representing an increase of 63.8% and 1.45 times over last year. Net profit attributable to equity holders of the Company was RMB1,374,782,000, an increase of 3.53 times from a year ago and was higher than the profit forecast of 30.9% stated in the listing prospectus issued by the Company on 20 February 2006 (the "Prospectus"). Our earnings per share were RMB0.41, representing 3.02 times increase over last year.

Even more encouraging is the huge success of our listing on the Stock Exchange on 3 March 2006 that received an overwhelming market response. This is an important milestone of the Group's business development. In addition, on 1 September 2006, we were added by MSCI Barra to the MSCI Standard Index Series and MSCI Global Value and Growth Index Series. We also became a constituent stock of the Hang Seng Composite Index on 11 September 2006.

Chairman's Statement

The Spirit of Nine Dragons:
"Diligence and Dedication, Cooperation and Aspiration,
Excellent Product Quality, Enviable Market Reputation."

Since its establishment, ND Paper has been firmly committed to increasing our shareholders' value. Given the success of our initial public offering, which brought us new funds and access to the international capital market, the Group is well positioned to capture additional growth opportunities in the packaging paperboard industry.

Optimising returns with sharp-focused pre-investment strategy

Large-scale packaging paperboard production features high entry barriers. Manufacturers not only have to invest a huge amount of capital, but also need to satisfy the strict statutory standards and requirements on environmental protection. In addition, due to the limited supply of raw materials, the packaging paperboard manufacturing industry (including the containerboard production sector) is currently dominated by a few large-scale producers. According to the statistics from Resource Information Systems Inc. ("RISI"), as at 31 December 2004, the Group was one of the few large-scale containerboard producers with an annual production of one million tonnes or above. Currently, small-scale manufacturers are being gradually driven out of the market due to their out-dated facilities, reliance on a single product, high operating costs, labour intensity, as well as their failure to meet the standards on environmental protection. The Group has secured its leading position in China's packaging paperboard manufacturing industry by capitalising on the opportunities arising from the general decline in market supply and with our outstanding and consistent product quality, diversified product features, one-stop services, innovative product development, comprehensive customer service, as well as a strong competitive edge in sales and pricing.

Our insightful and forward-looking management initiated first mover advantage to actively seek investment opportunities in the early 1990s and accelerate the growth of production capacity by expanding the production facilities of the Group. The advanced production equipment and technology adopted by the Group also enabled it to meet the international environmental protection standards. More recently, the Group made huge pre-investments in Dongguan and Taicang, such as developing piers and increasing land reserves, in order to build a solid foundation for the Group's future expansion. What we have achieved today manifests part of the broad picture of the long-term benefits brought about by such pre-investments. Today the Group is the biggest containerboard manufacturer in China and one of the biggest in the world, with an annual production capacity of 3.3 million tonnes. The benefits of economies of scale are working to secure the Group's leading position in the domestic and international packaging paperboard markets.

Cost-savings through in-house research and development

In addition to its remarkable production capacity, ND Paper also concentrates on strengthening its capability through in-house research and development. We are seeking to reduce the use of kraft pulp, one of our raw materials, in production through enhancing our technology by way of in-house research and development. During the year, the Group's PM12 and PM13 under construction, which are used to manufacture linerboard, will adopt the use of pure waste paper as raw materials for its default mode and are expected to help further reduce production costs. Meanwhile, the Group also implemented aggressive steps to improve and reallocate its production facilities, in an effort to reduce its investment in fixed assets and enhance its product competitiveness.

Chairman's Statement

In the past, the Group required three to six months on average to optimise the operating efficiency of a new paper machine. However, thanks to the invaluable experience and outstanding know-how of our management, the optimising time of the two paper machines, PM9 and PM10, which commenced operation in late December 2005, was substantially reduced and has achieved the designed optimal operating efficiency within merely two months. As a benchmark in the industry, this achievement has not only marked a major breakthrough for the Group in respect of production technology, but also reflects the unique "Nine Dragons Spirit" and the fruits of success achieved through the concerted efforts of all our staff. With the shorter optimising time, the Group is able to save a substantial amount of resources and costs involved and increase the stability of our overall gross margin.

Accelerating investment in capital expenditure to yield economies of scale

According to the data of RISI, China will remain a net importer of containerboard products until 2009, with an estimated annual import of approximately 1.6 million tonnes. In order to capture the enormous opportunities emerging in the market, the Group announced in April 2006 that it will accelerate its investment in capital expenditure in the financial year 2007 in order to further expand its production capacity. With the implementation of revised capital expenditure plan, the Group expects to achieve a total of 5.35 million tonnes in its production capacity in 2007, which will further allow the Group to capture the immense opportunities in the containerboard market.

Relying on the invaluable experience and expertise of our management, the Group has successfully installed and commenced the operation of ten paper machines. We have also pioneered the introduction of the dual-machine production line layout to give an additional boost to productivity and achieve substantial savings in operation and production. In the future, the Group will step up its efforts in innovation by leveraging the latest experience and expertise in the paper manufacturing industry in order to attain top standards in operating performance and minimise repair and maintenance costs.

Chairman's Statement

Promoting healthy corporate growth with stronger corporate governance, social responsibility and environmental protection

ND Paper is committed to maintaining and enhancing the quality of our corporate governance. To fulfill our pledge to our shareholders and deliver our regulatory obligations, in the past year our Board established a number of committees, including the Executive Committee, Audit Committee, Remuneration Committee and Risk Control Committee. These committees carry out their duties in accordance with the Articles of Association to strictly monitor the internal control systems of the Company and ensure that such systems is in compliance with the Code of Best Practices.

Given our unique mode of operation, ND Paper takes a proactive approach to disclose and explain the details of our connected transactions to our major business partners and shareholders. We believe that it is beneficial for all parties to know more about ND Paper and our industry, so that they can better understand our competitive advantage. The successful listing of ND Paper in Hong Kong was just the first step in taking our commitment to shareholders to the next level. We will continue to review and enhance our internal and external control measures to maintain our corporate governance at international standards.

In respect of social responsibility, we believe that "give and take" is the appropriate attitude of a good corporate citizen. Hence, ND Paper is always supportive of various charity activities. We are eager to fully apply our corporate philosophy of creativity to such functions and events and to arouse and foster a sense of social participation and dedication among our staff. The benefits and implications of such activities are extensive. As such, ND Paper will continue to participate in charity events for a good cause and will include social responsibility as part of our agenda for corporate development.

"No environment, no paper" is the concept that we hold dear. Since its establishment, the Group has been demanding of itself in maintaining a high standard of environmental protection by keeping up its investment in conservation, including the introduction of internationally advanced environmentally friendly equipment and technology. Despite the continued rapid growth of our business volume and coverage, we never compromise regarding the environment. With the idea of environmental protection forming a global trend, ND Paper will be increasingly active in its green efforts. We will continue to promote the use of recycled paper as the raw materials for manufacturing to ensure harmony with nature and continuous renewal.

Future plans and prospects

Looking ahead, the Company will maintain its commitment to the expansion of its packaging paperboard production base and search domestically and internationally for a suitable kraft pulp resource production base. Apart from the production bases in the Pearl River Delta and the Yangtze River Delta, the Group will establish new production bases in central-western and northern China in the next three to five years. The target of the Group for the coming year is to expand its annual production capacity by 62.1% from the current 3.3 million tonnes to 5.35 million tonnes. We are also planning to invest in four additional paper machines in the financial year 2008 so as to further expand our annual production capacity by 1.8 million tonnes from 5.35 million tonnes to 7.15 million tonnes. Such 1.8 million tonnes of additional annual production capacity consists of a capacity of one million tonnes of kraftlinerboard and 800,000 tonnes of high performance corrugating medium. It is expected that this production capacity expansion plan will be completed by the end of December 2008. We intend to finance such future capital expenditure by internally generated funds and bank loans. The above production capacity expansion plans are expected to help further strengthen our leading position in the international and domestic packaging paperboard market, as well as enhance the bargaining power of the Group. In addition, the Group is in negotiations with authorities in Dongguan regarding the construction of a local pier to improve the ancillary operation of the Group.

To ensure a stable supply of unbleached kraft pulp, the Company has, through a joint venture, established an unbleached kraft pulp plant with an existing annual production capacity of up to 100,000 tonnes and a target production of up to 300,000 tonnes, in Inner Mongolia, where abundant resources are available. Looking ahead, the Group intends to engage in resources investment, including the development of upstream operations and bleached kraft pulp production. The Group targets to have mass production of bleached kraft pulp in three to five years. When contemplating any investment opportunity, the Group will first consider whether the project possess a long-term competitive edge to generate a stable rate of required returns.

Leveraging on economies of scale and the benefits brought about by pre-investments, the Group is confident that it will be able to sustain continuous business growth as it increases the use of recovered paper and carries out in-house research and development for cost saving technologies. Looking ahead, ND Paper will continue our long-lasting responsibility, and with the united effort of our management and staff, strive to become the largest and most efficient packaging paperboard manufacturer in the world.

Appreciation

The outstanding results of the Group in the past decade were attributable to the concerted efforts of the management and the staff. I would like to take this opportunity to express my sincere gratitude to the local governments for their continued support in providing us a favourable operating environment, as well as to the staff of the Group for their dedication, loyalty and contribution during the year. I would also like to thank our customers, business partners, shareholders and associates in the financial sector for their unreserved support in making this year another fruitful one for ND Paper.

Cheung Yan
Chairman

Hong Kong, the PRC, 20 September 2006

Chief Executive Officer's Operation Review and Outlook

Dear Shareholders,

I am delighted to report that ND Paper achieved new heights this year with outstanding operational results, which have already started to reflect the benefits of economies of scale, capital investment, product optimisation and cost management.

Review of operations

During the year, the Group recorded total revenue and gross profit of approximately RMB7,902,156,000 and RMB1,860,874,000 respectively, representing a year-on-year increase of 63.8% and 1.45 times. Profit attributable to equity holders of the Company was RMB1,374,782,000, an increase of 3.53 times that of the previous year and higher than the profit forecast stated in the Prospectus. Earnings per share were RMB0.41, increasing 3.02 times.

Meanwhile, the Group's designed production capacity and sales of containerboard reached historical high during the financial year. For the year ended 30 June 2006, the Group's designed production capacity increased 17.9% from the previous year to 3.3 million tonnes and the sales volume for the financial year 2006 also increased by 73.8% to approximately 2.83 million tonnes.

The board proposed the declaration of a final dividend of RMB2.30 cents per share in the board meeting held on 20 September 2006. No interim dividend was declared, and the final dividend is to be distributed out of the profit for the period from 3 March 2006 to 30 June 2006. The payout ratio is higher than the 20% benchmark stated in the Prospectus.

Our new paper machines PM9 and PM10 commenced operation on 23 and 25 December 2005, bringing us an additional annual production capacity of 500,000 tonnes of higher performance corrugating medium. These machines have achieved optimal operating efficiency in merely two months, providing us with a particularly joyful Christmas.

To date, we have invested in 10 paper machines, which are all in operation. ND Paper's diversified product mix enables us to serve as a one-stop shop for a broad range of high quality packaging paperboard products. The complementary nature of its products and operation also allows it to strengthen the value and competitiveness of the Group.

Abiding by the principle of long term growth, ND Paper has been persistently investing in raw material resources, infrastructure and production technology, so as to continuously perfect development, improve product quality, optimise cost structure and enhance production efficiency.

To meet our development needs in the long run, we have made various pre-investments, such as pier facilities and water supply facilities. With the support of the local governments, we have obtained additional land use rights, which are sufficient for expanding our total annual production capacity to nine million tonnes. Our newly installed coal-fired electricity power plant is capable of fulfilling the consumption of the Dongguan and Taicang production bases, each with a newly added production capacity of one million tonnes annually. The benefits of these pre-investments will gradually be demonstrated during the course of operation.

We are committed to enhancing the Group's human resources and emphasising our relationship with staff members. In addition to strengthening mutual communications and providing an ideal living environment, we also organise regular special training programmes for the staff in technology research and development, customer service and other aspects in order to enrich their industrial expertise and equip them with high-calibre management or technical skills. Aside from ensuring a sufficient pool of high quality talent to meet the needs of our operations, we always bear in mind our responsibility to contribute to society by assisting poor students with training in paper manufacturing. This programme serves the dual purposes of helping the needy and cultivating talent for the Group. In the future, we will increase our effort to recruit high-calibre professionals across the country to upgrade our overall management standard and improve the quality of our products and services. This will be an integral part of moving towards our goal of being one of the leading industry players of the world.

Capital expenditure plans

In order to seize the anticipated business opportunities arising from the sustained growth in containerboard products demand, in April 2006 the Group decided to revise its original capital expenditure plans stated in the Prospectus to allow for greater expansion of production capacity in the financial year 2007. Under the revised plan, PM11, PM12, PM13, PM16 and PM17 will commence operation by the end of June 2007, and the Group's aggregate annual production capacity of containerboard is expected to increase by 62.1% to 5.35 million tonnes in the financial year 2007, representing an increase of 750,000 tonnes in aggregate as compared with the Group's original plan disclosed in the Prospectus. It is expected to help further strengthen the Group's leading position in the packaging paperboard market and improve our price competitiveness and profitability.

Details of the revised capital expenditure plans

In the original plan as set out in the Prospectus, the Group intended to kick start in the financial year 2007 with the production of PM12 for linerboard and PM13 for high performance corrugating medium, and planned to adopt a production layout of one paper machine in each workshop. In order to speed up the expansion of its production capacity, the Group has undertaken a thorough technical feasibility study of the original layout plan together with the technical advisers of its machine suppliers. By adopting a layout of two machines installed side by side in a workshop ("the dual-machine layout"), the Group's production capacity and operating efficiency can be significantly increased. The dual-machine layout is expected to enable the Group to further optimise its product mix and reduce investment, operating and labour costs as a result of sharing equipment and man hours by two machines and more efficient utilisation of space.

Chief Executive Officer's Operation Review and Outlook

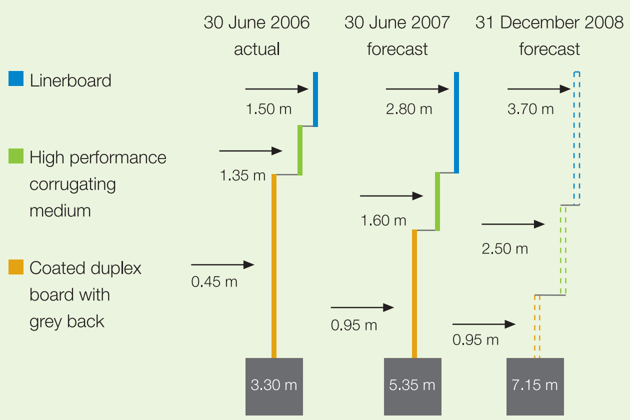
Under the revised plan, the Group will adopt the dual-machine layout and put online two paper machines for each workshop, that is, PM12 plus PM13 (instead of only PM12 under the original plan) for one workshop, and PM16 plus PM17 (instead of PM13 under the original plan) for the other. The aggregate annual production capacity will be 700,000 tonnes more than the original plan. The Group will upgrade the annual production capacity of PM8 by 50,000 tonnes of high performance corrugating medium with two-ply sheet from 450,000 tonnes to 500,000 tonnes of linerboard with three-ply sheet in the financial year 2007.

The following table sets forth the information relating to the growth of the Group's annual production capacity in the financial year 2007:

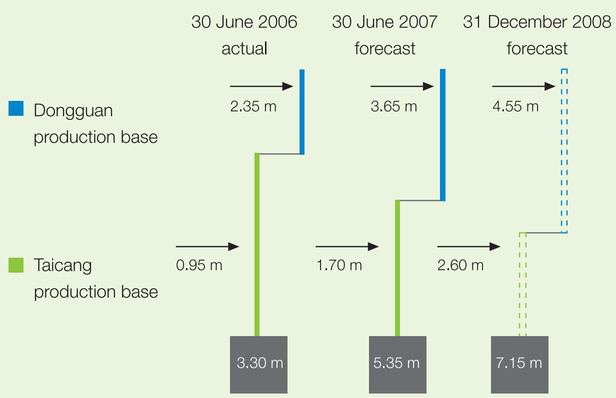
Paper machine	Location	Product	Annual production capacity	Expected date of commencement of operation
PM11	Dongguan	Coated duplex board with grey back	500,000 tonnes	Before the end of March 2007
PM12 plus PM13 (originally only PM12)	Dongguan	Linerboard	Totally 800,000 tonnes	Before the end of June 2007
PM16 plus PM17 (originally only PM13)	Taicang	High performance corrugating medium	Totally 700,000 tonnes	Before the end of June 2007
PM8	Taicang	Linerboard	Increasing by 50,000 tonnes to 500,000 tonnes	Before the end of June 2007

The following charts set forth the information relating to the Group's annual production capacity as at 30 June 2006 and 2007 (upon completion of the revised plan) and 31 December 2008:

Production capacity – by product (tonnes)



Production capacity – by production base (tonnes)



The increase in the capital expenditure will dramatically improve the utilisation efficiency of the Group's investment cost, allowing it to capture anticipated business opportunities in the containerboard market and deliver a higher return to our shareholders. The Group looks forward to maximising the benefits from such capital expenditure with the accumulated experience and technical know-how derived from the successful installation and operation of 10 paper machines so far and the cost savings from adopting the dual-machine layout.

Despite all these changes in the future capital expenditure, the use of the net proceeds raised from the issue of the new shares of the Group is consistent with what was set out in the Prospectus.

Reasons for implementing the revised capital expenditure plan

We consider that the implementation of the revised capital expenditure plan is in the best interest of the shareholders and the Group as a whole and will not have any adverse material effect on its liquidity or gearing position. The revised capital expenditure plan will enable the Group to capture the anticipated market opportunities while the additional capital expenditure is relatively small as compared with the incremental production capacity and the expected cost savings.

Financial performance

The Group's results for the financial year 2006 reflect the benefits of its pre-investment, the vision of its management team and the advanced standard of its technology in the packaging paperboard industry. Revenue of the Group's products increased across the board with total revenue growing by 63.8% to RMB7,902,156,000.

Despite a general increase in business activities during 2006, our operating expenses were well contained due to the gains in our productivity. Operating expenses net of depreciation increased from RMB4,123,963,000 to RMB6,116,606,000. However, by virtue of the benefits from economies of scale, product optimisation and cost management, operating margin for the year improved significantly to 22.9% from 11.6% in 2005. Depreciation charges increased by 97.9% to RMB331,329,000 from RMB167,392,000 in 2005, mainly due to the full-year contribution of PM4 and PM5, which were acquired in January 2005, and PM6, PM7 and PM8, which commenced operation in the financial year 2005. Together with the commencement of operation of PM9 and PM10 during the period, our production capacity increased significantly. Finance costs increased 63.9% to RMB294,793,000 mainly as a result of the increased amount of borrowings. Net of the income tax expenses of RMB116,286,000, the Group's profit attributable to equity holders for the year was RMB1,374,782,000, a significant increase of 3.53 times over 2005.

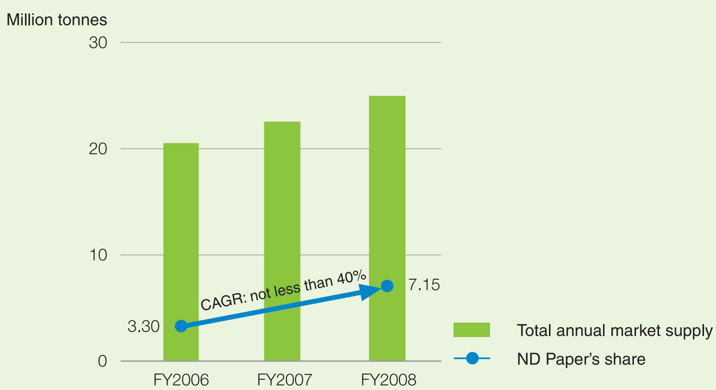
On 19 September 2006, the Group successfully raised US$350 million by a loan syndication, enabling us to obtain cost-effective long-term funds. The attractive terms of our new financing also enable us to reduce our average borrowing cost in the coming financial year and enjoy the benefits from revaluation of RMB in the future.

Prospects

The rate of sustained growth of demand for containerboard products has exceeded the management's expectation. Given the promising market landscape on the horizon, the management is fully confident of the Group's future development. We will maintain our strategy of active expansion to increase our market share and strengthen our leadership globally and in China. Indeed, our management's wisdom in making the right decisions in respect of business development and capital expenditure is evident in the Group's brilliant track record. The Group aims to become the world's leading manufacturer of packaging paperboard products. Hence, our management will closely monitor market developments and prudently analyse the demand for our products in order to seize every business opportunity. In this connection, we will fully capitalise on our substantial pre-investments, the expertise of our management and the successful and rich experience in operating our ten paper machines. We will also refine our existing product mix as appropriate and seek new investment projects, while applying the principle of low costs and high productivity to create a better value for our shareholders.

The Group expects the packaging paperboard business to continue its high pace of growth for the next five years, mainly driven by the increase in domestic consumption in China and export packaging demand. We foresee that total imports of containerboard in the coming five years will stand at around four million tonnes per year.

The following chart sets forth the Group's plans for expanding its annual production capacity in the next three years:



It is expected that the Group's packaging paperboard manufacturing business will experience a compound annual growth rate of not less than 40% until 2008. Hence, the Group aims to substantially expand its annual production capacity by 62.1% from the current 3.3 million tonnes to 5.35 million tonnes in the coming year. We are also planning to invest in four additional paper machines in the financial year 2008 so as to further expand our annual production capacity by 1.8 million tonnes from 5.35 million tonnes to 7.15 million tonnes. Such 1.8 million tonnes additional annual production capacity consists of one million tonnes of linerboard and 800,000 tonnes of high performance corrugating medium. We intend to finance future capital expenditure by internally generated funds and bank loans. The Group will continuously assess the risks involved and maintain its net gearing ratio within the range between 45% and 55%. The Group does not rule out the possibility of entering into strategic joint ventures or acquisition projects which can create value for shareholders and the Group, in order to enhance its return on assets and capital employed.

Appreciation

On behalf of the management, I would like to express my sincere gratitude to the government authorities, clients, suppliers and business associates for their support, and to our management team and staff for their loyalty, which form a sound foundation for our steady growth and outstanding results. I would also like to express my immense appreciation to our shareholders and friends from the financial sector for their unreserved support, which allowed us to become a new star in the investment market and attract much attention when ND Paper was listed. The management hereby commit ourselves to maintaining our efforts to live up to the high expectations of our shareholders and business associates for even better results and returns.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, the PRC, 20 September 2006

Investment

Business Review

In China, the packaging paperboard production industry (including the containerboard production sector) is relatively fragmented, and there are a large number of manufacturers. However, it is capital intensive, susceptible to environmental conditions and subject to limited supply of raw materials and that contribute to substantial entry barriers for large-scale investment in the paper manufacturing business.

According to the statistics from Resource Information Systems Inc. ("RISI"), as at 31 December 2004, the Group remained the biggest containerboard producer in China and one of the biggest in the world. The Group produces primarily linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board with grey back. The Group also participates in unbleached kraft pulp production.

The Group's operations enable it to serve as a one-stop shop for a broad range of high quality containerboard products. Due to the size, width, versatility and number of its paper machines, it is able to offer a diversified product portfolio with various types, grades, burst indices, stacking strengths, basis weights, printability and brands to meet a variety of customer requirements. The Group's multiple production lines allow for a flexible configuration offering of diversified product in an efficient manner. The broader width of its machines also allows the Group to produce products in a large variety of sizes, increasing its flexibility to meet customer demands. Its five principal products are available in 30 different basis weights and over 1,000 different sizes and type specifications.

The Group's ten technologically advanced paper machines imported from Europe, North America and Japan have an annual aggregate designed capacity of 3.3 million tonnes, comprising 1.5 million tonnes of linerboard, 1.35 million tonnes of high performance corrugating medium and 450,000 tonnes of coated duplex board with grey back. All of the Group's paper machines have advanced Distribution Control Systems ("DCSs") and quality control systems to monitor and control the equipment. These are located in the Group's two production bases in Dongguan, Guangdong Province, in the Pearl River Delta and in Taicang, Jiangsu Province, in the Yangtze River Delta Region.

Other than the 10 paper machines, there are additional supporting facilities that provide the Group with power, steam, water supplies and existing logistical support which together form an integral part of its operation. The integration of these facilities provides cost savings, increases the Group's flexibility and control over its business which enables it to reliably and efficiently serve its customers.

The Group's Dongguan and Taicang production bases obtained the ISO9001:2000 certification in November 2003 and December 2004 respectively. Meanwhile, the Group also obtained the ISO14001 certification for its environmental management standards in February 2005 and the OHSAS18001 certification for its occupational health and safety management system in March 2005.

Business Strategy

The Group aims to become the world's leading containerboard product manufacturer. The Group is able to increase its operational efficiency primarily through economies of scale, technologically advanced equipment, integrated production facilities and equipment know-how. During the year, the Group continued to seek sustainable business growth and increase shareholders' value. To achieve this, the Group focused on the implementation of the following strategies: Continuing to expand market leadership position in China, further enhancing operating efficiency, expanding geographical coverage and product offerings, as well as attracting high caliber employees and continuing to emphasize and reward performance excellence.

Management Discussion & Analysis

Continuing to expand market leadership position in China

The Group has achieved significant growth in production capacity, sales volumes, sales and profit attributable to equity holders at a compound annual growth rate of 48.9%, 50.3%, 52.1% and 131.6%, respectively, from financial years 2003 to 2006.

The Group will continue to expand its production capacity and market share so as to further strengthen its leading position in China. Its annual designed capacity increased by 17.9% to 3.3 million tonnes during the financial year 2006 and is expected to increase by 62.1% to 5.35 million tonnes in the financial year 2007. The Group well-prepared to capture any opportunity for future growth. The Group has made the following substantial investment to secure important resources:

Pre-investment in power resources for further development

As a large-scale containerboard manufacturer, the Group requires a significant amount of electricity and steam for its daily operations. The Group has set up central coal-fired cogeneration plants in both Dongguan and Taicang, providing both electric power and steam to all of its paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, the Group can achieve savings as much as around one-third by using electric power from the Group's cogeneration plants compared to the cost of purchasing power from third parties. The Group's sourcing strategy for coal is to purchase from suppliers that can provide a stable and reliable supply at the lowest cost. To lower its coal costs, since September 2005, the Group has started to purchase all of its coal directly from coal distributors and arranged its own shipping. The Group receives the coal by ship at its pier in Taicang and at Xinsha Port.

With the power generators Unit 6 in Dongguan and Unit 2 in Taicang, with an installed capacity of 210 MW and 120 MW respectively, commencing production in mid 2005, the aggregate installed capacity of the Group has increased to 591 MW. In addition to electricity, the power plants also produce steam for use in the drying process in the production process. The Group's current installed generating capacity in Dongguan and Taicang can support annual production capacity expansion of up to an additional approximately two million tonnes at each of its two locations. This is sufficient to meet the electricity demand of the project to expand the Group's annual production capacity in financial year 2007.

All of the Group's power plants are connected with the regional power grid, which enables the Group to sell excess power generation. In addition, the connection to the grid provides the Group with a back-up power source in contingency.

Abundant land resources to meet the nine million-tonne productivity target

The Group has made substantial investments in acquiring land use rights in Dongguan and Taicang for its existing operations to allow for future development and expansion. The Group obtained the land use certificates for approximately 1.1 million sq.m. of land in Dongguan. To date, the Group has obtained approximately 2.6 million sq.m. of land in Taicang, which is a distance of approximately 50 km from Shanghai. The Group's land use rights are for 50 year terms.

In addition, in anticipation of future expansion plans, the Group has entered into compensation agreements with existing users of additional land of approximately 800,000 sq.m. in Dongguan. These land use rights are intended for use by additional manufacturing and infrastructural facilities as the Group further expands its capacity.

The Group plans to enter into land use rights agreements with the government for additional land and apply for land use rights certificates for such land after execution of the land use rights agreement with the government. The land use rights obtained by the Group, together with the land for which the Group has entered into compensation agreements with existing users, are sufficient to accommodate expansion of its total annual production capacity to approximately nine million tonnes in the future.

Building Taicang Pier to reduce loading and unloading charges

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group has constructed a shipping pier at Taicang which can accommodate two berths in the near future. The Group completed construction of one berth in September 2005 and plans to construct another berth. The shipping pier is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the shipping pier for its own use and to offer loading and unloading services to third parties.

The operating berth, with an annual loading and unloading capacity of 2.7 million tonnes, is dedicated to receiving coal deliveries. The Group plans to utilise approximately one million tonnes of the capacity per year of this berth for delivery of coal used for power generation at its Taicang facility. Given that the Group can take direct delivery by ocean freight from the major coal ports on China's coast, including Qinhuangdao, Tianjin and others, the Group is able to realise significant cost savings cost-savings by eliminating loading and unloading charges that the Group would otherwise have to pay for transshipment of coal. The Group plans to complete the second berth by the end of financial year 2007 with an expected annual loading and unloading capacity of approximately 3.3 million tonnes. The Group intends to use the second berth to receive direct deliveries of recovered paper and kraft pulp, and to ship its finished products to customers throughout the Yangtze River Delta area and upriver to other potential inland markets, such as Tianjin and Chongqing, and export markets. In addition, the Group plans to offer bulk loading and unloading services to third parties to take advantage of its excess loading capacity.

The expanded pier, with a total annual loading and unloading capacity of approximately six million tonnes after completion of the second berth, is expected to allow the Group to take advantage of inexpensive river transportation to satisfy its current and future transportation requirements for finished products, raw materials and coal. The expansion is in line with the Group's strategy to reduce costs and further expand its production capacity and coverage of inland markets.

Committed to environmentally responsible practices

The Group considers the implementation of environmentally responsible practices and the maintenance of high environmental standards a valuable asset and competitive strength of the Company. The Group obtained ISO14001 certification for its environmental management standards in February 2005. As part of this environmental commitment, the Group has adopted the following practices and invested in the following facilities, which significantly reduce the impact of its operations on the environment and the risk of exposure to liabilities under environmental protection laws and regulations:

- Approximately 80% to 90% of the fiber in the Group's products on average is derived from recovered paper. In addition, the Group recycles its scrap fiber by-product in linerboard production to supplement the raw materials used to produce high performance corrugating medium.

- To minimise impact on waste resources and the environment, the Group has wastewater treatment facilities in Dongguan and Taicang that incorporate state-of-the-art technologies. The Group's wastewater treatment facilities have automated programmable logic controller (PLC) systems and online monitoring equipment systems that allow the Group to monitor its wastewater discharge.

- To conserve and minimise the impact on water resources, the Group set up a water recycling and conservation system in Dongguan and Taicang to significantly reduce its water consumption at each of its production lines. To take advantage of the different water quality requirements for different production lines, water used in the manufacture of coated duplex board with grey back is treated and recycled and use in the high performance corrugating medium lines, before it is treated again and released. The paper production process consumes, depending on the product, approximately six to 15 tonnes of water, including treated and recycled water, for each tonne of product produced. This is less than half of that set forth in the standards governing water consumption in the manufacturing of paper products issued by the China National Standardization Administration Commission.

- To minimise waste products, the Group has a circulating fluidized bed waste-to-energy boiler at Dongguan capable of burning 87,500 tonnes of waste a year to produce 315,000 tonnes of steam. To optimise its use, in Dongguan, the Group collects solid waste from its wastewater for incineration. The circulating fluidised bed waste-to-energy boiler provides efficient combustion, low atmospheric emissions and has the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. The Group believes that its waste-to-energy boiler is the only one of its kind used by paper manufacturers in China. In Taicang, the Group disposes of it solid waste by using it to produce recycled pallets.

- The Group's coal-fired cogeneration power plants in Dongguan and Taicang are equipped with particulate filtration and desulfuration equipment, with emission levels well below permitted emission levels under applicable PRC regulatory requirements.

- Since its establishment, the Group has been in compliance with the environmental laws and regulations promulgated by central and local environmental authorities. It has obtained all required permits for wastewater discharge, airborne emissions and solid waste disposal. It is believed that the Group's record of environmental compliance has been a positive factor in obtaining regulatory approvals for its expansion projects.

Continuing to enhance operating efficiency

The Group's multiple production lines provide economies of scale while its ability to manufacture a variety of products simultaneously allows it to minimise equipment shutdowns required for product and specification changes. The Group has technologically advanced paper machines with automated DCSs and quality control systems. Its fourdrinier kraftlinerboard paper machines are among the largest and fastest in China, and certain machines can shift the production from one type of product to another either without stopping the production run or with only a brief shutdown. The Group has designed its product mix both to meet market demand and to meet the target of recycling by redeploying water and scrap fiber by-product from the production of one product into the production of another product. Leveraging on its equipment know-how, the Group has been able to accommodate the use of an increased variety of recovered paper grades while maintaining product quality and performance characteristics. This feature provides the Group with increased flexibility in sourcing raw materials at competitive prices.

The Group seeks to continue enhancing its operating efficiencies mainly through the following means: Optimising and upgrading its production process and equipment to eliminate or minimise impediments to increase production volumes while enhancing production efficiency and product quality, and developing the use of new alternative chemicals with suppliers to improve machine performance and reduce costs.

Adding new production facilities to save time and increase utilisation

The Group has installed additional paper machines to allow the Group to further minimise equipment shutdown period required for product and basis weight changes. With the exception of periodic repair and scheduled maintenance, the Group seeks to maintain uninterrupted operation of its paper machines. PM9 and PM10, which have an annual production capacity of 500,000 tonnes of high performance corrugating medium, commenced production on 23 December and 25 December 2005 respectively. The machines achieved the optimal operating efficiency within merely two months, substantially shorter than the historical average optimising time of three to six months.

The following table sets forth information on the utilisation rates and actual hours of operation of the Group's paper machines during the year:

	For the year ended 30 June			
	2006		2005	
Paper machine	**Actual hours of operation**	**Equipment utilisation (%)**	Actual hours of operation	Equipment utilisation (%)
PM1	**8,127**	**95.4**	7,849	94.0
PM2	**8,097**	**95.0**	7,857	94.1
PM3	**8,108**	**95.2**	8,026	96.1
PM4	**7,980**	**95.7**	7,459	93.5
PM5	**8,111**	**96.0**	7,596	94.6
PM6	**7,777**	**94.0**	3,784	85.6
PM7	**7,833**	**94.5**	3,864	87.2
PM8	**7,982**	**94.5**	1,096	84.4
PM9	**3,782**	**95.3**	–	–
PM10	**3,491**	**87.8**	–	–

As of 30 June 2006, the management of the Group has accumulated extensive experience in successful installation of 10 paper machines. In the financial year 2006, the average utilisation rate of the Group's paper machines was 94.3%, and their actual hours of operation and utilitisation rates both improved across the board as compared with last year. Meanwhile, the optimising time of PM9 and PM10 was also substantially reduced and achieved the designed capacity and quality within merely two months. Therefore, we believe the commencement of new paper machines in the future will not materially and adversely affect the average gross profit margin of the Group.

Sources of high quality and price competitive raw materials

Recovered paper and kraft pulp are the Group's principal raw materials used in the manufacture of its products. Therefore, the ability to maintain a stable source of high quality raw materials at a reasonable price is one of the Group's keys to success.

Management Discussion & Analysis

Recycled Paper

Recovered paper is the Group's largest raw materials component. Like most large-scale containerboard manufacturers, the Group's ability to source large volumes of consistent high-quality recovered paper under stable, long-term arrangements is critical to its success. Because of the Group's policy of maximising the use of recovered paper to produce high-quality products to meet its customers' cost objectives and environmental policies, this ability is even more critical to the Group's strategy. As a result, the Group's sourcing strategy is to purchase from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. To select additional suppliers, the Group's sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy its volume and delivery requirements. Currently, the majority of the Group's recovered paper comes from North America and Europe, as the Group has found the quality of such recovered paper to be relatively more consistent compared to other sources.

America Chung Nam, Inc. ("ACN") is a major exporter and supplier of recovered paper to China, and is indirectly wholly owned by Ms. Cheung Yan ("Ms. Cheung") and Mr. Liu Ming Chung ("Mr. Liu"). ACN sources its waste paper globally, including the United States and Europe, and has its own recycled paper packing plants. It is the largest exporter of recovered paper from the United States and Europe to China and is well-known in the international market. ACN was ranked from 2001 to 2004 by the Journal of Commerce as the top US exporter from the United States to China in terms of volume for exports of recovered paper with a volume of approximately 153,900 TEUs (twenty footer equivalent units) in 2001, which was later increased to approximately 201,000 TEUs in 2004. It procures recovered paper from major suppliers globally pursuant to long-term supply contracts to ensure a continuous and stable supply of recovered paper.

The Group sources the majority of its recovered paper from ACN and the remainder from several trading companies. For the financial years ended 30 June 2005 and 30 June 2006, the Group's purchases of recovered paper from ACN amounted to RMB1,888,101,000 and RMB2,591,692,000, respectively, representing 86.0% and 78.9% of Group's total purchases of recovered paper. During the same periods, the Group purchased approximately 1.55 million tonnes and 2.45 million tonnes of recovered paper from ACN and the remaining 196,000 tonnes and 526,000 tonnes of recovered paper from other suppliers.

Due to the Group's recurring purchases of recovered paper in large quantities, the Group has been able to secure supplies from ACN at a price lower than the market average. The Group also has a policy to diversify its sources of supply and to maintain at least a small proportion from suppliers other than ACN.

The Group's sourcing strategy is to source from suppliers that can offer a reliable supply of recovered paper with consistent quality. In selecting suppliers, the factors of consideration are quality, price and each individual supplier's ability to satisfy the relevant volume and delivery requirements. The Group's position as the leading containerboard manufacturer in China provides it with considerable bargaining power. Furthermore, the Group has sufficient manpower, resources and expertise to develop strong relationships with suppliers. To secure the stability of supply and improve transparency in the course of dealing, the Group will source not less than 20% of its recovered paper in terms of aggregate value of its purchases of recovered paper from suppliers other than ACN annually. In addition, ACN has agreed that prices and terms offered to the Group will be no less favourable than those offered to its other customers in respect of the same period and the same product type. In this regard, ACN will provide the Group access to its books and records for the purpose of examining ACN's supply terms with its other customers. The examination will be carried out by the general managers of members of the Group and/or the Group's external auditors on a quarterly basis.

ACN's board of directors and management team are independent of the Company. Ms. Cheung and Mr. Liu are not directors of ACN and are not involved in the day-to-day management of ACN. Day-to-day management of ACN is carried out by a team of 10 independent senior management members. Such team includes, among others, all the directors of ACN. As directors of the Company, Ms. Cheung and Mr. Liu, together with the Group's senior management teams, are responsible for the operation and management of the Group. However, the Company has delegated the management of the transactions between the Group and ACN to certain members of the Group's senior management other than Ms. Cheung and Mr. Liu. In addition, Ms. Cheung and Mr. Liu will, together with their associates, Mr. Zhang Cheng Fei ("Mr. Zhang") and Mr. Lau Chun Shun, who are the Directors, abstain from voting at the board meetings of the Company in respect of the supply arrangement between ACN and the Group.

The Group has also adopted an independent system with the following features to govern and monitor its recovered paper purchase process:

(a) the Group will obtain bids from a number of independent suppliers and select the successful bid based on objective standards such as price and quality of recovered paper, and delivery schedule and services;

(b) one of the independent non-executive Directors with solid industry expertise will review the Group's selection of successful bid each time before placement of orders by the Group;

(c) the independent non-executive Directors, if required, will decide on whether the Group should proceed with a particular purchase transaction; and

(d) regular reports regarding the Group's purchase and other relevant information will be provided to the independent non-executive Directors who will conduct a quarterly review of the purchase terms and the fairness of the Group's basis for selecting its recovered paper suppliers.

We believe that the above system will ensure that the terms of the Group's purchases with its suppliers, including ACN, are in the best interests of the Company and its independent shareholders as a whole.

The Group has entered into a contract with ACN at arm's length commencing on 3 March 2006 and expiring on 30 June 2008 for the supply of recovered paper. The contract is renewable for a further period of three years at the Group's option, as well as for successive periods of three years with terms to be negotiated between the parties on a fair and reasonable basis and in compliance with the Listing Rules. Under the supply contract with ACN, the Group has priority in supply over ACN's other customers. Prices of recovered paper under the contract will be determined with reference to the prevailing prices in the recovered paper market in China comparable to those offered by independent suppliers. As the Group's purchases from ACN currently account for only approximately half of ACN's total sales volumes to China its priority to purchase from ACN under the long-term supply contract as well as the Group's other sources of recovered paper supply, the Group will have sufficient raw material supply to support its capacity expansion.

Management Discussion & Analysis

Kraft Pulp

Kraft pulp is the Group's second largest raw materials component. The Group uses both bleached and unbleached kraft pulp in the production of some of its products to increase the consistency of appearance and strength of the products. Due to the short supply of kraft pulp in China, a stable supply of substantial volumes of consistent high quality kraft pulp is critical to the Group's success. The Group's sourcing strategy is to seek to maintain a diversified source of kraft pulp, to ensure stable supply and cost competitiveness while meeting its quality requirement. The Group currently imports most of its kraft pulp and sources only a small proportion from China. To take advantage of ACN's volume of shipments to China and favourable ocean freight rates, the Group has entered into a long-term service agreement with ACN at arm's length commencing on 3 March 2006 (the listing date) and expires on 30 June 2008 for import services in connection with the import of kraft pulp.

To secure a future supply of unbleached kraft pulp, on 16 February 2004, the Group established an equity joint venture, Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An"), with China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) ("Forestry Industry Group"). The Group holds a 55% interest in ND Xing An while Forestry Industry Group holds the remaining 45%. As at 30 June 2006, ND Xing An had the capacity to produce 100,000 tonnes of long-fibred unbleached kraft pulp annually. The Group plans to increase ND Xing An's annual production capacity to 300,000 tonnes in the future. ND Xing An obtains its raw materials, which are wood logs and wood chips, from the extensive softwood forests in Inner Mongolia owned and managed by Forestry Industry Group under an agreement commencing on 3 March 2006 and expiring on 30 June 2008. Under the terms of the joint venture, the Group has the right to purchase, in priority to other customers of ND Xing An at the same price, up to its entire output, providing the Group with a secure supply of unbleached kraft pulp. During financial years 2005 and 2006, the Group purchased approximately 7.8% of its kraft pulp and 10.1% of its unbleached kraft pulp from ND Xing An, with the balance of unbleached kraft pulp sold to third parties. The ND Xing An joint venture enables the Group to secure a future supply of unbleached kraft pulp. However, the Group continues to import most of its supply of unbleached kraft pulp as the costs of transporting unbleached kraft pulp from Inner Mongolia to its production facilities in Dongguan and Taicang currently exceed that of importing it from abroad.

Retaining in-house maintenance teams to enhance the life span and efficiency of production equipment

The Group has over 700 maintenance personnel who have undergone training provided by the original equipment vendors and are responsible for periodic repair and maintenance of its paper machines. The paper machines are regularly inspected and maintained by the Group's maintenance teams to ensure that they are in proper working order. The paper machines are also subject to scheduled inspections and maintenance twice a month and are shut down for approximately 20 hours during this monthly maintenance. The Group also schedules an annual maintenance program for each paper machine during which the paper machine is shut down for approximately three to five days, and a major maintenance program for each paper machine once every three years, during which the paper machine is shut down for approximately 10 to 15 days. The Group upgrades its production equipment concurrently with its repair and maintenance from time to time to increase the life span and efficiency of its production equipment.

Use of information technology to optimise resource allocation

The Group is in the process of implementing an enterprise resource planning (ERP) system for its Dongguan and Taicang operations. It will manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of its products, sales and marketing and delivery of its products through its internal transportation and delivery network. The system is scheduled to be fully implemented in the financial year 2007. All paper machines have DCSs that monitor and control all aspects of production and automated quality control systems. Manufactured by Honeywell and ABB, the automated control systems are designed to be linked, and provide data input, to the enterprise resource system. The enterprise resource planning system is expected to provide the Group with up-to-date information to determine optimal resource allocation in terms of financial planning and operations management. In order to enhance work place safety, the Group installed an additional protection device in the DCSs of the paper machines for the operating staff to confirm activation of the paper machines. Its fleet of trucks at Dongguan is also equipped with GPS.

Seeking to expand geographical coverage and product offerings

The Group actively seeks opportunities to expand its geographical coverage beyond the Yangtze River Delta and the Pearl River Delta regions. So far, the Group has already established warehouses in Tianjin and Chongqing. In the future, it will extend its presence in inland regions such as the central-western and the northeastern region of China as the manufacturing industries in these areas become more active. The Group also seeks to increase its exports to tap selected international markets.

The Group is actively exploring opportunities to expand its product lines to allow the Group to offer a broader range of complementary products to customers, and to leverage its existing production expertise and distribution network.

Attracting high caliber employees and continuing to emphasize and reward performance excellence

The Group is led by an experienced and dedicated management team, particularly its founding shareholders Ms. Cheung, Mr. Liu and Mr. Zhang. The founders, who have led the Group through its rapid growth and expansion since its establishment in 1995, have an average of approximately 16 years of experience in the recovered paper recycling and paper manufacturing businesses. Other senior management have an average of approximately eight years' experience in the field. The Group also retains international talents from overseas with professional qualifications to join its senior management team. Through management's leadership, vision and drive, and their consistent effort to implement international best practices, the Group has become the market leader in China within a short period of time. Most of the senior management have been with the Group or its subsidiaries since their establishment.

We believe that the quality of the Group's human resources, particularly its management and professional engineers, are critical to its ability to compete effectively. The Group aims to achieve and exceed international standards of performance excellence by following international best practices for management processes and corporate governance.

As at 30 June 2006, the Group had approximately 7,460 full time management, administration and production staff in Hong Kong and the PRC. The related employee's costs for the period (including directors' emoluments) amounted to approximately RMB337,155,000. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's remuneration system. The Group adopted a share option scheme for employees. It also seeks to continue to attract and retain domestic and international management and engineering talent by continued implementation and refinement of its incentive bonus program and through staff development programs such as periodic in-house and overseas training. Last but not least, the Group obtained the OHSAS18001 certification for its occupational health and safety system in February 2005.

Financial Review

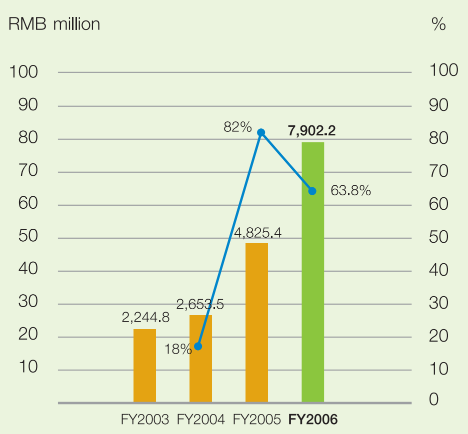
Revenue

For the year ended 30 June 2006, the Group achieved record revenue of RMB7,902,156,000, an increase of 63.8% over the previous financial year. This brilliant result was primarily due to the full year contribution in the financial year 2006 by PM4 and PM5, which were acquired in January 2005, and by PM6, PM7 and PM8, which commenced operation in the financial year 2005. The commencement of operation by PM9 and PM10 during the current financial year also provided a boost in productivity.

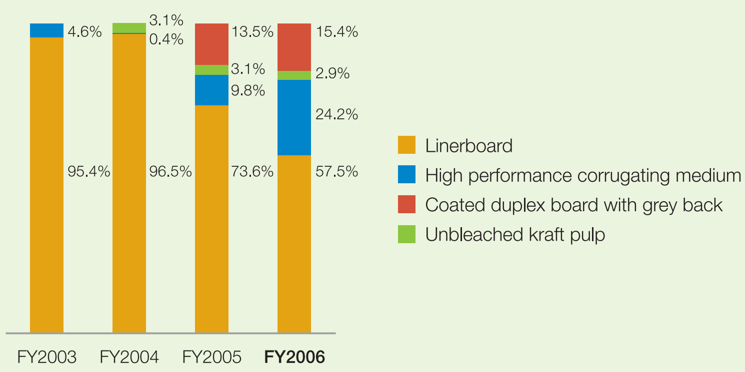
The Group's customers are primarily corrugators who use the Group's containerboard products to manufacture corrugated containers for their end user customers, as well as coated duplex board packaging and printing companies that manufacture printed packaging boxes according to the specifications of their end user customers. The Group sells substantially all of its products to customers in China. A significant portion of such domestic sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency, while other domestic sales are denominated in RMB. The raw materials used in products manufactured for export sales by these foreign invested processing enterprises in China are exempt from customs duties and value-added taxes. As a result, the products that the Group sells as raw materials to these foreign invested processing enterprise customers for their further processing and export are also exempt from customs duties and value-added taxes. For the two financial years ended 30 June 2005 and 2006, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises, constituted 51.0% and 40.1% of the Group's total sales respectively.

For the financial years ended 30 June 2005 and 2006, the Group's five largest customers in aggregate accounted for approximately 10.6% and 7.9% of the Group's sales respectively. Sales to the single largest customer for the same periods accounted for approximately 2.8% and 2.4% of the Group's sales respectively.

Revenue and revenue growth



Revenue by products



The growth in revenue was primarily due to the increase of the Group's total sales volume of packaging paperboard products to approximately 2,760,000 tonnes in the year ended 30 June 2006 from approximately 1,578,000 tonnes in last year, representing an increase of approximately 74.9%. The Group's total sales volume of unbleached kraft pulp products also increased to approximately 66,000 tonnes from approximately 47,000 tonnes in last year, representing an increase of approximately 40.4%. The significant increase in the total sales volume reflected the Group's commencement of production of PM6, PM7, PM8, PM9 and PM10, as well as the contribution from PM4 and PM5 acquired as part of the acquisition of certain subsidiaries, including Nine Dragons Paper Industries Co, Ltd, Millennium Scope Limited, Emperor Dragon Paper Industries Co, Ltd, River Dragon Paper Industries Co, Ltd and their respective subsidiaries ("Acquired Subsidiaries") on 1 January 2005. During the year ended 30 June 2006, the Acquired Subsidiaries contributed sales of RMB3,446,178,000, representing 43.6% of the Group total sales for the current financial year.

Gross profit

The gross profit for the financial year 2006 was RMB1,860,874,000, an increase of RMB1,100,370,000 compared to the RMB760,504,000 recorded in the previous financial year. Gross margin for the year also improved from 15.8% to 23.5%. The increase in gross margin was due to economies of scale from production capacity expansion, further optimisation of the Group's paper machines, realisation of synergies from the Acquired Subsidiaries and management's effort to control overheads.

Other gains – net

Other gains, net, of the Group increased significantly to RMB356,982,000 in the financial year ended 30 June 2006 from RMB24,122,000 in the previous financial year. The increase was primarily due to the commencement of operations of power generator Unit 6 of the Group's coal-fired cogeneration power plant in Dongguan and Power Plant Unit 2 in Taicang in mid 2005, which resulted in a significant increase in the sales of excess electricity to RMB150,118,000 in the financial year ended 30 June 2006 from RMB3,650,000 in the previous financial year. The increase in other gains, net was also attributable to the interest income of RMB117,695,000 derived from the lock up of subscription monies of approximately HK$178.9 billion from over-subscription during the listing of the Company's shares in March 2006.

Management Discussion & Analysis

Operating profit

The operating profit for the year ended 30 June 2006 was RMB1,811,203,000, an increase of RMB1,253,063,000 or 2.25 times over the previous financial year. The improvement mainly came from a significant increase in gross profit and gross margin which resulted from overall growth in revenue, a change in the sales mix and improvement in operational efficiency.

Selling and marketing costs increased by 88.9% from RMB91,466,000 in the previous financial year to RMB172,756,000 in the financial year 2006. The increase was mainly attributable to the increased overheads arising from transportation costs and the acquisition of the Acquired Subsidiaries. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 1.9% in the previous financial year to 2.2% in the financial year 2006.

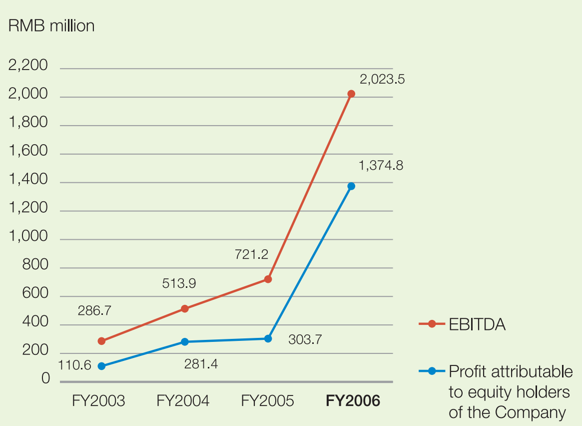
Administrative expenses increased from RMB135,020,000 in the previous financial year to RMB233,897,000 in the financial year 2006. The increase was mainly a result of the acquisition of the Acquired Subsidiaries, which included the Taicang production base and the launch of a new product, coated duplex board with grey back. In addition, the Group also made provision of RMB16,797,000 for the share option scheme adopted for its employees according to the new accounting system of Hong Kong. Additional management and administrative staff were hired to support the commencement of new paper machines and the new addition power plant units in Dongguan and Taicang. The amount of administrative expenses as a percentage of Group revenue increased from 2.8% in the previous financial year to 3.0% in the financial year 2006. The Group's administrative expenses amounted to RMB217,100,000 after deducting the provision for the share option scheme, representing 2.7% of its revenue.

Net profit and dividends

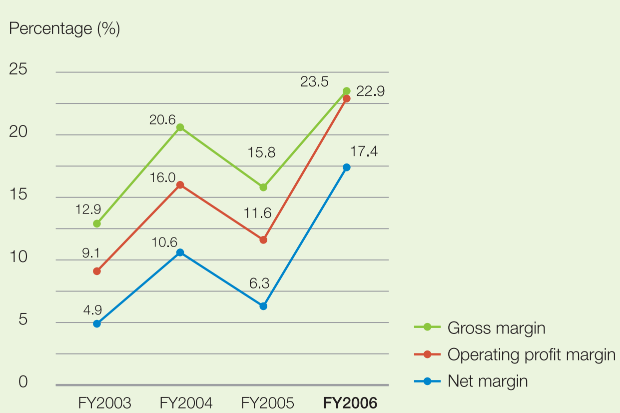
The profit attributable to equity holders for the year ended 30 June 2006 was RMB1,374,782,000, an increase of RMB1,071,023,000 as compared to the previous financial year. The ratios of EBIT and EBITDA to revenue were 21.1% and 25.6% respectively.

The Group's finance costs increased by 63.9% to RMB294,793,000 in the financial year ended 30 June 2006 from RMB179,814,000 in the last year, as a result of an increase in the Group's borrowings in order to meet its production capacity expansion plan.

Results performance



Profitability ratios



Basic earnings per share for the year ended 30 June 2006 and the previous financial year were RMB0.41 and RMB0.10 respectively. The directors have proposed a final dividend of RMB2.30 cents per share, which will aggregate to RMB95,450,000.

Liquidity and financial resources

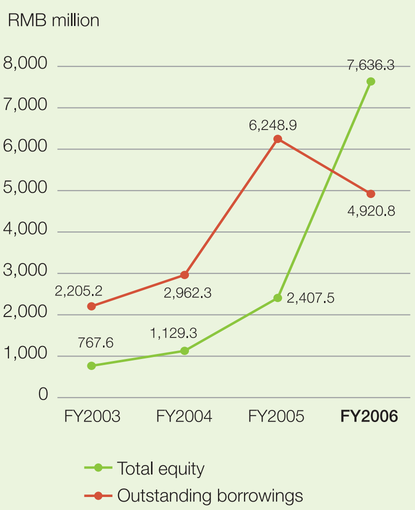
The shareholders' funds as at 30 June 2006 were RMB7,541,404,000, an increase of RMB5,219,450,000 from RMB2,321,954,000 reported for the financial year 2005. The net assets per share increased by 136.4% from RMB0.77 to RMB1.82.

In terms of available financial resources as at 30 June 2006, the Group had total available bank loan and facilities of RMB5,443,395,000 and cash and bank deposits (including restricted cash) of RMB3,017,250,000. In addition, the strong recurrent cashflow generated from the Group's paper business provides the Group with a strong financial position and enables the Group to reap the benefits of investment opportunities as and when they arise. The ample financial resources available to the Group together with the net proceeds of approximately RMB3,829,291,000 from the listing of the Company's shares on the Stock Exchange will provide adequate funding for the Group's operational requirements and also put the Group in a favourable position for further expansion.

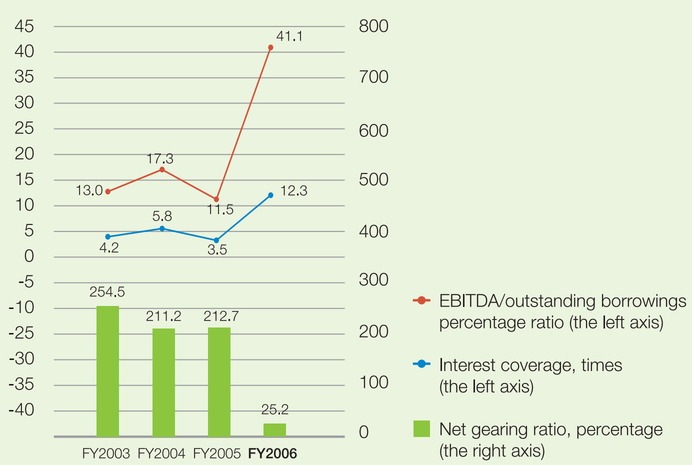
Out of the Group's total borrowings of RMB4,920,776,000 as at 30 June 2006, RMB2,176,875,000 (approximately 44.2%) was repayable within one year, RMB1,537,000,000 (approximately 31.2%) was repayable within two years, RMB1,016,901,000 (approximately 20.7%) was repayable within three to five years and RMB190,000,000 (approximately 3.9%) was repayable after five years. As at 30 June 2006, the Group pledged assets with aggregate carrying value of RMB2,308,754,000 (2005: RMB2,963,691,000) to secure bank loans facilities of the Group. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 78.7% of total borrowing as at 30 June 2006. The Group will continue to obtain financing on an unsecured basis.

As at 30 June 2006, the net gearing ratio for the Group was 25.2%, based on net debt of RMB1,903,526,000 and shareholders' equity of RMB7,541,404,000.

Debt and equity



Solvency



Management Discussion & Analysis

On 19 September 2006, the Group entered into a syndicated loan agreement with 15 reputable international and domestic banks and financial institutions for an unsecured loan facility of US$350 million. The loan facility bears an interest rate of LIBOR (London Interbank Offered Rate) plus 55 basis points. The loan facility will be used by the Group to meet future capital expenditure and working capital requirement.

The Group services its debts primarily with strong recurrent cash flow generated from a stable base of operation. The Board is confident that the Group has adequate financial resources to sustain its working capital requirement, future expansion and meet its foreseeable debt repayment requirements.

Net current liabilities

With an enhanced capital structure and operating cash flow, the Group's net current liabilities of RMB1,984,365,000 for the financial year 2005 had been significantly reduced and had turned into new current asset of RMB1,270,530,000 as at 30 June 2006.

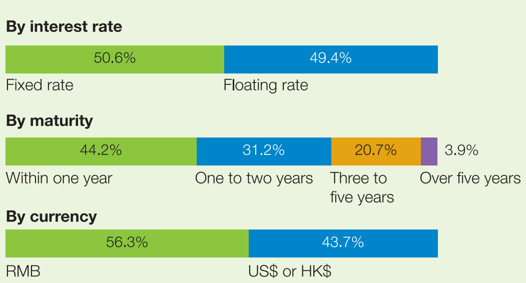
Treasury policies

The Group has centalised funding for all its operations at the Group level where foreign exchange exposure is also reviewed and monitored. This policy also achieves better control of treasury operations and lower average cost of funds.

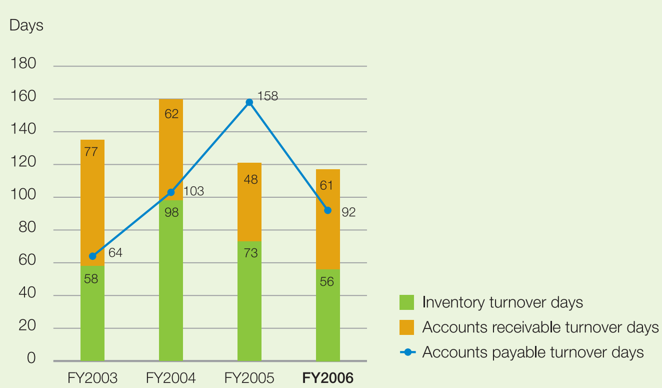
At 30 June 2006, total foreign currency borrowings (non-RMB loans) amounted to the equivalent of RMB2,149,458,000 and RMB loans amounted to RMB2,771,318,000. Therefore, the total amount of non-RMB loans that constitute foreign currency borrowings represented approximately 43.7% of the Group's borrowings, a sharp increase compared to 16.9% in last year.

The Group entered into a syndicated unsecured loan agreement of US$350 million on 19 September 2006, which enables the Group to increase the portion of total non-RMB foreign currency loans in the Group's total loans. In addition, the Group can also better utilise its RMB income and accelerate the repayment of RMB loans in order to minimize exposure to exchange fluctuation and maximize the benefit from the appreciation of RMB brought to the Group.

Financing means and currency



Liquidity ratios



As the Group's major raw materials (including recovered paper and kraft pulp), which in aggregate accounted for approximately 65.4% of the operating cost of the Group, were denominated in US dollar, and approximately 59.9% of revenue was denominated in RMB, while the remaining was mainly denominated in HK dollar, and the Group's machines and equipment were denominated in US dollars, any revaluation of the RMB will have a positive effect on the Group.

As at 30 June 2006, 50.6% of the Group's borrowings are based on fixed interest rates, and the interest cost of the remaining borrowings bear interest costs which are based on floating interest rates.

The objective of the Group's treasury policies is to manage its exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions and will use appropriate financial instruments to hedge any material exposure. It is the policy of the Group not to engage in speculative activities.

Working capital

The stock balance as at 30 June 2006 decreased by 6.6% over the balance at 30 June 2005 to RMB932,031,000. The turnover days decreased from 73 days to 56 days. The trade debtors balance as at 30 June 2006 was RMB1,312,378,000, an increase of 71.9% over the balance as at 30 June 2005. The turnover days increased from 48 to 61 days. The decrease in stock balance and the increase in trade debtors were primarily due to larger sales volume in the fourth quarter of the financial year 2006 than the Group's average sales volume for the whole year. Total turnover days of stock balance and trade debtors decreased from 121 days to 117 days.

Trade payables and bills payable as at 30 June 2006 were RMB1,516,837,000, representing a decrease of 30.0% over the balance as at 30 June 2005. Turnover days decreased from 158 days to 92 days. As its capital structure and operating cash flows enhanced, the Group further reduced its cost of raw materials in the financial year 2006 and actively reduced the payment cycle for suppliers, which contributed to the corresponding decrease in the turnover days of trade payables and bills payable.

Management Discussion & Analysis

Capital expenditure

For the year ended 30 June 2006, the Group invested RMB1,413,832,000 for the construction of factory buildings, purchase of plant and machinery, equipment and other tangible assets. These capital expenditures were fully financed by internal resources, net proceeds from the issue of new shares and bank borrowings.

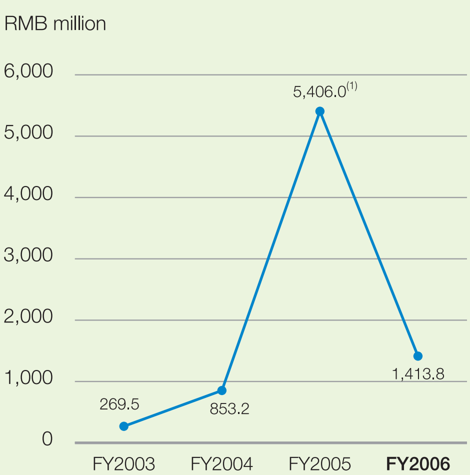
Use of net proceeds from the issue of new shares

The net proceeds from the issue of new shares amounted to approximately RMB3,829,291,000. Part of the net proceeds has been applied as follows:

	Planned amount *RMB'000*	Amount utilised up to 30 June 2006 *RMB'000*	Balance as at 30 June 2006 *RMB'000*
– as funding for capital expenditure	1,828,903	434,322	1,394,581
– repayment of bank loans	1,627,660	1,627,660	–
– as additional working capital and for other general corporate purposes	372,728	372,728	–
– total	3,829,291	2,434,710	1,394,581

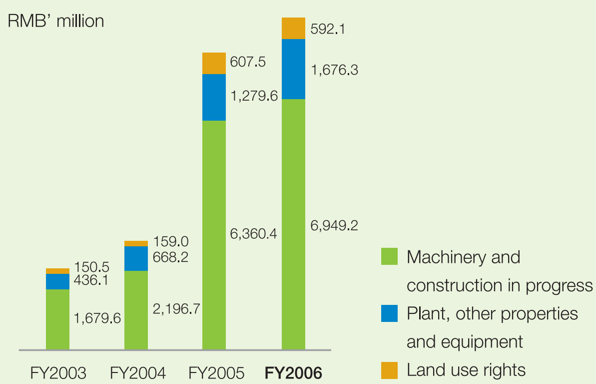
The balance of the net proceeds has been placed as bank deposits.

Capital expenditure



(1) Including the capital expenditure of RMB3,339.8 million incurred upon the acquisition of the Acquired Subsidiaries

Tangible assets



Capital commitments and contingencies

Up to 30 June 2006, the future capital expenditure for which the Group had contracted but unprovided for and authorised but not yet contracted amounted to approximately RMB3,976,505,000.

As at 30 June 2005, corporate guarantee granted by the Group to secure bank borrowings and credit facilities granted to related parties amounted to RMB62,000,000. The guarantee was released upon the Company's shares listed on the main board of the Stock Exchange on 3 March 2006.

Investor Relations and Communications with Shareholders

Investors and ND Paper

Our management believes that shareholder value can be enhanced through continuous and active dialogues with existing and potential investors to clearly deliver the Company's corporate strategies, business development and future outlook.

To ensure that these messages are delivered clearly and effectively, we are committed to providing, by all means, regular, complete and timely information on our corporate developments which may affect the interests of our shareholders.

Communicating with institutional investors

Since ND Paper's listing in March this year, we have been firmly adhering to a high standard of corporate governance and disclosure. Our proactive approach to investor relations has made us one of the most widely known companies in the region. Currently, around 10 local and international research institutions publish reports on ND Paper on a regular basis. We are also closely followed by analysts from a wide range of institutional investors.

The management remains dedicated to developing direct communications with the investment community to ensure their thorough understanding of ND Paper and its business, strategies and future development. During the financial year 2006, in addition to a range of investor relations activities in Hong Kong and Singapore, our management visited major international investment centres, including London, Edinburgh, Milan, Paris, New York, Chicago, Boston and San Francisco, to engage in dialogues with institutional investors. During the year, the Company's senior management organized over 150 meetings and site-visits to our production bases for institutional investors and research analysts.

We also demonstrated our commitment to addressing investors' interests and needs by participating in a significant number of regional and global investor conferences.

Shareholders

As at 30 June 2006, the Company had over 9,420 retail shareholders.

To ensure all shareholders have timely access to important corporate information, ND Paper utilises its corporate website to disseminate to investors information such as results announcements, annual and interim reports.

Index recognition

ND Paper, being a stock with sizable market capitalisation and high liquidity in the Hong Kong market, was well-recognised by the market in just half a year upon its listing. It is included in some of the most important benchmark indices such as one of the constituent stock of the Hang Seng Composite Index Series and the Morgan Stanley Composite Index Series.

Dividend policy

Subject to the financial performance and business development requirements of the Company, we expect to distribute no less than 20% of distributable profit to our shareholders in each financial year.

Investor Relations and Communications with Shareholders

Dissemination of corporate information

In line with our strategy to make timely disclosure of information about the Company's operations and financial position, we exploit the latest technology to further improve information dissemination.

Our corporate website, particularly the investor information section, provides the investor community with an efficient channel to obtain information about the Company's latest business developments, operational and financial performance.

The Company encourages shareholder participation at every annual general meeting, and it is our policy to dispatch the relevant notice at least 21 days before the meeting is being held. Directors of the Company will answer questions related to the Group's business operation at the annual general meeting.

Our annual and interim reports are available in English and Chinese. Based on our enquiries as to their individual preferences and needs, the relevant version is sent to each shareholder in order to save resources.

Financial calendar 2006

Announcement of the financial year 2006 interim results	27 March
Announcement of the financial year 2006 annual results	20 September
Closure of Register of Members	13 to 16 November
2006 Annual General Meeting	17 November
Financial year 2006 final dividend payment	5 December
Financial year end	30 June

Share information

Listing

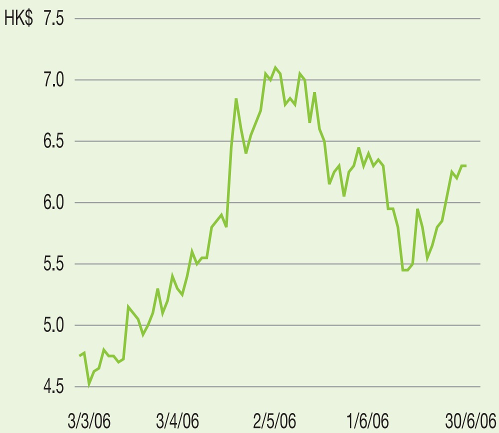
Nine Dragons Paper (Holdings) Limited's shares have been listed on The Stock Exchange of Hong Kong Limited since 3 March 2006 (stock code: 2689).

Ordinary shares (as at 30 June 2006)
Shares in issue: 4,150,000,000 shares Nominal value: HK$0.1 per share

Market Capitalisation (as at 30 June 2006): HK$26,145,000,000

Investor Relations and Communications with Shareholders

Share price performance



Registered office

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Head office and principal place of business

Room 3129, 31/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2511 6338 Fax: (852) 2511 6778

Principal share registrar and transfer office

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

Hong Kong branch share registrar and transfer office

Shareholder services

Any matters relating to your shareholding should be addressed in writing to the Registrar:
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2980 1333 Fax: (852) 2810 8185

Investor relations

For enquiries from institutional investors and securities analysts, please contact:
Department of Investors Relations
Nine Dragons Paper (Holdings) Limited
Room 3129, 31/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong
Email address: ir@ndpaper.com
Tel: (852) 2511 6338 Fax: (852) 2511 6778

Website

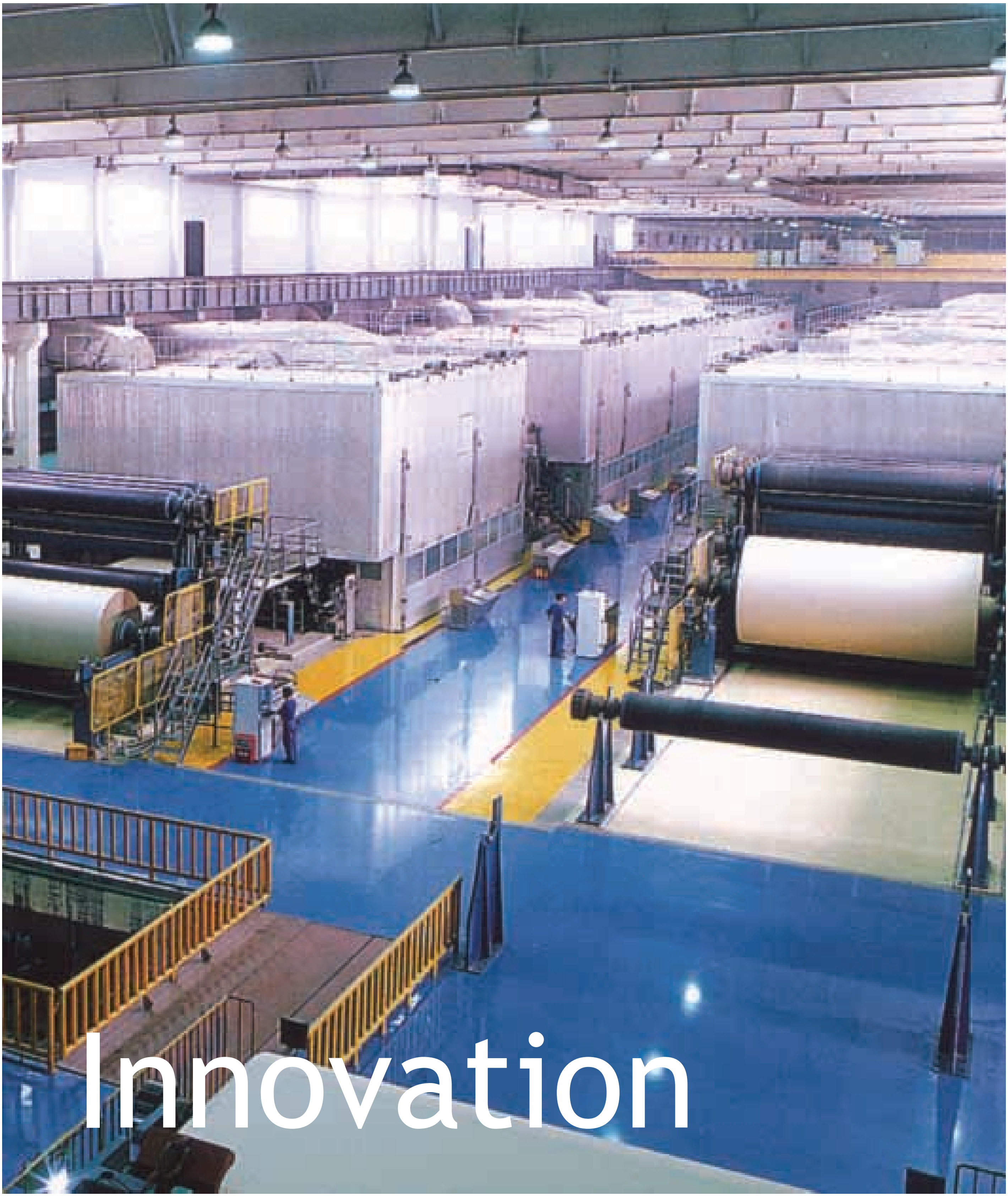
www.ndpaper.com

Stock codes

The Stock Exchange of Hong Kong: 2689
Reuters: 2689.HK
Bloomberg: 2689 HK

Index constituent

Nine Dragons Paper (Holdings) Limited is a constituent of the following indices:
Hang Seng Composite Index Series
Morgan Stanley Composite Index Series


Innovation

Corporate Governance

ND Paper continued to incorporate the essence of corporate governance into its management structure and internal control procedures, as we strove to maintain the highest standard in integrity and ethics in all aspects of our business activities, and to ensure the full compliance of our operations with applicable laws and regulations.

Corporate Governance Practices

Throughout the year ended 30 June 2006, the Company followed the principles and complied with all applicable provisions under the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Compliance with the Model Code Set out in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its code.

Specific enquiries have been made of all directors, who have confirmed that, during the year under review, they were in compliance with provisions of the Model Code.

Corporate Governance Structure

The Board, as the core of the Company's corporate governance structure, and the management are distinct and separate. The Board is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are:

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

The Board delegates on specific terms for the management to carry out defined strategies and report to the Board in respect of day to day operations. For such purposes, the Board has laid down clear terms of reference which specify those circumstances under which the management shall report to the Board and those decisions and commitments for which prior approval of the Board is required.

Board

Currently, the Company has ten directors, including five executive directors, one non-executive director and four non-executive independent directors. Ms. Cheung Yan, Chairman of the Company, is the spouse of Mr. Liu Ming Chung, Deputy Chairman and Chief Executive Officer of the Company. Besides, Mr. Zhang Cheng Fei, Deputy Chief Executive Officer of the Company, is a brother of Ms. Cheung Yan, and Mr. Lau Chun Shun is the son of Ms. Cheung Yan and Mr. Liu Ming Chung, and a cousin of Mr. Zhang Cheng Fei.

The posts of Chairman and the Deputy Chairman cum Chief Executive Officer are distinct and separate. The Chairman is responsible for supervising the functions and performance of the Board, while the Deputy Chairman cum Chief Executive Officer is responsible for the management of the businesses of the Group.

The directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, profitability and cash flows of the Group in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In preparing the financial statements of the Group for the year ended 30 June 2006, the directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movements of the Group at any time. The statement of reporting responsibilities of the Company's external auditors in connection with the financial statements of the Company is set out in the Auditors' Report on page 80.

More than one third of the members of the Board are independent non-executive directors, which exceeds the minimum requirement of the Listing Rules. The Company has received confirmation from each of the independent non-executive directors about his/her independence and therefore considers each of them to be independent.

All of the directors of the Company are appointed for a specific term. In accordance with Articles 87(1) and (2) of the Company's Bye-laws, at each annual general meeting, all the directors shall retire but shall be eligible for re-election. The term of service of non-executive directors is one year.

The Company was listed on 3 March 2006. During the financial year 2006, three Board meetings, two Audit Committee meetings and one Remuneration Committee meeting were held, with details as follows:

	Attendance out of total		
Director	**Board Meetings**	**Meetings of Audit Committee**	**Meetings of Remuneration Committee**
Executive Directors			
Ms. Cheung Yan	3/3	–	–
Mr. Liu Ming Chung	3/3	–	1/1
Mr. Zhang Cheng Fei	2/3	–	1/1
Ms. Wang Hai Ying	2/3	–	–
Ms. Gao Jing*	–	–	–
Non-executive Director			
Mr. Lau Chun Shun	1/3	–	–
Independent Non-executive Directors			
Ms. Tam Wai Chu, Maria	3/3	2/2	1/1
Mr. Chung Shui Ming, Timpson	3/3	2/2	1/1
Dr. Cheng Chi Pang	3/3	2/2	1/1
Mr. Wang Hong Bo	1/3	2/2	1/1

* Appointed on 6 July 2006

Executive Committee

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

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

Currently, the members of the Executive Committee include:
Ms. Cheung Yan (Chairman)
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

Remuneration Committee

The Remuneration Committee has been established mainly for the purpose of ensuring that the Company can recruit, retain and motivate high-calibre staff in order to reinforce the success of the Company and create value for our shareholders. The Remuneration Committee is responsible for overseeing the determination of directors' remuneration and benefits and establishing a formal and transparent procedure for developing policy on remuneration.

In addition, the Remuneration Committee also supervises and enforces the share option schemes of the Company in an effective manner. Details of the authority and duties of the committee are clearly set out in its terms of reference, which also specify that the committee shall consist of at least three members and the majority shall be independent non-executive Members.

Currently, the members of the Remuneration Committee include:
Ms. Tam Wai Chu, Maria (Chairman)
Mr. Chung Shui Ming, Timpson
Dr. Cheng Chi Pang
Mr. Liu Ming Ching
Mr. Zhang Cheng Fei

Auditors' Remuneration

The analysis of auditors' remuneration in respect of audit and non-audit services provided by the auditors of the Company since they were appointed as auditors is as follows:

	RMB'000
Audit services	3,811
Non-audit services	–

Audit Committee

The scope of duties of the Audit Committee mainly covers overseeing the Company's relationship with its external auditors, reviewing the preliminary results, interim results and annual financial statements, monitoring the compliance with statutory requirements and Listing Rules, reviewing the scope, extent and effectiveness of the Group's internal audit functions, and, where necessary, commissioning independent investigations by legal advisers or other professionals.

Currently, the members of the Audit Committee include:
Dr. Cheng Chi Pang (Chairman)
Ms. Tam Wai Chu, Maria
Mr. Chung Shui Ming, Timpson
Mr. Wang Hong Bo

Risk Control Committee

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

Investors' Relations and Shareholders' Interests

The Company actively develops investors' relations and communicates with the investment community throughout the year, particularly after announcement of its interim and annual results. It also addresses the enquiries of investors (including institutional shareholders, analysts and the media) by way of regular corporate presentations, telephone conferences and forums. The details are set out on page 41 to 43 in this annual report.

The Board is committed to providing shareholders with a clear and complete picture of the financial information of the Group by way of publication of interim and annual reports. Apart from receiving circulars, notices and financial reports, shareholders may also choose to log onto our website (www.ndpaper.com) for access to more information.

The Company encourages participation of its shareholders at every annual general meeting, and it is our policy to dispatch the relevant notice at least 21 days before the meeting is to be held. The Chairman and directors of the Company will attend the meeting to answer questions about the business of the Group. Besides, each shareholder is legally entitled to demand that a special general meeting be convened and propose an agenda of such a meeting to be considered by other shareholders. In this circumstance, such shareholder is only required to notify in writing the Company Secretary at our registered office in Hong Kong in respect of the demand for convening a general meeting and the agenda for matters to be transacted at such meeting.

Remuneration Committee

The Remuneration Committee was established in March 2006. Its primary objective is to ensure that the Company can recruit, retain and motivate high-calibre staff in order to reinforce the success of the Company and create value for our shareholders. The Remuneration Committee is responsible for overseeing the determination of directors' remuneration and benefits and establishing a formal and transparent procedure for developing policy on remuneration.

In addition, the Remuneration Committee also supervises and enforces the share option schemes of the Company in an effective manner. Details of the authority and duties of the committee are clearly set out in its terms of reference, which also specify that the committee shall consist of at least three members and the majority shall be independent non-executive Members.

The objective of the Company's remuneration policy is to maintain fair and competitive remuneration packages in line with business requirements and industry practices. In determining the level of directors' remuneration and fees, the Company takes into account market rates and other factors, such as the workload, duties and job complexity of individual directors. The factors for consideration in determining directors' remuneration include:

- business requirements;
- individual performance and contribution to business results;
- retention considerations and personal potential;
- market changes, such as fluctuations in demand and supply and variations in the competition landscape; and
- general economic situation.

During the review process, no individual director is involved in the determination of his own remuneration. Since the Company was listed on the Stock Exchange on 3 March 2006, the Remuneration Committee had one meeting in the financial year 2006, with 100% attendance.

The following is a summary of work performed by the Remuneration Committee in the financial year 2006:

(i) recommendation for the Board's approval of the non-executive director fee in 2006;
(ii) review of the remuneration of directors;
(iii) review and approval of the remuneration packages and service contracts of executive directors;
(iv) oversight of the Pre-IPO Share Option Scheme and the Share Option Scheme of the Company; and
(v) review of the scope of duties of the Remuneration Committee adopted in February 2006.

Share Option Schemes

The Company has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme. Each grantee is required to pay a non-refundable consideration of HK$1.00 upon each acceptance of options. The principal terms of the two schemes are as follows:

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution which have been or may be made by certain employees, executives and officers of the Group towards the growth of the Group and/or the listing of the shares of the Company on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme, which were ratified, confirmed and approved by written resolutions passed by all the shareholders on 12 February 2006 to be effective from 1 January 2006, are substantially the same as the terms of the Share Option Scheme, except that:

(i) the exercise price per share is a price representing a 10% discount on the Offer Price of HK$3.40 upon listing;

(ii) the total number of shares subject to the Pre-IPO Share Option Scheme is 100,000,000 shares; and

(iii) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the shares on the Stock Exchange.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme as at 30 June 2006:

Grantee	Number of options Outstanding number as at 1 January 2006	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 30 June 2006	Approximate percentage of shareholding
(i) Directors						
Ms. Cheung Yan *(Note 4)*	16,923,315	–	–	–	16,923,315	0.40%
Mr. Liu Ming Chung *(Note 4)*	16,914,184	–	–	–	16,914,184	0.40%
Mr. Zhang Cheng Fei	11,814,821	–	–	–	11,814,821	0.28%
Ms. Tam Wai Chu, Maria	1,166,670	–	–	–	1,166,670	0.03%
Mr. Chung Shui Ming, Timpson	1,166,670	–	–	–	1,166,670	0.03%
Dr. Cheng Chi Pang	1,166,670	–	–	–	1,166,670	0.03%
	49,152,330	–	–	–	49,152,330	1.17%
(ii) Employees and others	50,847,670	–	–	(1,414,000)	49,433,670	1.19%
Total	**100,000,000**	**–**	**–**	**(1,414,000)**	**98,586,000**	**2.36%**

Notes:

(1) The exercisable period for all options granted under the Pre-IPO Option Scheme is from 1 January 2007 to 31 December 2011.

(2) All options under the Pre-IPO Option Scheme were granted on 1 January 2006 at an exercise price of HK$3.06 per share.

Remuneration Committee

(3) Each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise:–

(i) up to 20% of the shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the first anniversary of the date on which the relevant option was so granted to him/her on 1 January 2006 ("Grant Date") and ending on the second anniversary of the Grant Date;

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

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

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

(4) Mr. Liu Ming Chung is the spouse of Ms. Cheung Yan. Therefore, Ms. Cheung Yan is deemed to be interested in the shares subject to the share options granted to Mr. Liu Ming Chung and Mr. Liu Ming Chung is deemed to be interested in the shares subject to the share options granted to Ms. Cheung Yan.

Save as disclosed above, no option was granted, cancelled or lapsed during the year ended 30 June 2006.

The fair value of options granted under Pre-IPO Share Option Scheme was determined using the "binomial valuation model". The significant inputs into the model were:

- risk-free rate of return – yield of 5-year Exchange Fund Notes;
- forecast fluctuations in share price – with reference to the annual rate of change during the year immediately before the Grant Date, which was 25% for the past two years; and
- forecast dividend yield – 5% for the exercisable period, expected to be payable every year.

Based on the "binomial valuation model", the total value of the outstanding options as at 1 January 2006 was HK$70,275,599.

The "binomial valuation model" is designed to assess the fair value of American options and is a common choice among various option pricing models for assessing the fair value of options which may be exercised before the expiry of the exercisable period. The value of the options depends on the valuation arrived at based on certain subjective assumptions on variables. Any changes in the variables used may cause a substantial effect on the assessment of the fair value of the options.

Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contribution which the eligible participants have made or may make towards the Group. Pursuant to the Share Option Scheme, the Board may offer to grant an option to any director or employee, or any adviser, consultant, supplier, customer or agent of the Group.

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

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

During the financial year 2006, no option was granted by the Company under the Share Option Scheme.

Emolument Details

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

Audit Committee

Based on the terms of reference of the Audit Committee, members of the committee shall, among other things, oversee the Group's relationship with its external auditors, review the preliminary results, interim results and annual financial statements, monitor the compliance with statutory requirements and Listing Rules, review the scope, extent and effectiveness of the Group's internal audit functions, and, where necessary, commission independent investigations by legal advisers or other professionals.

During the financial year 2006, the committee held two meetings, both with 100% attendance, to review the financial statements of the Group for the six months ended 31 December 2005. The issues which were reviewed and discussed in respect of the financial statements of the Group for the year ended 30 June 2006 and the significant events of the Group during the period are as follows:

Financial Reports

The Audit Committee met with the Chief Financial Officer and other senior management of the Group to consider its interim report, annual report, and interim and annual results announcements. The committee reviewed and considered the report and statement of the management to ensure that the consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in Hong Kong. The committee also met with the external auditors of the Group, PricewaterhouseCoopers, to consider the scope and results of their independent audit in respect of the interim report and consolidated financial statements.

Meanwhile, the committee highlighted the importance of disclosure of the continuing connected transactions of the Group.

Review of Internal Control and Risk Management Systems

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

Relationship with External Auditors

The committee reviewed and considered the terms of appointment of the external auditors, including the evaluation of their independence and objectivity. Factors that were taken into account included the rotation of their engagement audit partner and their provision of non-audit services. The Audit Committee has already made the recommendation to the Board for reappointing PricewaterhouseCoopers as the external auditors of the Group for the financial year 2007.

The Audit Committee will consider additional measures to strengthen the interactive relationship between the committee members and the external auditors at each stage during the audit cycle, including the appointment, audit planning and throughout the audit cycle. Besides, more effort will be made to review and consider the audit results and maintain appropriate communications with the external auditors.

Internal Control and Risk Management

In accordance with the Company's commitment to establishing and effectively maintaining a continuous high standard in corporate governance, the Board places particular emphasis on professional ethics and clear definition of rank, authority and responsibilities to establish a good environment for the internal control activities of the Company.

The management is responsible for the design of the Company's internal control organisation structure and hierarchy. To implement the risk management policy of the Company, the Risk Control Committee has been established. Its chairman is the Deputy Chief Executive Officer of the Company and other members are the Supervision and Management Department, Finance Department and Internal Audit Department of the Group. The primary duties of the committee are:

- strengthening the control environment; assessing relevant risks and carrying out necessary control activities;
- ensuring seamless information exchange;
- exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments;
- identifying risks and analysing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments);
- establishing internal control measures for minimising and eliminating risks;
- reviewing and reporting to the Board in respect of the effectiveness of internal control; and
- maintaining contact with external auditors for maintaining the quality of the Group's internal control system.

The Risk Control Committee meets at least once each year to report to the Audit Committee and the Board in respect of the critical control measures for evaluation of corporate objectives, finances, operations and checks and balances. The Risk Control Committee will also evaluate the significant risks faced by the Company, as well as the scopes and results of its internal and external audits. It will analyse the causes of any failure before making recommendations for remedial measures. It will also identify isolated cases and inherent deficiencies in the internal control system, and will make timely adjustments and remedies for the latter to avoid repeated failures.

In carrying out its duties, the Board seeks to raise the risk awareness of all departments of the Group. It also works to lay a solid foundation for the development of a risk management system by way of establishing appropriate policies and programmes, including the formulation of authorisation criteria. In respect of the work on review and reporting, the executive directors and the Board are responsible for the review and approval of the detailed operational and financial reports, budgets and business plans prepared by the management. Besides, the Board will compare the budgets with the actual results and oversee the ongoing work of the Risk Control Committee. The executive directors and the management team of all core business departments will carry out business reviews from time to time.

Connected Transactions

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the continuing connected transactions set out below have been entered into:

(i) in the ordinary and usual course of the business of the Group;
(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company confirmed to the Board in writing in respect of the continuing connected transactions set out below for the year ended 30 June 2006:

(i) were approved by the Board;
(ii) were in accordance with the pricing policies of the Group if the continuing connected transactions involve provision of goods or services by the Group;
(iii) were entered into in accordance with the relevant agreements governing the continuing connected transactions; and
(iv) did not exceed the respective annual caps for the relevant continuing connected transactions disclosed in the IPO Prospectus dated 20 February 2006.

Details of the continuing connected transactions of the Company are as follows:

(1) Continuing connected transactions exempt from the independent shareholders' approval requirements

The transactions set out in (i), (ii) and (iii) below are each of sizes that exceed HK$1,000,000 and less than 2.5% of each of the percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, and constitute continuing connected transactions exempt from the independent shareholders' approval requirement but subject to the reporting and announcement requirements of the Listing Rules. Conditional waivers have been granted by the Stock Exchange from strict compliance by the Company with the disclosure requirements for the period from 3 March 2006 to 30 June 2008 for these transactions.

(i) Purchase agreement with Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業有限公司) ("Dongguan Longteng") (the "Longteng Purchase Agreement")

Date of agreement: 12 February 2006

Covenant parties:
(i) Zhang's Enterprise Company Limited ("Zhang's"), an indirect subsidiary of the Company
(ii) Dongguan Longteng, which is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang Cheng Fei ("Mr. Zhang") and Ms. Cheung Yan ("Ms. Cheung"), who are directors and substantial shareholders of the Company

Term: 3 March 2006 – 30 June 2008

Object:	Pursuant to the Longteng Purchase Agreement, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from time to time
Waiver granted by the Stock Exchange in respect of the annual cap for the year ended 30 June 2006:	RMB65,400,000*
Actual amount of transactions for the year ended 30 June 2006:	RMB64,829,000*

* before tax

(ii) Supply agreement with Dongguan Longteng (the "Longteng Supply Agreement")

Date of agreement:	12 February 2006
Covenant parties:	(i) Zhang's (ii) Dongguan Longteng
Term:	3 March 2006 – 30 June 2008
Object:	Pursuant to the Longteng Supply Agreement, Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group from time to time
Waiver granted by the Stock Exchange in respect of the annual cap for the year ended 30 June 2006:	RMB29,600,000*
Actual amount of the transactions for the year ended 30 June 2006:	RMB22,041,000*

* before tax

Connected Transactions

(iii) Supply agreement with China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) ("Forestry Industry Group") (the "Forestry Supply Agreement")

Date of agreement:	12 February 2006
Covenant parties:	(i) Nine Dragons Xing An Paper Industries (Inner Mongolia) Co., Ltd. (玖龍興安漿紙(內蒙古)有限公司 ("ND Xing An"), a subsidiary of the Company which is owned as to 55% by the Company and 45% owned by Forestry Industry Group (ii) Forestry Industry Group, which is a substantial shareholder of ND Xing An
Term:	3 March 2006 – 30 June 2008
Object:	Pursuant to the Forestry Supply Agreement, Forestry Industry Group agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group from time to time
Waiver granted by the Stock Exchange in respect of the annual cap for the year ended 30 June 2006:	RMB98,800,000*
Actual amount of transactions for the year ended 30 June 2006:	RMB86,711,000*

* before tax

(2) Non-exempt continuing connected transactions

(i) Purchase agreement with Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司) ("Taicang Packaging") (the "Taicang Purchase Agreement")

Date of agreement:	12 February 2006
Covenant parties:	(i) Zhang's (ii) Taicang Packaging, which is held as to 100% by Mr. Zhang, a director and substantial shareholder of the Company
Term:	3 March 2006 – 30 June 2008
Object:	Pursuant to the Taicang Purchase Agreement, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time

Waiver granted by the Stock Exchange in respect of the annual cap for the year ended 30 June 2006:	RMB88,200,000*
Actual amount of transactions for the year ended 30 June 2006:	RMB78,043,000*

* before tax

(ii) Supply agreement with America Chung Nam, Inc. ("ACN") (the "ACN Supply Agreement")

Date of agreement:	12 February 2006
Covenant parties:	(i) the Company (ii) ACN, which is indirectly wholly-owned by Ms. Cheung and Mr. Liu, the directors and substantial shareholders of the Company
Term:	3 March 2006 – 30 June 2008
Object:	Pursuant to the ACN Supply Agreement, ACN agreed to supply recovered paper to members of the Group from time to time. The Company has also been granted an option to renew the ACN Supply Agreement for a further term of three years, and for each exercise of a renewal option by the Company, ACN will be deemed to have granted a new option for a further extension of three years, on terms to be negotiated between the parties on a fair and reasonable basis and subject to compliance with the disclosure and/or other requirements under the Listing Rules then in force. As the Group is ACN's largest customer, ACN agreed to supply recovered paper to members of the Group on a priority basis.
Waiver granted by the Stock Exchange in respect of the annual cap for the year ended 30 June 2006:	RMB3,099,000,000*
Actual amount of transactions for the year ended 30 June 2006:	RMB2,591,692,000*

* before tax

Connected Transactions

The Group will purchase not less than 20% of its requirements of recovered paper in terms of aggregate value from suppliers other than the ACN Group.

Pursuant to the conditions of the waiver granted by the Stock Exchange in relation to the ACN Supply Agreement, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that:

(a) the prices and terms offered by ACN to the Group are no less favourable than those offered to other customers of ACN in respect of the same period and for the same product type; and

(b) the Group sourced not less than 20% of its recovered paper in terms of aggregate value of its purchases of recovered paper from suppliers other than ACN for the period from 3 March 2006 to 30 June 2006.

For the purposes of the conditions of the waiver granted by the Stock Exchange in relation to the ACN Supply Agreement, the auditors of the Company have performed certain agreed-upon procedures on the above continuing connected transactions for the period from 3 March 2006 to 30 June 2006 in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

The transactions under the Taicang Purchase Agreement and the ACN Supply Agreement constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and will normally be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement set out in Rule 14A.48 of the Listing Rules. Conditional waivers have been granted by the Stock Exchange to the Company from strict compliance with the disclosure and independent shareholders' approval requirements under the Listing Rules for the period from 3 March 2006 to 30 June 2008 for these transactions.

Creating a Better Environment

ND Paper considers that conscientious environmental protection is an important part of being a responsible corporate citizen. As a major packaging products manufacturer in the world, we understand that preservation of the natural environment can help maintain harmony between the economic benefits of businesses and the well-being of society. Only by doing so can we provide a healthy environment for our future generations. Therefore, we always give a high priority to environmental protection.

Indeed, the implementation of environmentally responsible practices and the maintenance of high environmental standards are not only what we do to observe our social obligations, but also what we consider as a valuable asset and competitive edge. Our steadfast commitment not only reduces the impact of our operations on the environment, but also brings down our risk exposure to liabilities under environmental protection laws and regulations.

The Group has set up an operation system and has built in the environmental protection concept in the design and development of our products to demonstrate the green benefits in making paper. For example, we use a high proportion of recovered paper in our production. As of today, an average of approximately 85% of the fiber in our products is derived from recovered paper. We also recycle our scrap fiber by-products which arise from the production of linerboard to work with other raw materials in the production of high performance corrugating medium.

Meanwhile, ND Paper has established a dedicated environmental protection department and has successfully formulated a verified system for environmental protection. This department is responsible for monitoring and overseeing the treatment of a variety of wastes, including wastewater, fumes emission, solid waste and noise pollution. The environmental protection department is also responsible for optimising processes as the production system evolves so to ensure that the Company is making every effort to respect the environment and uphold the highest level of corporate social responsibility.

By introducing high standard environmentally friendly equipment and technologies and implementing highly efficient environmental management, each of the plants of the Group has obtained the ISO14001 certification for their environmental management standards.

Wastewater Treatment

Clean water is an important natural resource and an essential element in the paper manufacturing process. In order to minimise the impact on water resources, we have built our own wastewater treatment facilities in the Dongguan and Taicang production bases, which incorporate state-of-the-art technologies. Such technologies include the automated programmable logic controller (PLC) systems and online monitoring equipment systems that allow us to monitor our wastewater discharge more efficiently. To conserve water resources, we have also built our own water recycling and conservation systems in the Dongguan and Taicang production bases to reduce our water consumption significantly at each of our production lines. These systems allow us to achieve the purpose more effectively by taking advantage of the differences in water quality requirements of different production lines. For example, water used in the manufacture of coated duplex board with grey back is treated and recycled for use in the high performance corrugating medium production lines before it is treated again and released. Depending on the product type, our paper production process consumes approximately 6 to 15 tonnes of water, including treated and recycled water, for each tonne of production, which is less than half of what is set forth in the standards governing water consumption in the manufacturing of paper products issued by the China National Standardisation Administration Commission.

Item	Water quality parameter before treatment	Water quality parameter after treatment	Target Value of the first type within period II in the Guangdong province
COD_{CR}	2,500 mg/l	<100 mg/l	≤100 mg/l
BOD_5	1,000 mg/l	<20 mg/l	≤ 20 mg/l
SS	2,000 mg/l	<70 mg/l	≤ 70 mg/l
PH	6~9	6~9	6~9

Fumes Emission Treatment

As a measure to minimise fumes emission, the Group has adopted the half-dry desulphurisation technology and wet desulphurisation technology. We have a circulating fluidised bed waste-to-energy boiler in the Dongguan production base, with an annual capacity of burning 87,500 tonnes of waste to produce 315,000 tonnes of steam. We also collect the solid waste from wastewater for incineration in the Dongguan production base. The circulating fluidised bed waste-to-energy boiler provides efficient combustion, low atmospheric emissions and the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. We believe that ND Paper is one of the few paper manufacturers in China who are using waste-to-energy boilers. In the Taicang production base, the Group disposes of solid waste by using it to produce recycled pallets.

Moreover, our coal-fired cogeneration power plants in the Dongguan and Taicang production bases are equipped with particulate filtration and desulphurisation equipment, and produce emission levels that are better than those permitted under applicable PRC regulatory requirements.

Item	Average parameter before treatment	Average parameter after treatment	Target value in China
SO_2	2,360 mg/m^3	<55 mg/m^3	≤ 400 mg/m^3
NOx	600 mg/m^3	<356 mg/m^3	≤ 450 mg/m^3
Dust	24,600 mg/m^3	<29 mg/m^3	≤ 50 mg/m^3

Solid Wastes Treatment

Our solid wastes are mainly paper pulp waste residue, light slag and sludge. We have built an incinerator with a daily handling capacity of 300 tonnes, and, with the two other incinerators to be built soon, it is envisaged that we can handle by ourselves all the wastes during our production process without giving any environmental pressure to society. Upon completion, each of these two additional incinerators can handle approximately 600 tonnes of such wastes each day. These incinerators apply advanced marsh-gas treatment equipment and fabric-bag filters for treating dust, which are built with an online self-controlled monitor.

Noise Pollution Control Measures

All of our machines comply with the strict standards currently enforced in America and Europe, and observe all international standards for noise control. We use sound-proofing installations, including noise-insulating enclosures and mufflers in our double-disc refiners and air compressors. Personal noise protection devices like earplugs are used during inspection patrols.

The Group's manufacturing processes generate solid and liquid wastes, including wastewater and sludge, and gaseous emissions. In compliance with applicable laws and regulations, the Group has obtained all required permits for wastewater discharge, airborne emissions and solid waste disposal.

The Group has never been found to be in material violation of any environmental laws or regulations, or subject to any fine in respect thereof. The Directors believe that the Group's record of environmental compliance has been a positive factor in obtaining regulatory approvals for its expansion projects.

Caring for Our Staff

ND Paper's success today lies in the efforts of every staff member. As a responsible and considerate employer, the Group sticks to the people-oriented management philosophy that focuses on personal development and talent training. Especially, we value highly the importance of production safety, staff welfare and training for improvement of every aspect of the life quality of our staff. For example, we invite prestigious colleges and universities to hold MBA seminars in our plants so as to enrich our middle and higher management with comprehensive basic knowledge, as well as professional and administrative training, thus creating an ideal learning environment.

We also send staff to universities for further studies, so that after graduation they can put into practice what they have learned and develop their skills to take on all sorts of challenge. During the entire course of training, we encourage our staff to be creative and to improve their technical capability and corporate management standards at the same time. Such training helps guarantee the quality of our human resources to support the rapid development of the Group.

Actually, apart from these trainings, the Group also offers appropriate protection for our staff, so as to ensure a healthy environment for them to work, live and relax. In this aspect, ND Paper has also won due recognition. We obtained the OHSAS 18001 certification for the standard of our occupational health and safety management system.

Contributing to Our Society

From society, for society. The Group fully understands that a harmonious social environment is beneficial for its long-term development. Hence, while actively developing its business, NP Paper is also keen on participating in charitable community activities. Through these charitable activities, the Group encourages its staff to fully apply the creative and innovative spirit of ND Paper, so as to stimulate their care for and dedication to the community.

For example, in 2004, when the once in a century Tsunami hit southern Asia, ND Paper took the initiative to organise a donation campaign with its staff to demonstrate the charitable spirit of the Group.

In addition, to help dropped-out students in the poor regions of China, the Group initiated an action to offer approximately 100 full scholarships to such students each year to study in the South China Polytec University, and hire them after their graduation. This program not only helps those students and improves the economic conditions of their families, but also serves to train up talent for the Group. It has won the support of government authorities. Due to this program's obvious results and profound meaning, ND Paper intends to further expand and develop the program.

Summary

ND Paper will continue our efforts to pursue the strategy of sustainable development by giving high priority to environmental protection, proactive commitment to our social responsibility as a corporate citizen, and maintaining the harmony between the search for business economic benefits and the interests of society at large.

Frequently Asked Questions

Industry

What is the management's outlook for the containerboard industry?

The rate of sustained growth in demand for containerboard products has exceeded our management's expectations. Given the promising market landscape on the horizon, we have full confidence in the Group's future development. We expect that the containerboard business will continue its fast pace of growth for the next 5 years and we expect that the imports of containerboard will stand at 4 million tonnes per year.

Will the market become saturated as other suppliers have also been increasing their capacity aggressively recently?

While there has been an increase in containerboard supply due to industry expansion, there has also been a significant increase in demand, which will serve to sustain a healthy pricing environment.

What are the barriers for entry to the containerboard industry?

There are significant barriers of entry and demanding technical requirements for large-scale containerboard manufacturing operations. Companies need to raise a large sum of capital and comply with increasingly stringent industry-specific environmental protection requirements as well as demands from government authorities. In addition, the major raw materials for paper making, namely, recovered paper and kraft pulp, are limited in supply. Consequently, the containerboard manufacturing industry in China remains dominated by a limited number of large manufacturers.

Business

What makes ND Paper's business model special?

With unique insights, especially into the development potential of the industry, ND Paper has invested substantially in its operations and infrastructure to maintain its competitive advantage in the industry. For example, what sets ND Paper apart from its peers is a steady supply of raw materials and access to its own port, which specifically serves the needs of its export business. Apart from expanding further into other areas, ND Paper has acquired land in the Pearl River Delta and the Yangtze River Delta, which can support an annual production capacity of 9 million tonnes, laying a solid base for the Group's future development.

ND Paper produces a variety of types of packaging paperboard and its production scale is extensive enough to function as a one-stop supplier. We attach a high value to cost control and technological research. In respect to operations, ND Paper has adopted the innovative dual-machine layout, which allows for a significant increase in production capacity and overall efficiency. As a result, the Group is progressively benefiting from economies of scale.

Finally, what makes ND Paper very special is its commitment to the environment, safety precautions for its employees, and high standards of corporate governance.

Frequently Asked Questions

Would rising prices of kraft pulp affect the performance of the Group?

Our risk exposure to rising raw material costs is limited and this is one of the competitive advantages of the Group. Still, we intend to strengthen our capability of in-house research and development and further reduce the use of unbleaehed kraft pulp as a raw material in our production in order to minimise our exposure to such ricks. The raw material prices of the containerboard industry are highly transparent. Currently, ND Paper is able to transfer changes in costs to its customers within around 30 days. Besides, with our ready access to the latest and accurate market information through ACN and ND Xing An, our major raw material suppliers, we are able to react promptly to changes in raw material prices.

What is the relationship between ACN and ND Paper?

ACN is one of the largest US exporters of recovered paper to China and our solid relationship with this key provider allows us to enjoy economies of scale that elude our peers. This is also a core competitive advantage of ours. Under the agreement between both parties, we maintain a highly transparent procurement system, so that we can deal in prices at the most reasonable and favourable level.

Will the business of ACN be merged into ND Paper?

ND Paper and ACN were established at different times and our business objectives and geographic coverage also vary. Although we have the same controlling shareholders, our business operations are completely different. The Group is engaged in the manufacture of containerboard products, while ACN is engaged in the business of recovered paper recycling. We have been operating separately in various aspects since day one. For example, the Group is financially and operationally independent of ACN. Besides, we both have our own independent management team, geographic focus, sales and marketing channels, and ND Paper is able to source its recycled paper independently.

The recovered paper recycling business of ACN provides its customers with more than 100 different choices of recovered paper, but the Group only procures 10 types of recovered paper from ACN. Other than the Group, ACN has a number of other customers. For the financial year ended 30 June 2005, ACN had more than 200 customers. Both the Group and ACN have grown into a leaders in their respective industries. Hence, the Group and ACN are not dependent on each other. Given that ACN has its unique business focus and product lines as well as independent operations, the controlling shareholders of the Group do not have any plan to merge ACN into the Group. Besides, any acquisition plan is subject to the due consideration and approval of our shareholders.

How will the pre-investments of the Group translate into cost savings?

The China market has tremendous potential. In order to capture these opportunities, we started our aggressive investment activities in the early 1990's. Since then, we have been acquiring more and more production equipment to speed up the expansion of our production capacity. Meanwhile, we have introduced various world-class advanced production technologies to position ourselves as an environmentally friendly manufacturer with international standards. During the process, ND Paper has also laid a solid foundation for growth with the pre-investments in power plants, piers and land acquisitions, which allow us to make significant achievements in cost control.

What are the expansion plans of ND Paper?

In its original plan as set out in the Prospectus, the Group intended to kick start the financial year 2007 with PM12 for the production of linerboard, and PM13 for the production of high performance corrugating medium, and envisaged a production layout of one paper machine in each workshop. In order to speed up the expansion of its production capacity, the Group has undertaken a thorough technical feasibility study of the original layout plan together with the technical advisers of its machine suppliers. By adopting the dual-machine layout, the Group's production capacity and operating efficiency can be significantly increased. The dual-machine layout is expected to enable the Group to further optimise its product mix and gain savings in investment, operation and labour costs as a result of sharing equipment and man hours by two machines along with more efficient utilisation of space.

Under the revised plan, the Group will adopt the dual-machine layout and put online two paper machines for each workshop, that is, PM 12 plus PM 13 (instead of only PM12 under the original plan) for one workshop, and PM16 plus PM 17 (instead of PM13 under the original plan) for the other. The aggregate annual production capacity will be 700,000 tonnes more than the original plan. The Group will upgrade the annual production capacity of PM8 from 450,000 tonnes of high performance corrugating medium with two-ply sheet to 500,000 tonnes of linerboard with three-ply sheet in the financial year 2007.

Capital Expenditure and Dividend

How will the Group finance its capital expenditure in the near future?

The source of funding for our future expansion plans is our own internal resources and bank borrowings.

What is the dividend policy of the Group?

Our policy is that not less than 20% of the profit will be made available for distribution.

Corporate Governance

What about the corporate governance standard of ND Paper?

We are firmly committed to maintaining and continuously improving our corporate governance standard. We have established three committees under the Board, including the Executive Committee, the Audit committee and the Remuneration Committee, in order to fulfill our commitment to our shareholders and our responsibility to regulatory authorities. The three committees, through performing their responsibilities in accordance with their terms of reference, will oversee the company's internal control system and ensure that it is always aligned with best practices. In respect of internal control and risk management, we have recently established the Risk Control Committee to report to the Board for the establishment of a thorough system for internal control.

Directors and Senior Management

Executive Directors

Ms. Cheung Yan, 49, has been the Chairman of the Company since 6 February 2006. She is a founder of the Group and is in charge of the overall corporate development and strategic planning of the Group. Ms. Cheung has nearly 8 years of experience in industrial accounting, 10 years of experience in paper manufacturing and nearly 20 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference and the vice chairman of the Women's Federation of Commerce of the All-China Federation of Industry and Commerce. Ms. Cheung is also an honorary citizen of the City of Dongguan, Guangdong Province, China. Ms. Cheung was awarded the esteemed title of "Worldwide Chinese Ambassador of Love"（「世界華人愛心大使」）in September 2006. Ms. Cheung is the wife of Mr. Liu Ming Chung, the sister of Mr. Zhang Cheng Fei and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 44, has been the Deputy Chairman and Chief Executive Officer of the Company since 6 February 2006. He is a founder of the Group and is responsible for the overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment as well as human resources management of the Group. Mr. Liu also assists the Chairman in government relations. Mr. Liu has over 15 years of experience in international trade and over 7 years of experience in corporate management. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. Mr. Liu graduated with a bachelor's degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is the husband of Ms. Cheung Yan, the brother-in-law of Mr. Zhang Cheng Fei and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 38, has been the Executive Director and Deputy Chief Executive Officer of the Company since 6 February 2006. He is a founder and is responsible for the overall management of the operations and business of the Group including marketing and distribution, finance, procurement, sales and IT departments. Mr. Zhang has over 12 years of experience in procurement, marketing and distribution. Mr. Zhang is the younger brother of Ms. Cheung Yan, Mr. Liu Ming Chung's brother-in-law and the uncle of Mr. Lau Chun Shun.

Ms. Gao Jing, 43, has been an Executive Director of the Company since 6 July 2006. She joined the Group in June 1996 and has 10 years of experience in cost auditing of raw materials and the purchasing of recovered paper. She served as the Group's Financial Manager and was promoted as the Head of the Group's Import Purchasing Department in July 2006. Ms. Gao graduated from Liaoning Broadcasting Television University with a diploma in Electrical Engineering. The spouse of Ms. Gao, Mr. Huang Tie Min, is a senior management of the Group who serves as the deputy general manager of the Group in charge of engineering.

Mr. Wang Hai Ying, 34, has been an Executive Director of the Company since 6 February 2006. Mr. Wang has approximately 9 years of experience in international import and export trading. Mr. Wang joined Dongguan Nine Dragons Paper Industries Co., Ltd. ("Dongguan Nine Dragons") as a procurement officer in June 1999 and was promoted to the Head of the Group's Import Purchasing Department in January 2003. Prior to joining Dongguan Nine Dragons, Mr. Wang worked for an American transportation company in Dalian for more than 2 years and was responsible for import of materials. Mr. Wang graduated from Jilin University with a bachelor's degree in English.

Non-executive Director

Mr. Lau Chun Shun, 25, has been a Non-executive Director of the Company since 6 February 2006. Mr. Lau graduated at the University of California, Davis, with a bachelor's degree in Economics and is currently pursuing a master degree in Financial Engineering at the Columbia University. Mr. Lau worked for the Group as a management trainee in the production department of the Group during each of the summers from 2002 to 2004. During his traineeship, Mr. Lau assisted the management team in its supervision of the daily operation of the Group and has gained an understanding of the Group's overall businesses and operations. Mr. Lau is the son of Ms. Cheung Yan and Mr. Liu Ming Chung and the nephew of Mr. Zhang Cheng Fei.

Independent Non-executive Directors

Ms. Tam Wai Chu, Maria, GBS, JP, 60, has been an Independent Non-Executive Director of the Company since 6 February 2006. She is a board member of the Urban Renewal Authority, and serves as Non-Executive Director of East Asia Satellite Television Limited, East Asia Satellite Television (Holding) Limited, eSun Holdings Limited and Ryoden Engineering Company Limited and Independent Non-Executive Director of Guangnan (Holdings) Limited, Onfem Holdings Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Titan Petrochemicals Group Limited, Tong Ren Tang Technologies, Co., Ltd. and Wing On Company International Limited. Ms. Tam is a Deputy to the PRC National People's Congress, a member of the Preparatory Committee for the Hong Kong Special Administrative Region and Hong Kong Affairs Advisor, a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption. She is qualified as a barrister-at-law at Gray's Inn, London and has practice experience in Hong Kong.

Mr. Chung Shui Ming, Timpson, GBS, JP, 54, has been an Independent Non-Executive Director of the Company since 6 February 2006. Mr. Chung is an Independent Non- Executive Director and Chairman of the audit committee of China Netcom Group Corporation (Hong Kong) Limited, Tai Shing International (Holdings) Limited and Miramar Hotel and Investment Company, Ltd. and an Independent Non-Executive Director of Glorious Sun Enterprises Limited. Mr. Chung is also an Executive Director, Deputy Chairman and Managing Director of Hantec Investment Holdings Limited.

In addition, Mr. Chung is a member of the National Committee of the 10th Chinese People's Political Consultative Conference, Chairman of the Council of the City University of Hong Kong and member of the Hong Kong Housing Authority and Chairman of its Finance Sub-Committee. Mr. Chung was previously an Executive Director and CEO of Shimao International Holdings Limited, an Independent Non-Executive Director of Stockmartnet Holdings Limited, Extrawell Pharmaceutical Holdings Limited, the Chairman of the Hong Kong Housing Society and the Director of China Rich Holdings Limited. Mr. Chung obtained a bachelor's degree in science from the University of Hong Kong and a master's degree in Business Administration from the Chinese University of Hong Kong. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Dr. Cheng Chi Pang, 49, has been an Independent Non-Executive Director of the Company since 6 February 2006. He holds a bachelor's degree in Business, a master's degree in Business Administration and a doctorate degree of philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has approximately 25 years of experience in auditing, business advisory and financial management.

Directors and Senior Management

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

Mr. Wang Hong Bo, 52, has been an Independent Non-Executive Director of the Company since 6 February 2006. Mr. Wang has extensive experience and expertise in the paper industry in China and was appointed as the Deputy Head of Yantai Packaging Decoration Factory in 1990.

Senior Management

Mr. LIU Wen Wen, 48, had served as the Deputy General Manager of Dongguan Nine Dragons in charge of production since March 1998 and became the General Manager of Dongguan Nine Dragons in September 2005. Mr. Liu is a senior engineer and has approximately 8 years of operational experience in the paper manufacturing industry in China. He graduated from the School of Chemical Engineering, Liaoyang University with a diploma in Automatic Instruments.

Mr. XIA You Liang, 41, has served as the General Manager of Nine Dragons Paper Industries (Taicang) Co., Ltd. ("Taicang Nine Dragons") in charge of operation and management since May 2005. Prior to joining the Group in May 2005, Mr. Xia acted as Chairman and General Manager of Wuhan Chenming Hanyang Paper Manufacturing Co., Ltd. and General Manager of Yanbian Shiyan Bailu Paper Manufacturing Co., Ltd. He has more than 20 years of management experience in paper manufacturing industry. Mr. Xia is a senior engineer and has been certified as ''National Senior Professional Manager''. He graduated from Shandong Light Industry College with a bachelor's degree in Science and is currently pursuing an MBA degree in Beijing University.

Mr. LEE Gil Ro, 56, a Korean citizen, had served as the Deputy General Manager of Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon") in charge of overall operation and management since August 2004 and became the General Manager of Dongguan Sea Dragon in September 2005. Mr. Lee has extensive experience in production and research of paper and paper related products with an expertise to lead his team to improve operating efficiency, increase the yield rate and reduce production cost. He graduated from Cheong Ju University in Korea with a diploma in Chemical Engineering.

Mr. LAW Wang Chak, Waltery, 43, has served as the Group's Chief Financial Officer in charge of supervision of financial matters and investor relations since June 2004. Prior to joining the Group, Mr. Law had worked in the audit division of an international accounting firm for more than 5 years and served in different key roles such as Chief Financial Officer and Vice President in various Hong Kong listed companies for more than 13 years. He has more than 18 years of experience in auditing, accounting and corporate finance. Mr. Law is a fellow member of both the Association of Chartered Certified Accountants and of Hong Kong Institute of Certified Public Accountants. He graduated from the London School of Economics and Political Science, the University of London with a bachelor's degree in Economics and a master's degree in Financial Economics. He is also the Qualified Accountant of the Group.

Directors and Senior Management

Mr. NG Kwok Fan, Benjamin, 50, has served as the Group's Deputy General Manager and Assistant to Chairman in charge of corporate administration and investor relations since February 2006. Before joining the Group, he worked in several international marketing communications groups and public companies listed in Hong Kong and overseas. Mr. Ng has extensive experience in advertising, marketing and corporate finance. He graduated from the University of Hong Kong and is a member of the Certified General Accountants Association of Canada.

Mr. CHU Xin Qi, 48, has served as the Chief Deputy General Manager of Taicang Nine Dragons in charge of finance and resource management since 2001. Before joining the Group, Mr. Chu acted as Deputy General Manager of Shandong Huazhong Paper Manufacturing Co., Ltd. He has approximately 25 years of related working experience. Mr. Chu is a senior economist and he graduated Shandong College of Economics with a bachelor's diploma in Finance.

Mr. ZHANG Du Ling, 36, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of sales and marketing since July 1998. Prior to joining the Group, he was the Sales Manager of Dongguan Chung Nam Paper Manufacturing Co., Ltd. Mr. Zhang has approximately 10 years of sales and marketing experience in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. HUANG Tie Min, 43, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering since November 1999. Mr. Huang has approximately 20 years of construction projects and management experience in the paper manufacturing industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor's degree in Science. He is the spouse of Ms. Gao Jing, an Executive Director of the Company.

Mr. ZHONG Hong Xiang, 38, has served as the Deputy General Manager of Taicang Nine Dragons in charge of project installment and technical engineering. Mr. Zhong joined the Group since 1996 and was seconded to Taicang in 2002. Mr. Zhong has over 15 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining the Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated from Fujian College of Forestry with a diploma in Stock Preparation and Paper Manufacturing Technology.

Mr. CHENG Jun, 44, has served as the Deputy General Manager of Taicang Nine Dragons since April 2004 in charge of sales and marketing. Mr. Cheng joined the Group since 1998 and was seconded to Taicang Nine Dragons in 2002. Mr. Cheng has over 20 years' experience in production technology, sales and marketing and distribution and transportation in the paper manufacturing industry. Prior to joining the Group, he served as a Deputy Head of a paper manufacturing factory in Zhangyi District, Gansu province. He graduated from Northwest Light Industry College with a diploma in Engineering.

Mr. ZHOU Guo Wei, 38, has served as the Chief Engineer of Dongguan Nine Dragons in charge of research and production of the Group's kraftlinerboard production lines since December 2002. He joined the Group in December 2002 from Shandong First Paper Yantai Paper Co., Ltd., where he served as the DCS engineer for 4 years. Mr. Zhou has approximately 13 years of stock preparation and paper manufacturing experience in China. He graduated the Tianjin Institute of Light Industry with a bachelor's degree in Stock Preparation and Paper Manufacturing.

Mr. ZENG Yun, 38, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of production since 2004. Previously, he served as the Deputy Chief of Jianxi Fuzhou Paper Manufacturing Plant. Mr. Zeng has approximately 18 years of stock preparation and paper manufacturing experience in China. He graduated from Nanjing Forestry University with a diploma in Stock Preparation and Paper Manufacturing.

Directors and Senior Management

Mr. XIA Ying Hua, 45, has served as the Deputy General Manager of Taicang Nine Dragons in charge of administration and infrastructure development since 2003. Prior to joining the Group, Mr. Xia has served as a government official and therefore has the experience in liaison and communication with relevant governmental authorities. He graduated from Zhengzhou Industry College with a bachelor's degree in Engineering.

Mr. WANG Xiang Ge, 55, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering and projects management since 2004. Prior to joining the Group, he served as the Chairman of Yanbian Shiyan Bailu Paper Manufacturing Co., Ltd. Mr. Wang is a senior engineer and has approximately 30 years of projects management experience in the paper manufacturing industry in China. He graduated from the School of Business, Jilin University with a master's degree in Business Administration.


Growth

Report of the Directors

The board of directors of the Company is pleased to present the audited consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2006.

Principal Businesses

The Group is engaged in the manufacture of packaging paperboard products, which include linerboard, high performance corrugating medium and coated duplex board with grey back, as well as unbleached kraft pulp.

Results and Appropriations

The results of the Group for the year ended 30 June 2006 are set out in the accompanying financial statements on page 83.

The Company did not recommend payment of any interim dividend for the six months ended 31 December 2005. The Board has resolved to recommend payment of a final dividend of RMB2.30 cents (equivalent to approximately HK2.26 cents) per share for the year ended 30 June 2006, which is expected to be payable on or about 5 December 2006 subject to the approval of the forthcoming annual general meeting. 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 10 November 2006. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB1.018 as at 20 September 2006 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

Financial Summary

A summary of the consolidated results and of the assets and liabilities of the Group for the last four financial years is set out on page 3 to page 6.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 9 to the financial statements.

Fixed Assets

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

Borrowings

Details of the borrowings of the Group are set out in note 17 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 14 to the financial statements.

Reserves

Details of the change in reserves of the Group and the Company during the year are set out in note 15 to the financial statements.

Major Customers and Suppliers

For the year ended 30 June 2006, the five largest customers of the Group accounted for approximately 7.9% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group account for less than 82.6% of its aggregate purchases.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Ms. Cheung Yan (''Ms. Cheung'')
Mr. Liu Ming Chung (''Mr. Liu'')
Mr. Zhang Cheng Fei (''Mr. Zhang'')
Ms. Gao Jing ("Ms. Gao")
Mr. Wang Hai Ying ("Mr. Wang")

Non-Executive Director

Mr. Lau Chun Shun

Independent non-executive Directors

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

* All the directors were appointed on 6 February 2006, except Ms. Gao, who was appointed on 6 July 2006.

In accordance with Clause 87 of the Company's Bye-laws, all directors should retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange"), and considers that all of the independent non-executive directors are independent.

Directors' Service Contracts

Each of Ms. Cheung, Mr. Liu and Mr. Zhang had entered into a service contract with the Company for a period of three years commencing on 3 March 2006, which may be terminated by either party upon six months' notice.

Each of Mr. Wang and Mr. Lau Chun Shun had entered into a service contract with the Company for a period of one year commencing on 3 March 2006, which may be terminated by either party upon three months' notice. Ms. Gao had entered into a service contract for a period of one year, commencing from 6 July 2006, with the Company which may be terminated by either side upon three months' notice.

Each of Independent non-executive directors, Ms. Tam, Mr. Chung, Dr. Cheng and Mr. Wang Hong Bo, had entered into a letter of agreement with the Company for a period of one year commencing on 3 March 2006, which may be terminated according to the bye-laws of the Company.

Save as disclosed above, no director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporation

As at 30 June 2006, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules:

The Company

(A) Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the directors and the chief executive of the Company.

Name of Directors	**Capacity**	**Number of issued ordinary shares**	**Number of underlying shares (in respect of share options)** *(Note 2)*	**Approximate percentage of total number shareholding**
Ms. Cheung	Interest in controlled corporation *(Note 1)*	2,986,800,000	–	71.97%
	Beneficial owner *(Note 3)*	–	16,923,315	0.40%
	Family interest *(Note 3)*	–	16,914,184	0.40%
Mr. Liu	Interest in controlled corporation *(Note 1)*	2,986,800,000	–	71.97%
	Beneficial owner *(Note 3)*	–	16,914,184	0.40%
	Family interest *(Note 3)*	–	16,923,315	0.40%
Mr. Zhang	Beneficial owner	–	11,814,821	0.28%
Ms. Tam	Beneficial owner	–	1,166,670	0.03%
Mr. Chung	Beneficial owner	–	1,166,670	0.03%
Dr. Cheng	Beneficial owner	–	1,166,670	0.03%

Notes:

1. Best Result Holdings Limited ("Best Result") directly held 2,986,800,000 shares in the Company. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 37.1% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

2. The share options were granted, under the pre-IPO share option scheme of the Company, with effect from 1 January 2006.

3. Ms. Cheung and Mr. Liu were granted options under the pre-IPO share option scheme, which may subscribe for 16,923,315 shares and 16,914,184 shares respectively. Mr. Liu is the spouse of Ms. Cheung. Therefore, pursuant to Part XV of the SFO, Ms. Cheung is deemed to be interested in the shares subject to the share options granted to Mr. Liu and Mr. Liu is deemed to be interested in the shares subject to the share options granted to Ms. Cheung.

(B) Interests in the Associated Corporation - Best Result

Name of directors	**Capacity**	**No. of ordinary shares held in Best Result**	**Approximate percentage of total number shareholding**
Ms. Cheung	Beneficiary of a trust	37,073	37.073%
Mr. Liu	Beneficiary of a trust	37,053	37.053%
Mr. Zhang	Beneficiary of a trust	25,874	25.874%

All the interests disclosed in sections (A) and (B) above represent long positions in the shares of the Company or the associated corporation. Save as disclosed above, none of the directors or chief executive of the Company or any of their associates(within the meaning of Part XV of SFO) had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as at 30 June 2006, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders Discloseable under the SFO

As at 30 June 2006, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons, other than the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in the shares or underlying shares of the Company:

Name	**Capacity**	**Number of issued Ordinary Shares of the Company Held** *(Note 1)*	**Approximate percentage of shareholding**
Best Result *(Note 2)*	Beneficial Owner	2,986,800,000	71.97%
HSBC Bank USA, National Association *(Note 2)*	Trustee of YC 2006 QuickGRAT	2,986,800,000	71.97%
Bank of the West *(Note 2)*	Trustee of MCL Living Trust	2,986,800,000	71.97%

Notes:

(1) All of the above interests are long positions.

(2) Best Result directly held 2,986,800,000 shares in the Company. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 37.1% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust.

Save as disclosed above, as at 30 June 2006, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Material Contracts

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

Donations

During the year, the Group donated a total of HK$1,000,000 for charitable purposes.

Post Balance Sheet Date Event

Details of post balance sheet date event of a material nature are set out in note 31 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance. Throughout the year, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

For further information on the corporate governance policy of the Company, please refer to the following sections:

(a) "Corporate Governance" on page 45, in which the details of the Company's corporate governance compliance are set out;

(b) "Remuneration Committee" on page 49, in which the scope of duties, activities and evaluation results of the Remuneration Committee during the year are set out;

(c) "Audit Committee" on page 53, in which the scope of duties, activities and evaluation results of the Audit Committee during the year are set out;

(d) "Internal Control and Risk Management" on page 54, in which the structure and policy of the Company in respect of internal control and risk management are set out;

(e) "Connected Transactions" on page 55, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 60, in which the details of the Company's environmental protection policy and contributions to society are set out;

Related Party Transactions

Details of related party transactions conducted during the ordinary course of business, which cover all transactions with related parties which constitute connected transactions as defined under the Listing Rules, are set out in note 30 to the consolidated financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

Public Float

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

Auditors

The Group's financial statements for the year ended 30 June 2006 were audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Cheung Yan
Chairman

Hong Kong, the PRC, 20 September 2006

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF
NINE DRAGONS PAPER (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 81 to 125 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2006

Balance Sheets

	Note	Consolidated 30 June 2006 RMB'000	Consolidated 30 June 2005 RMB'000	Company 30 June 2006 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	**8,625,486**	7,639,960	**–**
Land use rights	7	**592,125**	607,562	**–**
Intangible asset	8	**146,694**	146,694	**–**
Investments in subsidiaries	9	**–**	–	**2,386,700**
		9,364,305	8,394,216	**2,386,700**
Current assets				
Inventories	10	**932,031**	998,174	**–**
Trade and other receivables	11	**1,559,012**	997,009	**2,686,883**
Restricted cash	12	**200,590**	659,379	**–**
Bank and cash balances	13	**2,816,660**	651,587	**1,340,200**
		5,508,293	3,306,149	**4,027,083**
Total assets		**14,872,598**	11,700,365	**6,413,783**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	14	**4,141,291**	312,000	**4,141,291**
Other reserves	15	**902,006**	828,330	**2,091,497**
Retained earnings				
– Proposed final dividend	26	**95,450**	–	**95,450**
– Others		**2,402,657**	1,181,624	**61,670**
		7,541,404	2,321,954	**6,389,908**
Minority interests		**94,913**	85,622	**–**
Total equity		**7,636,317**	2,407,576	**6,389,908**

Balance Sheets

	Note	Consolidated 30 June 2006 RMB'000	Consolidated 30 June 2005 RMB'000	Company 30 June 2006 RMB'000
LIABILITIES				
Non-current liabilities				
Other payables	16	**27,809**	15,248	**–**
Borrowings	17	**2,743,901**	3,817,280	**–**
Deferred income tax liabilities	18	**226,808**	169,747	**–**
		2,998,518	4,002,275	**–**
Current liabilities				
Trade and other payables	16	**1,987,398**	2,814,502	**23,875**
Current income tax liabilities		**67,440**	44,441	**–**
Dividend payable		**6,050**	–	**–**
Borrowings	17	**2,176,875**	2,431,571	**–**
		4,237,763	5,290,514	**23,875**
Total liabilities		**7,236,281**	9,292,789	**23,875**
Total equity and liabilities		**14,872,598**	11,700,365	**6,413,783**
Net current assets/(liabilities)		**1,270,530**	(1,984,365)	**4,003,208**
Total assets less current liabilities		**10,634,835**	6,409,851	**6,389,908**

Ms. Cheung Yan
Chairman

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 87 to 125 are an integral part of these financial statements.

Consolidated Income Statement

		For the year ended 30 June	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Sales	*5*	**7,902,156**	4,825,373
Cost of goods sold	*20*	**(6,041,282)**	(4,064,869)
Gross profit		**1,860,874**	760,504
Other gains – net	*19*	**356,982**	24,122
Selling and marketing costs	*20*	**(172,756)**	(91,466)
Administrative expenses	*20*	**(233,897)**	(135,020)
Operating profit		**1,811,203**	558,140
Finance costs	*22*	**(294,793)**	(179,814)
Profit before income tax		**1,516,410**	378,326
Income tax expense	*23*	**(116,286)**	(60,418)
Profit for the year		**1,400,124**	317,908
Profit attributable to:			
Equity holders of the Company		**1,374,782**	303,759
Minority interests		**25,342**	14,149
		1,400,124	317,908
Earnings per share for profit attributable to equity holders of the Company during the year			
(expressed in RMB per share)			
– basic	25	**0.4072**	0.1013
– diluted	25	**0.4043**	0.1013
Dividend	26	**95,450**	–

The notes on pages 87 to 125 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Share capital *RMB'000* *(note 14)*	Other reserves *RMB'000* *(note 15)*	Retained earnings *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
Balance at 1 July 2004	312,000	(158,052)	895,138	80,250	1,129,336
Profit for the year	–	–	303,759	14,149	317,908
Dividend paid to a minority shareholder	–	–	–	(9,000)	(9,000)
Transfer	–	17,273	(17,273)	–	–
Capitalisation of advances from then shareholders	–	253,797	–	–	253,797
Acquisition of subsidiaries	–	717,666	–	223	717,889
Currency translation differences	–	(2,354)	–	–	(2,354)
Balance at 30 June 2005	312,000	828,330	1,181,624	85,622	2,407,576
Balance at 1 July 2005	312,000	828,330	1,181,624	85,622	2,407,576
Profit for the year	–	–	1,374,782	25,342	1,400,124
Dividend paid to a minority shareholder	–	–	–	(16,051)	(16,051)
Transfer	–	58,299	(58,299)	–	–
Issue of shares in connection with the Listing	4,051,151	–	–	–	4,051,151
Placing and listing expenses	(221,860)	–	–	–	(221,860)
Share options granted to directors and employees	–	16,797	–	–	16,797
Currency translation differences	–	(1,420)	–	–	(1,420)
Balance at 30 June 2006	4,141,291	902,006	2,498,107	94,913	7,636,317

The notes on pages 87 to 125 are an integral part of these financial statements.

Consolidated Cash Flow Statement

		For the year ended 30 June	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*27*	**1,437,707**	1,338,841
Income tax paid		**(24,706)**	(8,550)
Interest paid		**(345,899)**	(267,308)
Net cash generated from operating activities		**1,067,102**	1,062,983
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	128,914
Purchase of property, plant and equipment		**(1,528,772)**	(1,737,666)
Payment for acquisition of land use rights		**(100,483)**	(17,218)
Proceeds from sale of property, plant and equipment	*27*	**1,293**	482
Proceeds from disposals of land use rights		**24,505**	–
Cash advances made to directors	*30*	**(2,191)**	(38,492)
Cash advances made to related parties	*30*	**–**	(10,305)
Cash advances made to then shareholders	*30*	**–**	(70)
Cash receipts from repayments of cash advances from directors	*30*	**500**	79,200
Cash receipts from repayments of cash advances from related parties	*30*	**10,713**	–
Cash receipts from then shareholders	*30*	**–**	48,810
Interest received		**140,347**	8,988
Net cash used in investing activities		**(1,454,088)**	(1,537,357)

Consolidated Cash Flow Statement

		For the year ended 30 June	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from issue of shares		**4,051,151**	–
Placing and listing expenses		**(221,860)**	–
Cash advances repaid to directors	*30*	**–**	(113,614)
Cash advances from related parties	*30*	**–**	21,063
Cash advances repaid to related parties	*30*	**(1,063)**	(20,000)
Cash advances repaid to then shareholders	*30*	**–**	(1,910)
New loans payable		**6,165,573**	2,724,603
Repayments of borrowings		**(7,477,303)**	(1,919,708)
Government grants received		**49,459**	–
Dividend paid to a minority shareholder		**(10,001)**	(9,000)
Net cash generated from financing activities		**2,555,956**	681,434
Net increase in bank and cash balances		**2,168,970**	207,060
Bank and cash balances at beginning of the year		**651,587**	446,890
Exchange losses on bank and cash balances		**(3,897)**	(2,363)
Bank and cash balances at end of the year	*13*	**2,816,660**	651,587

The notes on pages 87 to 125 are an integral part of these financial statements.

Notes to the Financial Statements

1. General information and group reorganisation

(a) 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 address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) In anticipation of listing of the Company on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company and its subsidiaries (the "Group") has undertaken a group reorganisation (the "Reorganisation"). The Company became the holding company of the Group as result of the Reorganisation that principally comprised the acquisition of Zhang's Enterprises Company Limited ("Zhang's"), which holds directly or indirectly, the entire share capital of Dongguan Nine Dragons Paper Industries Company Limited ("Dongguan Nine Dragons"), Nine Dragons Paper Industries (Taicang) Company Limited ("Taicang Nine Dragons"), Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon") and Sea Dragon Paper Industries (Taicang) Company Limited ("Taicang Sea Dragon"). The Reorganisation became effective on 30 December 2005. Details of the Reorganisation are set out in the prospectus of the Company dated 20 February 2006.

(c) The Company's shares were listed on the Stock Exchange on 3 March 2006 (the "Listing").

(d) No balance sheet of the Company as at 30 June 2005 is presented in the financial statements as the Company was not yet incorporated on that date.

(e) These financial statements have been approved for issue by the Board of Directors on 20 September 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements is set out below. These policies have been consistently applied during the years ended 30 June 2006 and 30 June 2005.

2.1 Basis of preparation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the subsidiaries comprising the Group throughout the year ended 30 June 2006, rather than from the date on which the Reorganisation was completed. The comparative figures as at 30 June 2005 and for the year ended 30 June 2005 have been presented on the same basis.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the "HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the "HKASs") and interpretations (the "HKFRS-int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. They have been prepared under the historical cost convention.

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

2.1 Basis of preparation *(continued)*

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. These new and revised HKFRSs have been adopted for the years ended 30 June 2006 and 30 June 2005.

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

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2006 or later periods are as follows:

HKAS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-Int 3	Emission Rights[2]
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease[2]
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKFRS 29[4]
HK(IFRIC)-Int 8	Scope of HKFRS 2[5]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[6]

1: Effective for accounting periods commencing on or after 1 January 2007
2: Effective for accounting periods commencing on or after 1 January 2006
3: Effective for accounting periods commencing on or after 1 December 2005
4: Effective for accounting periods commencing on or after 1 March 2006
5: Effective for accounting periods commencing on or after 1 May 2006
6: Effective for accounting periods commencing on or after 1 June 2006

These new standards, amendments and interpretations to existing standards are either not relevant to the Group's operation or, if relevant, have not been early adopted by the Group, and management is currently assessing the impact of application of these new standards, amendments and interpretations that will have on the Group's financial statements in the period of initial application.

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

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2006.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditures are primarily attributable to the manufacture and sales of paper. The Group's principal market is the People's Republic of China (the "PRC") and its sales to overseas customers contributed less than 10% of the revenues, results and total assets of the Group. Accordingly, no geographical segment is presented.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

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

2.5 Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Construction in progress

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

2.7 Land use rights

Land use rights in the balance sheet represent up-front prepayment made for operation leases for land use rights paid and payable to the government authorities in the PRC. Land use rights are carried at cost and are charged to the income statement on a straight-line basis over the respective periods of the rights which range from 10 years to 50 years.

2.8 Intangible asset

Goodwill

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

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

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

2.9 Impairment of non-financial assets

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

2.10 Inventories

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

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Share capital

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

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the Financial Statements

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

2.14 Borrowings *(continued)*

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

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognised as an expense in the period in which they are incurred.

2.15 Deferred income tax

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

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

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

2.16 Employee benefits

(a) Pension obligations

The Group participates in a number of defined contribution plans in Hong Kong and the PRC, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies. The Group pays contributions to the pension plans on a mandatory, contractual or voluntary basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

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

2.16 Employee benefits *(continued)*

(b) Employee leave entitlements

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

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

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.17 Provisions

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

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

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

Notes to the Financial Statements

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

2.18 Revenue recognition

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

(a) Sales of goods and scrap materials

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

(b) Sales of transportation services

Sales of transportation services are recognised in the accounting period in which the services are rendered.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Sales of electricity

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

2.19 Leases (as the lessee)

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

2.20 Government grants

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

Government grants relating to the purchase of property, plant and equipment are deducted from the cost of additions of the related assets and are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Foreign exchange risk

The sales transactions of the Group are denominated in United States dollars ("USD"), Hong Kong dollars ("HK$") and RMB. There are purchases of inventories and acquisition of plant and equipment that required to be settled in USD, HK$, Euro dollars, Great Britain Pound and Japanese Yen. The Group is therefore exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

(b) Fair value and cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At as 30 June 2006, RMB2,491,381,000 (2005: RMB6,199,177,000) of borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(c) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, trade and other receivables except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(d) Liquidity risk

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

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less impairment provision for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Financial Statements

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.8. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (note 8).

Management believes that reasonably possible change in key assumptions on which recoverable amount of CGUs is based would not cause a reduction in carrying value of goodwill as at 30 June 2006.

(b) Useful lives of plant and machinery

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

Were the actual useful lives of the paper manufacturing plant and machinery to differ by 10% from management's estimate, the carrying amount of the plant and machinery as at 30 June 2006 would be an estimated RMB57,297,000 (2005: RMB35,447,000) higher or RMB70,029,000 (2005: RMB43,324,000) lower.

(c) Valuation of share options

The fair value of options granted under Pre-IPO Share Option Scheme determined using the Binomial valuation model. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, trigger price multiple and employees turnover rate. Were the actual results of the inputs differ from management's estimate, it will cause change in share options expense and related share options reserve of the Group.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

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

(e) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management will reassess the provision at the balance sheet date.

5. **Sales**

The Group is principally engaged in the manufacture and sales of paper. As the products and services provided by the Group's entities are all related to the manufacture and sales of paper and subject to similar business risks, no segment information have been prepared by the Group.

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Sales of paper	**7,675,351**	4,674,588
Sales of pulp paper	**226,805**	150,785
	7,902,156	4,825,373

Notes to the Financial Statements

6. Property, plant and equipment – Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2004						
Cost	658,181	1,743,936	41,611	85,819	653,930	3,183,477
Accumulated depreciation	(84,175)	(201,168)	(9,877)	(23,325)	–	(318,545)
Net book amount	574,006	1,542,768	31,734	62,494	653,930	2,864,932
Year ended 30 June 2005						
Opening net book amount	574,006	1,542,768	31,734	62,494	653,930	2,864,932
Additions	1,180	858	3,925	8,347	1,996,265	2,010,575
Transfer	263,855	1,159,458	6,346	24,340	(1,453,999)	–
Acquisition of subsidiaries	313,401	2,081,124	16,574	34,682	496,411	2,942,192
Disposals *(note 27)*	–	(5,569)	(64)	(1,724)	–	(7,357)
Depreciation *(note 20)*	(39,564)	(110,864)	(5,680)	(14,274)	–	(170,382)
Closing net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
At 30 June 2005						
Cost	1,248,579	5,051,398	70,030	153,423	1,692,607	8,216,037
Accumulated depreciation	(135,701)	(383,623)	(17,195)	(39,558)	–	(576,077)
Net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
Year ended 30 June 2006						
Opening net book amount	**1,112,878**	**4,667,775**	**52,835**	**113,865**	**1,692,607**	**7,639,960**
Additions	**1,023**	**168,350**	**25,594**	**32,885**	**1,106,418**	**1,334,270**
Transfer	**426,722**	**1,602,107**	**4,029**	**–**	**(2,032,858)**	**–**
Disposals *(note 27)*	**(430)**	**(14,872)**	**(126)**	**(1,382)**	**–**	**(16,810)**
Depreciation *(note 20)*	**(62,329)**	**(240,345)**	**(10,184)**	**(19,076)**	**–**	**(331,934)**
Closing net book amount	**1,477,864**	**6,183,015**	**72,148**	**126,292**	**766,167**	**8,625,486**
At 30 June 2006						
Cost	**1,672,971**	**6,798,578**	**99,001**	**181,225**	**766,167**	**9,517,942**
Accumulated depreciation	**(195,107)**	**(615,563)**	**(26,853)**	**(54,933)**	**–**	**(892,456)**
Net book amount	**1,477,864**	**6,183,015**	**72,148**	**126,292**	**766,167**	**8,625,486**

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

Certain property, plant and equipment of the Group with carrying values of approximately RMB2,157,234,000 as at 30 June 2006 (2005: RMB2,568,993,000) had been pledged for bank borrowings of the Group (note 17).

As at 30 June 2006, the Group has constructed certain buildings at cost of RMB21,650,000 (2005: Nil) and relevant government grants in form of cash has been received and deducted from the cost of additions to buildings above (note 16).

During the year, the Group has received enterprise income tax credit of RMB11,520,000 (2005: Nil) relating to the purchase of qualified equipment manufactured in the PRC. The amount of credit has been deducted from the cost of additions of the plant and equipment (note 27).

Depreciation was expensed in the following category in the consolidated income statement:

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Cost of goods sold	**277,283**	148,009
Other gains – net	**16,918**	–
Administrative expenses	**28,678**	17,763
Selling and marketing costs	**8,450**	1,620
Total depreciation expense *(note 20)*	**331,329**	167,392

7. Land use rights – Group

The Group's interests in land use rights represent net book value of prepaid operating lease payments for land use rights held outside Hong Kong on leases of between 10 years to 50 years.

The net book value of prepaid operating payments for land use rights are analysed as follows:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Opening	**607,562**	159,005
Additions	**79,562**	55,582
Acquisition of subsidiaries	**–**	397,632
Amortisation of prepaid operating lease payments *(note 20)*	**(21,324)**	(4,657)
Disposals	**(73,675)**	–
	592,125	607,562

Bank borrowings are secured on land for the carrying amount of RMB151,520,000 as at 30 June 2006 (2005: RMB228,098,000) (note 17).

8. Intangible asset – Group

Intangible asset as at 30 June 2006 represents goodwill, being the excess of the fair value of the shares of Zhang's issued in consideration of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 1 January 2005.

The fair value of the shares of Zhang's and the fair value of the net identifiable assets of the acquired subsidiaries are based on the business valuation carried out by Vigers Appraisal & Consulting Limited, the independent valuers, on 1 January 2005. Accordingly, the goodwill is attributed to the expected high profitability of the acquired subsidiaries and significant synergies expected to arise after the acquisitions.

The directors do not consider that a provision for impairment in the carrying amount of the goodwill as at 30 June 2006 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited as at 30 June 2006.

Goodwill is allocated to the Group's CGUs identified according to separate operating units.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated rate of return on equity stated below.

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

– Gross margin	15.2%
– Rate of return on equity	10.6%
– Discount rate	12.1%

Gross margin is determined based on past performance and expectations for the market development. Rate of return on equity is by reference to the rate for the industry in which the CGU operates. The discount rate used is after-tax and reflect specific risk relating to the industry.

9. Investments in subsidiaries – Company

Amount represents investments in unlisted shares which are stated at cost.

The following is a list of the principal subsidiaries as at 30 June 2006:

Company	Place of incorporation and kind of legal entity	Principal activities/place of operation	Issued and fully paid share capital/ paid-in capital	Interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI")/limited liability company	Investment holdings/PRC	US$50,000	100%
Indirectly held:				
Zhang's	Hong Kong/limited liability company	Investment holdings/ Hong Kong	HK$1,220,064	100%
Nine Dragons Paper Industries Co., Ltd.	BVI/limited liability company	Investment holdings/PRC	US$50,000	100%
Millennium Scope Limited	BVI/limited liability company	Investment holdings/PRC	US$50,000	100%
River Dragon Paper Industries Co., Ltd.	BVI/limited liability company	Investment holdings/PRC	US$50,000	100%
Emperor Dragon Paper Industries Co., Ltd.	BVI/limited liability company	Investment holdings/PRC	US$100	100%
Dongguan Nine Dragons	PRC/wholly foreign ownd enterprise	Manufacture of paper/PRC	US$213,368,000	100%
Taicang Nine Dragons	PRC/wholly foreign ownd enterprise	Manufacture of paper/PRC	US$169,570,000	100%
Dongguan Sea Dragon	PRC/Sino-foreign equity joint venture enterprise	Manufacture of paper/PRC	US$100,300,000	100%
Taicang Sea Dragon	PRC/wholly foreign ownd enterprise	Manufacture of paper/PRC	US$11,200,000	100%
Dongguan Land Dragon Paper Industries Company Limited ("Dongguan Land Dragon")	PRC/Sino-foreign equity joint venture enterprise	Manufacture of paper/PRC	US$8,410,000	100%

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

Company	Place of incorporation and kind of legal entity	Principal activities/place of operation	Issued and fully paid share capital/ paid-in capital	Interest held
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An")	PRC/Sino-foreign equity joint venture enterprise	Manufacture of pulp and paper/PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited ("Dongguan Transportation")	PRC/limited liability company	Provision for transportation services/PRC	RMB5,000,000	90%
Taicang Nine Dragons Transportation Company Limited ("Taicang Transportation")	PRC/limited liability company	Provision for transportation services/PRC	RMB2,000,000	90%
Taicang Nine Dragons Coal and Charcoal Trading Company Limited ("Taicang Coal and Charcoal")	PRC/limited liability company	Wholesales of coal and charcoal	RMB5,000,000	100%

10. Inventories – Group

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
At cost:		
Raw materials	**661,582**	669,312
Finished goods	**270,449**	328,862
	932,031	998,174

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB6,041,282,000 (2005: RMB4,064,869,000).

No inventories of the Group as at 30 June 2006 had been pledged for bank borrowings of the Group (2005: RMB150,000,000) (note 17).

11. Trade and other receivables

	Group		Company
	30 June 2006	30 June 2005	**30 June 2006**
	RMB'000	*RMB'000*	***RMB'000***
Trade receivables due from:			
– third parties	**945,260**	564,079	**–**
– related parties *(note 30)*	**7,358**	19,381	**–**
	952,618	583,460	**–**
Bills receivable	**359,760**	179,883	**–**
Prepayments	**146,555**	144,265	**–**
Amounts due from subsidiaries	**–**	–	**2,685,445**
Amounts due from directors *(note a and note 30)*	**2,191**	500	**–**
Amounts due from related parties *(note a and note 30)*	**55**	10,768	**–**
Other receivables	**97,833**	78,133	**1,438**
	1,559,012	997,009	**2,686,883**

As at 30 June 2006, the fair value of trade and other receivables approximate their carrying amounts.

(a) The amounts due are unsecured, interest free and repayable on demand.

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

As at 30 June 2006, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
0 – 30 days	**704,567**	372,896
31 – 60 days	**189,776**	137,342
61 – 90 days	**44,260**	39,460
Over 90 days	**14,015**	33,762
	952,618	583,460

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.

Notes to the Financial Statements

12. Restricted cash – Group

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Pledged as securities for bank borrowings *(note a)*	**–**	16,600
Pledged as securities for banking facilities *(note b)*	**200,590**	642,779
	200,590	659,379

(a) Restricted cash as at 30 June 2005 earns interest at a fixed rate of 2.75% per annum.

(b) Restricted cash earns interest at floating rates ranging from 0.72% to 2.07% per annum.

13. Bank and cash balances

	Group		**Company**
	30 June 2006	30 June 2005	**30 June 2006**
	RMB'000	*RMB'000*	***RMB'000***
Cash at bank and in hand	**582,832**	647,742	**77,183**
Time deposit	**2,233,828**	3,845	**1,263,017**
	2,816,660	651,587	**1,340,200**

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

Cash at banks earns interest at floating rates based on daily bank deposit rates short term deposits are made for varying period of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short deposit rates.

14. Share capital

Movements were:

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised						
Ordinary shares of HK$1.00 each upon incorporation	*(a)*	100,000	100	104	–	104
Sub-division of issued shares	*(b)*	900,000	–	–	–	–
		1,000,000	100	104	–	104
Increase in authorised share capital of HK$0.1 each	*(c)*	7,999,000,000	799,900	831,896	–	831,896
Ordinary shares of HK$0.10 each		8,000,000,000	800,000	832,000	–	832,000
Issued and fully paid						
Ordinary shares of HK$1.00 each issued nil paid	*(a)*	100,000	100	104	–	104
Sub-division of issued shares	*(b)*	900,000	–	–	–	–
On acquisition of NDP (BVI):						
– shares issued to Best Result Holdings Limited ("Best Result"), credited as fully paid of HK$0.10 each	*(d)*	2,985,800,000	298,580	310,523	–	310,523
– shares issued to Max Dragon Profits Limited ("Max Dragon"), credited as fully paid of HK$0.10 each	*(d)*	13,200,000	1,320	1,373	–	1,373
– nil-paid shares transferred to Best Result, credited as fully paid of HK$0.10 each	*(d)*	–	–	–	–	–
At 30 June 2005		3,000,000,000	300,000	312,000	–	312,000
Issue of shares in connection with the Company's Listing	*(e)*	1,150,000,000	115,000	119,152	3,931,999	4,051,151
Placing and Listing expenses		–	–	–	(221,860)	(221,860)
At 30 June 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291

Notes to the Financial Statements

14. Share capital *(continued)*

(a) At the date of incorporation, the Company's authorised share capital was HK$100,000 divided into 100,000 shares of HK$1.00 each. On 27 September 2005, 100,000 nil-paid shares of HK$1.00 each were issued to Ms. Cheung Yan ("Ms. Cheung").

(b) On 30 December 2005, every share of HK$1.00 in the Company was sub-divided into 10 shares of HK$0.10 each.

(c) On 30 December 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$800,000,000 by the creation of additional 7,999,000,000 shares of HK$0.10 each.

(d) On 30 December 2005, the Company issued 2,985,800,000 shares to Best Result, credited as fully paid, and 13,200,000 shares to Max Dragon, credited as fully paid, and credited as fully paid the 1,000,000 nil-paid shares held by Best Result in consideration for the transfer of the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu Ming Chung ("Mr. Liu"), Mr. Zhang Cheng Fei ("Mr. Zhang") and Ms. Chang Siu Hon to the Company.

(e) On 3 March 2006, the Company issued 1,000,000,000 ordinary shares of HK$0.1 each at HK$3.4 per share as public and international offers in connection with the Listing, and raised gross proceeds of approximately HK$3,400,000,000. Besides, on 8 March 2006, pursuant to the exercise of the over-allotment option, additional 150,000,000 shares of HK$0.1 each were issued at HK$3.4 per share and raised gross proceeds of HK$510,000,000.

15. Other reserves

Group

	Contributed surplus *RMB'000* *(note a)*	Capital reserve *RMB'000*	Share options reserve *RMB'000* *(note d)*	Statutory reserve and enterprise expansion fund *RMB'000* *(note b)*	Translation *RMB'000*	Total *RMB'000*
As at 1 July 2004	(310,921)	98,980	–	50,115	3,774	(158,052)
Transfer from net profit	–	–	–	17,273	–	17,273
Currency translation differences	–	–	–	–	(2,354)	(2,354)
Capitalisation of advances from then shareholders	253,797	–	–	–	–	253,797
Acquisition of subsidiaries	717,666	–	–	–	–	717,666
As at 30 June 2005	660,542	98,980	–	67,388	1,420	828,330
Transfer from net profit	–	–	–	58,299	–	58,299
Share options granted to directors and employees	–	–	16,797	–	–	16,797
Currency translation differences	–	–	–	–	(1,420)	(1,420)
As at 30 June 2006	660,542	98,980	16,797	125,687	–	902,006

15. Other reserves *(continued)*

Company

	Contributed surplus RMB'000 (note c)	Share options reserve RMB'000 (note d)	Total RMB'000
As at 30 June 2006	**2,074,700**	**16,797**	**2,091,497**

(a) Contributed surplus of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the Reorganisation (note 1) over the nominal value of the share capital of the Company issued in exchange therefore.

(b) Statutory reserve and enterprise expansion fund

In accordance with relevant rules and regulations in the PRC, except for ND Xing An, Dongguan Sea Dragon and Dongguan Land Dragon, all the PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used upon approval by the relevant authority, to make good of previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of respective companies or to expand their production operations upon approval by the relevant authority.

In accordance with relevant rules and regulations in the PRC applied on ND Xing An, Dongguan Sea Dragon and Dongguan Land Dragon, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by their respective board of directors.

(c) Contributed surplus of the Company represents the difference between the costs of investments in NDP (BVI) acquired pursuant to the Reorganisation (note 1) over the nominal value of the share capital of the Company issued in exchange therefore.

(d) A summary of the share option schemes and details of the movement in share options of the Company during the year are set out on pages 49 to 52.

Notes to the Financial Statements

16. Trade and other payables

	Group		Company
	30 June 2006	30 June 2005	**30 June 2006**
	RMB'000	*RMB'000*	***RMB'000***
Trade payables due to:			
– third parties	**474,279**	596,960	**–**
– related parties *(note 30)*	**617,558**	847,770	**–**
	1,091,837	1,444,730	**–**
Bills payable, secured	**425,000**	723,066	**–**
Deposits from customers	**64,281**	41,082	**–**
Amount due to a related party *(note a and note 30)*	**–**	1,063	**–**
Other payables	**378,599**	565,158	**23,875**
Staff welfare benefit payable	**32,953**	25,324	**–**
Accrued expenses	**22,537**	29,327	**–**
	2,015,207	2,829,750	**23,875**
Less: other payables included in non-current liabilities			
Leases payable for land use rights	**–**	(15,248)	**–**
Deferred government grants *(note b)*	**(27,809)**	–	**–**
	(27,809)	(15,248)	**–**
	1,987,398	2,814,502	**23,875**

(a) The amounts due are unsecured, interest free and repayable upon demand.

(b) The Group has received grants amounted to RMB49,459,000 from the government authority as assistance to the Group for purchases, construction or otherwise acquisitions of plant and buildings. As at 30 June 2006, the Group has utilised an amount of RMB21,650,000 to acquired certain buildings (note 6).

16. Trade and other payables *(continued)*

The ageing analysis of trade payables as at 30 June 2006 is as follows:

	Group	
	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
0 – 90 days	**1,048,913**	1,304,087
91 – 180 days	**23,386**	44,683
181 – 365 days	**17,949**	92,310
Over 365 days	**1,589**	3,650
	1,091,837	1,444,730

17. Borrowings – Group

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Non-current	**2,743,901**	3,817,280
Current		
– Short-term bank borrowings	**1,737,040**	1,767,563
– Current portion of long-term bank borrowings	**439,835**	664,008
	2,176,875	2,431,571
Total borrowings	**4,920,776**	6,248,851

As at 30 June 2006, borrowings of RMB1,046,901,000 (2005: RMB3,565,530,000) are secured by assets of the Group and guarantees given by related parties, which are detailed as follows:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Borrowings secured by assets of the Group only *(note a)*	**420,901**	1,400,966
Borrowings secured by guarantees given by related parties *(note 30)*	**–**	1,304,300
Borrowings secured by both assets of the Group and guarantees given by related parties *(note a and note 30)*	**626,000**	860,264
	1,046,901	3,565,530

(a) Details of the Group's assets pledged as securities for borrowings are disclosed in notes 6, 7, 10 and 12.

17. Borrowings – Group *(continued)*

The maturity of the borrowings is as follows:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Within 1 year	**2,176,875**	2,431,571
Between 1 and 2 years	**1,537,000**	1,195,835
Between 2 and 5 years	**1,016,901**	2,256,445
Wholly repayable within 5 years	**4,730,776**	5,883,851
Over 5 years	**190,000**	365,000
	4,920,776	6,248,851

The effective interest rates as at 30 June 2006 are as follows:

	30 June 2006	30 June 2005
Long-term bank borrowings	**5.665%**	5.524%
Short-term bank borrowings	**5.453%**	5.242%

The carrying amounts of short-term bank borrowings and long-term bank borrowings approximate their fair value.

The carrying amounts of all the Group's borrowings as at 30 June 2006 are denominated in the following currencies:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
RMB	**2,771,318**	5,191,055
USD	**502,418**	1,057,796
HK$	**1,647,040**	–
	4,920,776	6,248,851

The Group has the following undrawn borrowing facilities:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Floating rate:		
– expiring within one year	**4,376,497**	301,979
– expiring beyond one year	**1,066,898**	629,005
	5,443,395	930,984

18. Deferred income tax – Group

	30 June 2006 *RMB'000*	30 June 2005 *RMB'000*
Deferred income tax liabilities to be recovered after more than 12 months	**226,808**	169,747

The gross movement on the deferred income tax account is as follows:

	30 June 2006 *RMB'000*	30 June 2005 *RMB'000*
Beginning of the year	**169,747**	103,716
Acquisition of subsidiaries	**–**	28,548
Recognised in the consolidated income statement	**57,061**	37,483
End of the year	**226,808**	169,747

Deferred income tax liabilities

	Accelerated tax depreciation *RMB'000*
At 30 June 2004	103,716
Charged to the consolidated income statement	37,483
Acquisition of subsidiaries	28,548
At 30 June 2005	169,747
Charged to the consolidated income statement	**57,061**
At 30 June 2006	**226,808**

Deferred income tax liabilities arose as a result of differences on depreciation periods of plant and machinery between tax bases and accounting bases. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheet and its tax bases in accordance with HKAS 12.

19. Other gains – net

	For the year ended 30 June	
	2006 *RMB'000*	2005 *RMB'000*
Sales of scrap materials	**23,450**	10,378
Sales of electricity	**150,118**	3,650
Tax refund of re-investment	**10,064**	–
Interest income	**140,347**	8,988
Net foreign exchange gains	**33,222**	–
Transportation	**(219)**	1,106
	356,982	24,122

Notes to the Financial Statements

20. Expenses by nature

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

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Depreciation of fixed assets *(note 6)*	**331,934**	170,382
Add: amount absorbed in opening inventories	**11,302**	8,312
Less: amount absorbed in closing inventories	**(11,907)**	(11,302)
	331,329	167,392
Employee benefit expense *(note 21)*	**337,155**	205,331
Changes in finished goods	**(58,413)**	89,724
Raw materials and consumables used	**5,451,520**	3,669,129
Transportation	**45,212**	29,177
Operating leases		
– Land use rights *(note 7)*	**21,324**	4,657
– Buildings	**883**	252
Auditors' remuneration	**3,903**	177

21. Employee benefit expense

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	**306,052**	193,202
Share options granted to directors and employees *(note 15d)*	**16,797**	–
Pension costs – defined contribution plans *(note a)*	**8,648**	6,932
Staff welfare	**–**	2,857
Medical benefits	**3,165**	963
Other allowances and benefits	**2,493**	1,377
	337,155	205,331

(a) Pensions – defined contribution plans

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

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Gross scheme contributions	**8,648**	6,932

21. Employee benefit expense *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 30 June 2006 is set out below:

Name of Director	Fees	Salary	Share options	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ms. Cheung	**1,188**	**–**	**2,892**	**–**	**4,080**
Mr. Liu	**2,026**	**–**	**2,891**	**–**	**4,917**
Mr. Zhang	**1,958**	**–**	**2,019**	**–**	**3,977**
Mr. Wang Hai Ying (*)	**162**	**–**	**–**	**–**	**162**
Mr. Lau Chun Shun (*)	**–**	**–**	**–**	**–**	**–**
Ms. Tam Wai Chu, Maria (*)	**412**	**–**	**199**	**–**	**611**
Mr. Chung Shui Ming, Timpson (*)	**412**	**–**	**199**	**–**	**611**
Dr. Cheng Chi Pang (*)	**412**	**–**	**199**	**–**	**611**
Mr. Wang Hong Bo (*)	**80**	**–**	**–**	**–**	**80**
	6,650	**–**	**8,399**	**–**	**15,049**

The remuneration of every Director for the year ended 30 June 2005 is set out below:

Name of Director	Fees	Salary	Share options	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ms. Cheung	–	–	–	–	–
Mr. Liu	–	42	–	–	42
Mr. Zhang	–	44	–	–	44
	–	86	–	–	86

No director received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or has agreed to waive any emoluments during the year ended 30 June 2006.

* Mr. Wang Hai Ying is an executive director, Mr. Lau Chun Shun is a non-executive director, and Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo are independent non-executive directors of the Company. No emoluments were paid to them during the year ended 30 June 2005.

21. Employee benefit expense *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2006 include three (2005: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: five) individuals during the year are as follows:

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Pension costs	**18**	24
Salaries, share options, other allowances and benefits in kind	**4,306**	1,674
	4,324	1,698

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Nil to RMB1,000,000	**–**	5
RMB1,500,001 to RMB2,000,000	**1**	–
RMB2,000,001 to RMB2,500,000	**1**	–

No five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No such individual waived or has agreed to waive any emoluments during the year ended 30 June 2006.

Notes to the Financial Statements

22. Finance costs

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank borrowings		
– wholly repayable within five years	**293,714**	200,864
– not wholly repayable within five years	**10,944**	15,211
	304,658	216,075
Less: interest capitalised	**(31,880)**	(66,674)
	272,778	149,401
Bills discount charge	**33,647**	26,696
Other incidental borrowing cost	**4,713**	3,708
Exchange (gains)/losses on borrowings	**(16,345)**	9
	294,793	179,814

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 5.366% for the year ended 30 June 2006 (2005: 5.424%).

23. Income tax expense

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Current tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**59,225**	22,935
Deferred income tax	**57,061**	37,483
	116,286	60,418

Notes to the Financial Statements

23. Income tax expense *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies as follows:

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**1,516,410**	378,326
Tax calculated at tax rates applicable to respective companies within the Group	**393,603**	106,739
Effect of tax holidays	**(283,591)**	(46,281)
Add: Tax losses for which no deferred income tax asset was recognised	**6,274**	343
Less: Utilisation of previously unrecognised tax losses	**–**	(383)
Income tax expense	**116,286**	60,418

Hong Kong profits tax has not been provided as Zhang's did not have any assessable profits for the year ended 30 June 2006 (2005: Nil).

PRC enterprise income tax is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purpose.

Dongguan Nine Dragons is qualified as "Advanced Technology Enterprise" by the local government and accounts for its provision for current income tax in its PRC statutory accounts at the rate applicable for the "Advanced Technology Enterprise". In accordance with the relevant PRC tax laws, enterprise qualified as "Advanced Technology Enterprise" in those advanced technological industry development zones approved by the central government is subject to enterprise income tax of 15% and local income tax of 3%. Foreign investment production enterprise established in coastal economic development zone is subject to enterprise income tax of 24% and local income tax of 3%. As at 30 June 2006, a provision has been made in the financial statements to account for the difference between the income tax rate applicable for "Advanced Technology Enterprise" and the income tax rate applicable for foreign investment production enterprise established in coastal economic development zone.

Under PRC income tax law, Dongguan Sea Dragon, Dongguan Land Dragon, Taicang Nine Dragons and Taicang Sea Dragon are qualified as foreign investment production enterprise and are established in coastal economic development zone. Accordingly, they are subject to enterprise income tax of 24% and local income tax of 3%.

Dongguan Transportation, Taicang Transportation and Taicang Coal and Charcoal are domestic enterprises. Accordingly, they are subject to enterprise income tax of 33%.

ND Xing An is established in a place where enterprises are subject to enterprise income tax of 30% and local income tax of 3%.

23. Income tax expense *(continued)*

In accordance with the relevant applicable tax regulations, Dongguan Nine Dragons, Dongguan Sea Dragon, Dongguan Land Dragon, Taicang Nine Dragons, Taicang Sea Dragon and ND Xing An are entitled to full exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income tax for Dongguan Nine Dragons, Dongguan Sea Dragon, Dongguan Land Dragon, Taicang Nine Dragons and Taicang Sea Dragon are exempted during the tax holiday periods. Dongguan Nine Dragons was started to derive taxable income in the PRC financial year ended 31 December 2001. ND Xing An was started to derive taxable income in the PRC financial year ended 31 December 2004. Taicang Nine Dragons was started to derive taxable income in the PRC financial year ended 31 December 2005.

Taicang Transportation is engaged in the provision of transportation services. As approved by the municipal tax authority in Taicang, Taicang Transportation is entitled to full exemption from enterprise income tax for the first year since the date of incorporation on 8 January 2004 and 50% reduction in enterprise income tax for a next year.

24. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB157,120,000.

25. 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 year. In determining the weighted average number of ordinary shares in issue, a total of 3,000,000,000 ordinary shares were deemed to be in issue since 1 July 2004 as detailed in note 2.1.

	For the year ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	**1,374,782**	303,759
Weighted average number of ordinary shares in issue *(shares in thousands)*	**3,376,027**	3,000,000
Basic earnings per share *(RMB per share)*	**0.4072**	0.1013

Notes to the Financial Statements

25. Earnings per share *(continued)*

Diluted

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

	For the year ended 30 June 2006
Profit attributable to equity holders of the Company *(RMB'000)*	**1,374,782**
Weighted average number of ordinary shares in issue *(shares in thousands)*	**3,376,027**
Adjustments for share options *(shares in thousands)*	**23,980**
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**3,400,007**
Diluted earnings per share *(RMB per share)*	**0.4043**

During the year ended 30 June 2005, there were no potential dilutive ordinary shares outstanding.

26. Dividend

At a meeting held on 20 September 2006, the directors declared a final dividend of RMB0.023 (equivalent to approximately HK$0.0226) per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 30 June 2007.

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.023 (equivalent to approximately HK$0.0226) (2005: Nil) per ordinary share	**95,450**	–

27. Cash generated from operations

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Profit for the year	**1,400,124**	317,908
Adjustments for		
Income tax expense *(note 23)*	**116,286**	60,418
Depreciation *(note 20)*	**331,329**	167,392
Amortisation *(note 7)*	**21,324**	4,657
Share options granted to directors and employees	**16,797**	–
Loss on sale of property, plant and equipment (see below)	**15,517**	6,875
Interest income *(note 19)*	**(140,347)**	(8,988)
Finance costs *(note 22)*	**294,793**	179,814
	2,055,823	728,076
Changes in working capital		
Inventories	**66,748**	35,627
Trade and other receivables	**(148,434)**	104,930
Trade and other payables	**(536,430)**	470,208
Cash generated from operations	**1,437,707**	1,338,841

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Net book amount *(note 6)*	**16,810**	7,357
Loss on sale of property, plant and equipment	**(15,517)**	(6,875)
Proceeds from sale of property, plant and equipment	**1,293**	482

Non-cash transactions

The principal non-cash transaction includes enterprise income tax credit amounted to RMB11,520,000 received from the PRC government for the purchase of qualified equipment as discussed in note 6.

28. Contingencies

The corporate guarantees for bank borrowings and credit facilities granted to Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging") as at 30 June 2005 of RMB62,000,000 was subsequently released during the year ended 30 June 2006 (note 30).

Notes to the Financial Statements

29. Commitments

(a) Capital commitments

Capital expenditures as at 30 June 2006 but not yet incurred are as follows:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Property, plant and equipment	**2,214,035**	595,586
Authorised but not contracted for:		
– Property, plant and equipment	**1,762,470**	490,558
	3,976,505	1,086,144

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

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

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Property, plant and equipment:		
Not later than one year	**2,386**	–
Later than one year and not later than five years	**2,574**	–
	4,960	–

30. Related party transactions

(a) Name and relationship with related parties

Name	**Relationship**
America Chung Nam Inc. ("ACN")	Beneficially owned by Ms. Cheung and Mr. Liu
Taicang Packaging	Beneficially owned by Mr. Zhang
Dongguan Sky Dragon Paper Industries Company Limited ("Dongguan Sky Dragon")	Beneficially owned by Mr. Zhang
Dongguan Sea Dragon*	Beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang before 1 January 2005
Taicang Nine Dragons*	Beneficially owned by Mr. Zhang before 1 January 2005
Taicang Sea Dragon*	Beneficially owned by Mr. Zhang before 1 January 2005

* These related parties became wholly owned subsidiaries of Zhang's effective 1 January 2005.

30. Related party transactions *(continued)*

(b) Transactions with related parties

For the year ended 30 June 2006, the Group had the following significant transactions with related parties. Sales and purchase transactions are negotiated with related parties in the normal course of business with a margin on the same basis with non-related parties:

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Sales of goods:		
Taicang Packaging	**78,043**	35,988
Taicang Nine Dragons	**–**	19,803
	78,043	55,791
Sales of raw materials:		
Dongguan Sea Dragon	**–**	554
Sales of utilities:		
Taicang Packaging	**1,352**	867
Purchase of direct materials:		
ACN		
Recovered paper	**2,591,692**	1,888,101
Kraft pulp	**–**	374,414
	2,591,692	2,262,515
Taicang Packaging		
Recovered paper	**5,296**	1,593
	2,596,988	2,264,108
Purchase of logistic services:		
ACN	**3,627**	–

(c) Key management compensation

	For the year ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**9,816**	1,698
Post-employment benefits	**–**	–
Share options	**4,842**	–
	14,658	1,698

Notes to the Financial Statements

30. Related party transactions *(continued)*

(d) Balances with related parties

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Trade balances due from:		
Related parties:		
– Taicang Packaging	**7,358**	19,381
Non-trade balances due from:		
Related parties:		
– Taicang Packaging	**55**	10,604
– Dongguan Sky Dragon	**–**	164
	55	10,768
Directors:		
– Ms.Cheung	**867**	–
– Mr. Liu	**869**	–
– Mr. Zhang	**455**	500
	2,191	500
Trade balances due to:		
Related parties:		
– ACN	**616,850**	847,240
– Taicang Packaging	**708**	530
	617,558	847,770
Non-trade balances due to:		
Related parties:		
– Taicang Packaging	**–**	1,063

30. Related party transactions *(continued)*

(e) Movements of non-trade balances with related parties

	30 June 2006 ***RMB'000***	30 June 2005 *RMB'000*
Non-trade balances due from:		
Directors:		
Beginning of the year	**500**	41,208
Cash advances	**2,191**	38,492
Cash receipts	**(500)**	(79,200)
End of the year	**2,191**	500
Related parties:		
Beginning of the year	**10,768**	463,044
Cash advances	**–**	10,305
Cash receipts	**(10,713)**	–
Elimination on Consolidation (*)	**–**	(462,581)
End of the year	**55**	10,768
Then shareholders:		
Beginning of the year	**–**	48,740
Cash advances	**–**	70
Cash receipts	**–**	(48,810)
End of the year	**–**	–
Non-trade balances due to:		
Directors:		
Beginning of the year	**–**	325,000
Cash receipts	**–**	–
Cash repayments	**–**	(113,614)
Capitalisation of advances for issue of Zhang's shares capital	**–**	(211,386)
End of the year	**–**	–
Related parties:		
Beginning of the year	**1,063**	6,256
Cash receipts	**–**	21,063
Cash repayments	**(1,063)**	(20,000)
Elimination on consolidation (*)	**–**	(6,256)
End of the year	**–**	1,063
Then shareholders:		
Beginning of the year	**–**	44,321
Cash receipts	**–**	–
Cash repayments	**–**	(1,910)
Capitalisation of advances for issue of Zhang's shares capital	**–**	(42,411)
End of the year	**–**	–

* These are attributable to the current accounts among those related parties, which became wholly owned subsidiaries of the Group effective on 1 January 2005, and eliminated on consolidation.

Notes to the Financial Statements

30. Related party transactions *(continued)*

(e) Movements of non-trade balances with related parties *(continued)*

The non-trade balances due from directors have the following terms and conditions:

Name of director	Amount outstanding at 30 June 2006 RMB'000	Amount outstanding at 30 June 2005 RMB'000	Maximum outstanding during the year ended 30 June 2006 RMB'000	Maximum outstanding during the year ended 30 June 2005 RMB'000
Ms. Cheung	**867**	–	**867**	–
Mr. Liu	**869**	–	**869**	–
Mr. Zhang	**455**	500	**500**	500
	2,191	500	**2,236**	500

(f) Guarantees

(i) Guarantees given by related parties for bank borrowings and credit facilities granted to the Group as at 30 June 2006 are as follows:

	30 June 2006 RMB'000	30 June 2005 RMB'000
ACN*	**176,000**	832,500
ACN together with Dongguan Sea Dragon**	**450,000**	450,000
ACN together with Ms. Cheung	**–**	51,264
ACN together with Ms. Cheung, Mr. Liu and Ms. Chang Siu Hon	**–**	160,000
Dongguan Sea Dragon together with Dongguan Sky Dragon	**–**	120,000
Dongguan Nine Dragons together with Ms. Cheung and Mr. Liu	**–**	50,000
Ms. Cheung	**–**	500,800
Total	**626,000**	2,164,564

* *The guarantee has been subsequently released by relevant lending banks on 4 September 2006 and the underlying bank borrowings are secured only by the assets of the Group.*

** *The guarantee has been subsequently released by relevant lending banks on 7 July 2006 following the repayments of the underlying bank borrowings.*

(ii) Guarantees for bank borrowings and credit facilities granted to Taicang Packaging as at 30 June 2005 of RMB62,000,000 was subsequently released during the year ended 30 June 2006.

31. Event after balance sheet date

On 19 September 2006, the Company has entered into a syndicated loan agreement with relevant financial institutions, whereas the Company has been granted a credit facility with maximum amount of USD350,000,000 for a period of four years. The credit facility is unsecured and is bearing interest of LIBOR plus 55 basis points per annum.

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