玖龍紙業(控股)有限公司*

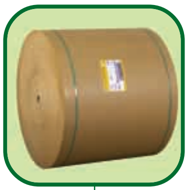
NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

2006/07
Annual Report

* *For identification purposes only*

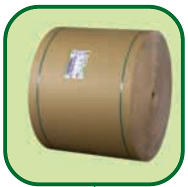


Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. The Group markets its high performance kraftlinerboard under its "Nine Dragons" brand and its standard kraftlinerboard under its "Sea Dragon" brand.

Kraftlinerboard

Testlinerboard is made 100% from recovered paper, and meets certain customers' requirements for lower cost linerboard or for more environmentally-friendly content. The Group markets this product under the "Nine Dragons" and "Sea Dragon" brands.

Testlinerboard



White top linerboard is a three-ply sheet of which one layer is bleached, and caters to customers that requires a white surface for appearance or superior printability. The Group markets this product under the "Nine Dragons" brand.

White top linerboard

Compared to standard corrugating medium, high performance corrugating medium, which undergoes surface sizing, achieves superior strength and physical properties for the same basis weight, which reduces packaging weight, bulk and the amount of material used, allowing customers to save on shipping costs. The Group markets this product under the "Nine Dragons" brand.

High performance corrugating medium

Coated duplex board is a type of boxboard with a glossy coated surface on one side for superior printability. This product is typically used as packaging material for small boxes that requires high quality printability, such as consumer electronic products, cosmetics and other consumer merchandise. It can also be used in combination with high performance corrugating medium and linerboard for the outer layer of corrugated board. The Group markets this under the "Nine Dragons" brand.

Coated duplex board

NINE DRAGONS PAPER (HOLDINGS) LIMITED
2006/07 Annual Report

CONTENTS

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

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, ACA*

Company Secretary

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

Registered Office

Claredon House, 2 Church Street
Hamilton HM11, Bermuda

Hong Kong Office

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

Auditor

PricewaterhouseCoopers

Legal Advisers

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

Principal Bankers

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

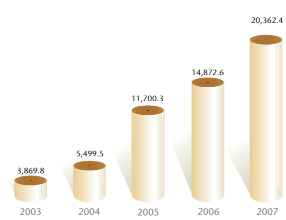
Financial Highlights

- Another record revenue and profit
- Group revenue increased by 24.5% to RMB9,837.7 million
- Profit for the year rose by 47.2% to RMB2,060.3 million
- Net profit margin expanded 3.0% points to 20.4%

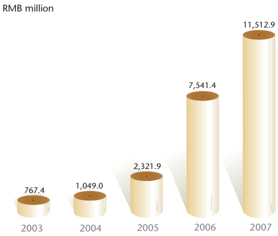
For the year ended 30 June	2007	2006	Change
Operating results (RMB million)			
Sales	**9,837.7**	7,902.2	24.5%
Gross profit	**2,528.9**	1,860.9	35.9%
Operating profit	**2,293.4**	1,811.2	26.6%
Profit before taxation	**2,162.0**	1,516.4	42.6%
Profit attributable to Company's equity holders	**2,003.4**	1,374.8	45.7%
Financial position (RMB million)			
Cash generated from operations	**756.1**	1,067.1	(29.1)%
Net debt	**4,883.8**	1,903.5	156.6%
Shareholders' funds	**11,512.9**	7,541.4	52.7%
Per share data (RMB cents)			
Earnings per share — basic	**47.94**	40.72	17.7%
Earnings per share — diluted	**47.03**	40.43	16.3%
Dividend per share			
— Interim	**1.60**	—	N/A
— Final	**10.00**	2.30	334.8%
Other data (RMB million)			
Capital expenditures	**5,760.1**	1,413.8	307.4%
Key ratios (%)			
Gross profit margin	**25.7**	23.5	2.2% pts
Operating profit margin	**23.3**	22.9	0.4% pts
Net profit margin	**20.4**	17.4	3.0% pts
EBITDA/sales	**26.8**	25.6	1.2% pts
Return on capital employed	**12.0**	13.3	(1.3)% pts

⇑ 36.9%
FY07 v FY06

Total assets
RMB million



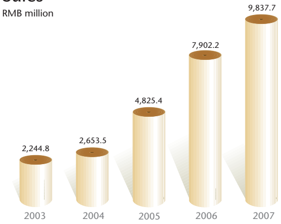
Shareholders' fund
RMB million



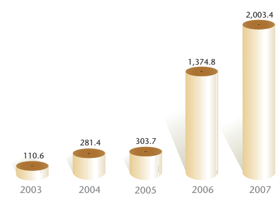
⇑ 52.7%
FY07 v FY06

⇑ 24.5%
FY07 v FY06

Sales
RMB million



Profit attributable to Company's equity holders
RMB million



⇑ 45.7%
FY07 v FY06

Highlights of the Year

September 2006

Entered into a 4-year US$350 million syndicated loan agreement with 15 financial institutions, carrying an interest rate of LIBOR+55 bps

December 2006

Granted the honour of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau

January 2007

PM11, PM16 & PM17 commenced production well ahead of schedule

February 2007

Revised and increased annual caps for continuing connected transactions from HKSE due to better-than-expected sales and the anticipated strong growth in demand

April 2007

Successful placing and subscription of shares and net proceeds of approximately HK$2 billion raised for future core business expansion

June 2007

Entered into a 5-year HK$2.3 billion syndicated loan agreement with 16 financial institutions, carrying an interest rate of HIBOR+45 bps

Superior Technology

Chairman's Statement

Dear Shareholders,

It gives me great pleasure to present to you the annual report of ND Paper for the year ended 30 June 2007. We successfully achieved significant growth in both turnover and profit while simultaneously investing in infrastructure to further solidify our already sound foundation. The Group has entered into an accelerated phase of our development as we expands our geographic reach, product diversification, initial exploration of upstream resources and scale of operations in line with the paralleled growth of demand and supply. Our proactive approach and execution of our long-term strategy has further strengthened our number one position in Asia and paved the way for growth in the coming years.

During the year under review, the Group's success continued to validate our earlier expansion efforts to implement measured capacity growth to meet increasing demand for packaging paperboard. The result of our careful planning and diligent efforts translated to growth in both turnover and profit compared with the last financial year. For the year under review, we recorded total revenue and gross profit of approximately RMB9,837.7 million and RMB2,528.9 million respectively, representing an increase of 24.5% and 35.9% over the previous year. Net profit attributable to equity holders of the Company was RMB2,003.4 million, an increase of 45.7% that of a year ago. Our earnings per share were RMB0.48, representing an increase of 17.7% that of the previous year.

The Board proposed the declaration of a final dividend of RMB10.0 cents per share. Together with the interim dividend of RMB1.6 cents, the total dividend payout per share for the year was RMB11.6 cents, representing a payout ratio of 24.7%.

Fostering a Culture of Continuous Improvement and Quality

The culture of ND Paper is firmly focused on continuous improvement. This philosophy is paramount to our success and runs from the foundation of our employee development program to our constant refinement in machinery, technology and infrastructure, as well as our dedication for expansion of product offerings and geographic reach. Meanwhile, economies of scale have brought pre-investment and production efficiency enhancements through strategic capacity expansion. The underlying theme of constant improvement is deeply ingrained in our corporate culture. Together with our ability to capture opportunities and leverage resources, it will guide us as a fundamental compass as we prosper as the world leader in the production of packaging paperboard.

Always Improving, Always Environmentally Conscious

In keeping with our philosophy of "No environment, no paper" and our pursuit of continuous improvement, we stay abreast of technological advances within the sector and make sure that we are utilizing the best combination of imported machinery to ensure the most efficient and highest return on investment. This year, we have not only added three new paper machines, PM11, PM16 and PM17 which have brought our total annual production capacity to approximately 4.5 million tpa, but we have also upgraded and improved our existing machines whenever and wherever possible. In addition, we are leading the market with high-end new products and PM18 and PM21 are expected to produce a commercially viable scale production of light weight high performance corrugating medium. These machines will serve to meet the increasing demand for lighter weight corrugating medium.

Our tenacious pursuit of constant improvement is in the best interest of investors, the environment, our customers and our employees as it enables us to increase production while also improving efficiency, safety, and earnings. While we are committed to internal improvement, we also recognize and continue our pursuit of growth while maintaining high standards of transparency, corporate governance and social responsibility. We believe in this philosophy as a long-term approach to sustainable growth at every level as we continue to expand in a responsible manner. "No environment, no paper" is our mantra and our constant efforts to improve reaffirms strong commitment with consistent actions that reinforce this philosophy. Although growth has been robust, we will not compromise regarding the environment. We will continue to advocate the use of recovered paper as the primary raw material for manufacturing to ensure a harmonious coexistence with nature.

Regardless of the pace and locations of our development, we will be vigilant in maintaining the highest standards through the use of environmentally friendly equipment, technologies and processes combined with the appropriate management expertise to ensure that we are not only compliant with government standards, but that we consistently rise above those standards and serve as an example for the entire sector.

Investing in Our People, Investing in Our Future

A fundamental strategy for success at ND Paper is the progress and development of our employees. As we reach greater heights of expansion, it is necessary to fill newly created staff and management roles that require a high level of expertise with the capability to efficiently execute. In addition to recruiting staff in China or overseas, we initiated a program of in-house employee development several years ago to ensure that we were ready for anticipated expansion efforts. We have a clear understanding of growth opportunities and want to ensure that employees are able to enjoy the benefits and participate in the growth of ND Paper. Therefore, as a result of our employee development program, we have targeted 80% of the management and staff to be sourced internally to fill the newly created positions at our additional bases. Also, we want to ensure that these new locations will not only be efficient from the commencement of operations, but we want to ensure that these facilities fully adopt the Nine Dragons culture and further inspire the spirit of the Company in every way possible.

Syndicated Loan and Share Placement

In an effort to further cultivate healthy growth, we entered into two agreements in the amount of US$350 million and HK$2,300 million on 19 September 2006 and 18 June 2007 respectively and raised more than HK$2 billion by share placement of new shares on 16 April 2007. The overwhelming response of both financing activities is very encouraging, as it demonstrates that the financial community has confidence in the packaging paper market and positively endorses our efforts to secure our leading position in the sector.

Broadening Our Reach into China

Chongqing Base

China remains our primary area of operations and offers remarkable opportunities for further expansion. As the dominant manufacturer in China, we believe that there is significant room for additional growth and we fully intend to capitalize on this opportunity. In 2007 we have embarked on a strategy to diversify our domestic footprint that will help to meet increasing and divergent demand in a variety of regions. It is also a replication of our successful formula in the previous two production bases. This approach will not only expand our production lines, it will allow an avenue for expansion into a previously untapped area with strong demand. For example, our expansion into Chongqing City with its proximity to Hubei, Yunnan, Guizhou and Sichuan, will serve as a regional industrial hub to central and western China to serve numerous markets that previously had to source their needs from smaller manufacturers or have their needs met by manufacturers that were located at a greater distance. The proximity of this new base serves to tighten the supply chain for our new customers with a superior product while allowing ND Paper to fill a gap in demand. Operations are expected to commence by mid 2008 with an initial capacity of 800,000 tpa, including two sets of paper machines for each producing linerboard and high performance corrugating medium respectively.

Tianjin Base

The fourth production base will be located in the Ninghe Economic Development Zone near the Tianjin port. It enjoys investment incentives that are the same as those available from the Binhai New Area. Construction will commence in 2008 and it is projected to ultimately reach a capacity of 4 million tpa. Operations are expected to commence by mid 2009 with an initial capacity of 800,000 tpa, including two sets of paper machines each for producing high performance linerboard and high performance corrugating medium respectively. The base will enable the Company to acquire comprehensive geographical coverage of all major markets in China, so as to address potential divergent demand among domestic regions. It will also serve to provide better services to capture valuable potential customers.

Growth Drivers

Diversification of scope with an eye on cost control and profit

Over the next five years, additional focus will be dedicated to our manufacturing bases and cost control that will include management development, procurement of advanced equipment, increasing the quality of products, and the introduction of new product lines. Products will include light weight corrugating medium, light weight linerboard, high-end packaging board and others to further diversify our scope. The long-term plans for growth, ongoing development and constant margin improvement are essential to the success of ND Paper.

At the moment, our focus is on further development of scale and scope in China as there are still vast resources and opportunities that have not yet been tapped. When the timing is right and conditions are suitable, we will expand to international markets. If and when this decision is made, it will be executed in a well thought out, prudent manner that will be most beneficial to shareholders.

Upstream Exploration

Another important growth driver for us will be the strategic development of pulp production and a suitable kraft pulp resource production base. Although we produce packaging paperboard with an average of 85% recovered paper, we require a small percentage of kraft pulp for containerboard production. The ability to tap a direct source would further enable us to have stable raw material supply and reduce production costs. With our rapid capacity expansion and future product diversification, we require a consistently growing kraft pulp supply. Meanwhile, we can sell any excess pulp to the market with an attractive margin. While we currently have expansion plans for our joint venture in Inner Mongolia, we will also explore upstream wood pulp business opportunities overseas that offer strong potential. Any such consideration must provide excellent forestry resources as well as cost and quality competitive edges. We currently have several prospects under consideration that will provide long-term, profitable returns. Each endeavor will be announced upon agreement at the appropriate time.

Closely Monitoring Market Conditions

In an effort to obtain accurate and relevant data, we obtain market information from a variety of sources. This allows us to closely monitor changes and maintain an awareness of any alteration and quickly implement any appropriate adjustments.

The Company is able to leverage its extensive network of relationships with suppliers and customers to assemble a library of data that helps to determine current market conditions and forecast reasonable expectations for future demand. Information obtained from the front lines is often the most up-to-date, real-time, reliable intelligence available. We also closely monitor government and research institutes' studies to help determine the appropriate level of expansion. It is absolutely essential for the healthy maintenance of our production level to closely observe all data available to ensure a healthy balance between supply and demand.

Consolidation and the Positive Impact

While ND Paper has been aggressively expanding to meet the growing demand, there has been consolidation in the market and a noteworthy impact from the closure of some small-scale paper manufacturers. In keeping with the government's efforts to promote "Green GDP" and the efficient use of energy and reducing emissions, within the year, a number of paper manufacturers will be retired from service. For example, the Jiangsu provincial government issued "Notice about Certain Policies and Measures Propelling Environmental Protection"《關於推進環境保護工作若干政策措施的通知》in 2006, forcing the closure of the production facilities using recycle paper with an annual capacity of less than 50,000 tonnes before the end of 2008. These manufacturers do not produce to the standard that is acceptable to be brought into the fold of ND Paper and are not suitable for acquisition. Therefore, such gaps in supply must be filled by organic growth and additional production. Meanwhile, the market environment produced by such a gap provides an opportunity for expansion not only in our current production bases, but outside of the regions where ND Paper already has a strong foothold.

Current market conditions have fostered a positive environment for expansion and paved the way for harmonious growth of both supply and demand. These market forces have enjoyed paralleled increases and nurtured the sector to reach healthy levels of production.

Outlook

The outlook for long-term expansion is bright and we have dedicated a significant effort and meticulous planning to ensure that we are prepared to capitalize on the opportunities. Healthy market conditions are likely to continue as the GDP growth in the first half of 2007 was 11.5%, which was higher than market expectations. This situation will support further expansion in terms of both scale and scope as the Company implements the appropriate level of growth to develop in conjunction with the increasing level of demand. The Group has targeted to reach annual production capacity of 7.75 million tpa in 2008, 10.15 million tpa in 2009 and by 2008 we will become the world’s number one manufacturer of packaging paperboard. According to our thorough research, this increase is likely to be commensurate with demand and the positive momentum is expected to continue.

Appreciation

The fruits of our hard work are still in the early stages of their development as we begin to realize the advantages of building a solid infrastructure and diverse base of operations to service the growing demand. Our success is a direct result of visionary insight, meticulous planning and the willingness of management and staff to pursue innovative development within a culture that breeds responsible success. In addition to my gratitude to our management and staff, I would like to express my sincere appreciation to various governments for providing a business-friendly environment that has allowed us to prosper and positively influence the lives of our employees while contributing to the success of our industry. I would also like to thank our Shareholders, investors, bankers and business partners for their support and look forward to sharing our continued success.

Cheung Yan
Chairman

Hong Kong, 20 September 2007

Chief Executive Officer's Operation Review and Outlook

Dear Shareholders,

I am delighted to share with you our continued success for the year ended 30 June 2007. The Group has made amazing strides in our organic development and expansion plans while continuing to improve our operating margins through product optimization, stringent cost control and leveraging economies of scale.

Review of Operations

During the year, the Group recorded revenue and gross profit of approximately RMB9,837.7 million and RMB2,528.9 million respectively, representing an increases of 24.5% and 35.9% over the previous year. Profit attributable to Company's equity holders was RMB2,003.4 million and basic earnings per share was RMB0.48.

The Group's production capacity and sales of containerboard reached a new high during the financial year. For the year ended 30 June 2007, the Group's production capacity increased by 36.4% over the previous year to 4.5 million tpa and the sales volume also increased by 18.7% to approximately 3.36 million tonnes. Resilient market demand and higher production capacity stimulated sales and fostered conditions for concurrent growth in both supply and demand. At the time of this report, production capacity has already reached 5.35 million tpa and we anticipate that ND Paper's production capacity will reach 7.75 million tpa in FY2008 and 10.15 million tpa in FY2009.

Earnings contributions are the result of our efforts on several fronts. The increase in production has further allowed us to enjoy the benefits of economies of scale. Our overall efficiency has also improved as we have upgraded our existing machines and added new machines with technological advantages which have both contributed to a reduction in average production costs.

Our operational efficiency has been a significant contributor to our success and continues to be one of our primary competitive advantages. We have realized this achievement by increasing our standards of production while continuing to reinvest in human capital. We will remain vigilant in our pursuit of constant improvement in order to maintain our status as the market leader in the PRC in all three major packaging paperboard categories, namely kraftlinerboard, high performance corrugating medium and coated duplex board. We will maintain this status even as we branch out to produce other products and further diversify our product portfolio.

Production

Production in both our Dongguan and Taicang bases have increased considerably over the year in review. PM11 located in Dongguan commenced operation at the end of January 2007, adding a capacity of 0.5 million tpa of coated duplex board. Meanwhile, PM16 & 17 commenced operation in January 2007 with a capacity of 0.7 million tpa of high performance corrugating medium. We were able to initiate production well ahead of schedule for our new machines which is a testament to our improving efficiency which translates to a better return on equity to our shareholders. Meanwhile, PM8 and PM12 &13 commenced production in August of this year with an additional 50,000 tpa of linerboard by PM8 and 800,000 tpa of linerboard by PM12 &13. Due to poor weather conditions and the delivery of mechanical parts by suppliers that did not meet our requirements, the commencement operations of PM12 &13 were slightly later than initially expected.

In keeping with the theme of constant improvement and diversification, we will increase our scope with the addition of two high-speed new paper machines, PM18 and PM21 which will produce light weight high performance corrugating medium. At this time, this is the only product line of its kind in Asia, including Japan. It is also not available in North America, Central America or South America. This product will serve to meet our client's demand for "Reduce, Reuse and Recycle" which has been spear-headed by leading international retail chains and e-commerce logistics providers.

Previously this product was only available overseas due to the limited availability of the proper machinery required for manufacturing. With forward looking resolve, ND Paper will procure the required hardware and successfully assemble two production lines capable of developing this high-end product in China for the first time. The addition of these machines will serve to meet the demand for lighter weight corrugating medium with the same strength while laying the groundwork for an additional growth driver within the ND Paper portfolio. Efforts to initiate such an endeavor were driven by market demand and an opportunity to capture a new, commercially viable scale of production. PM18 and PM21 will initially produce a total of 700,000 tpa by June 2008. We will closely monitor supply and demand to determine the appropriate scale of output, although it is widely anticipated that the desire for a strong, yet lighter weight corrugating medium will appeal to an increasing number of vendors, especially with the ability to source the product domestically, thus reducing the cost and tightening the supply chain.

In addition to developing our scope of operations, our scale and geographic reach will increase considerably as we add our third and fourth production bases. The third base located in Chongqing, China will have the land use rights of approximately 1,700,000 sq.m. The local government has also set aside 700,000 sq.m. of land for our future development. This production base will also be equipped with a self-owned pier and rail spur along with convenient access to the highway to allow for easy distribution. When fully operational, the third production base will provide a capacity of 5 million tpa. The first phase of the facility and its related ancillary are projected to be completed by mid 2008 which will immediately provide an additional capacity of 0.8 million tpa.

Our fourth base is a direct response to growing demand and the need to extend our footprint in China. The new base will be situated in Ninghe Economic Development Zone, only 30km from the Tianjin port, one of the major ports in China. This allows the base to take advantage of direct ocean transportation for freight reduction. It will have the land use rights of approximately 2,400,000 sq.m. The site will commence production in June 2009 and will initially have the capacity to produce 800,000 tpa. When fully functional, the base will contribute 4.0 million tpa. It will enjoy an abundant supply of good quality water and convenient transportation access via the railway and highway network.

In order to further control our raw material costs, we have stepped up our efforts in the development of pulp production and a suitable kraft pulp resource production base. We plan to expand our upstream business by building pulp production plants and securing forestry resources overseas. We currently have several prospects under consideration that will provide excellent forestry resources, forestry planting technologies and reasonable growth speed of forestry. These endeavors may be pursued through various modes of investment and cooperation, depending on what makes sound business sense and is economically viable.

Environment

ND Paper sets the industry standard for conscientious environmental protection and we will go to any lengths to ensure that we are doing everything possible to be a responsible corporate citizen. The majority of our products use an average of 85% to 90% recovered paper in the manufacturing process. We have also changed to wet desulfurization from the semi-dry desulfurization which will further reduce gas emissions. The Group also maintains strict control over sewage treatment, solid waste treatment and noise pollution during the production process.

It is not enough to simply meet government standards and regulations. To maintain our status as the industry standard for environmental consciousness and responsibility, it is important that we exceed these requirements and anticipate what we can do better in the future. This philosophy is in line with the culture that permeates ND Paper which emphasizes always improving. Our belief of "No environment, no paper" requires that we remain committed to conscientious growth. In the long run, responsible growth provides higher returns for Shareholders, a better environment for our people, and longevity for our business. The

Group has been granted with the honour of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and continued to achieve ISO 9001, ISO 14001 and OHSAS 18001 certification.

Human Resources

The Group has completed the construction of new staff residences at both the Taicang Base and the Dongguan Base and a sports center in Taicang Base to meet the needs of our future growth and provide a better living and working environment for our staff. We encourage the development of our employees and future recruits at all levels by offering subsidies for university attendance and hiring students from rural, underprivileged areas. For our middle and high-level management staff, we offer EMBA and MBA courses to ensure that they continue to expand their knowledge in a dynamic business environment. ND Paper will also continue to seek out the highest level of talent from both domestic and overseas sources, including university recruitment.

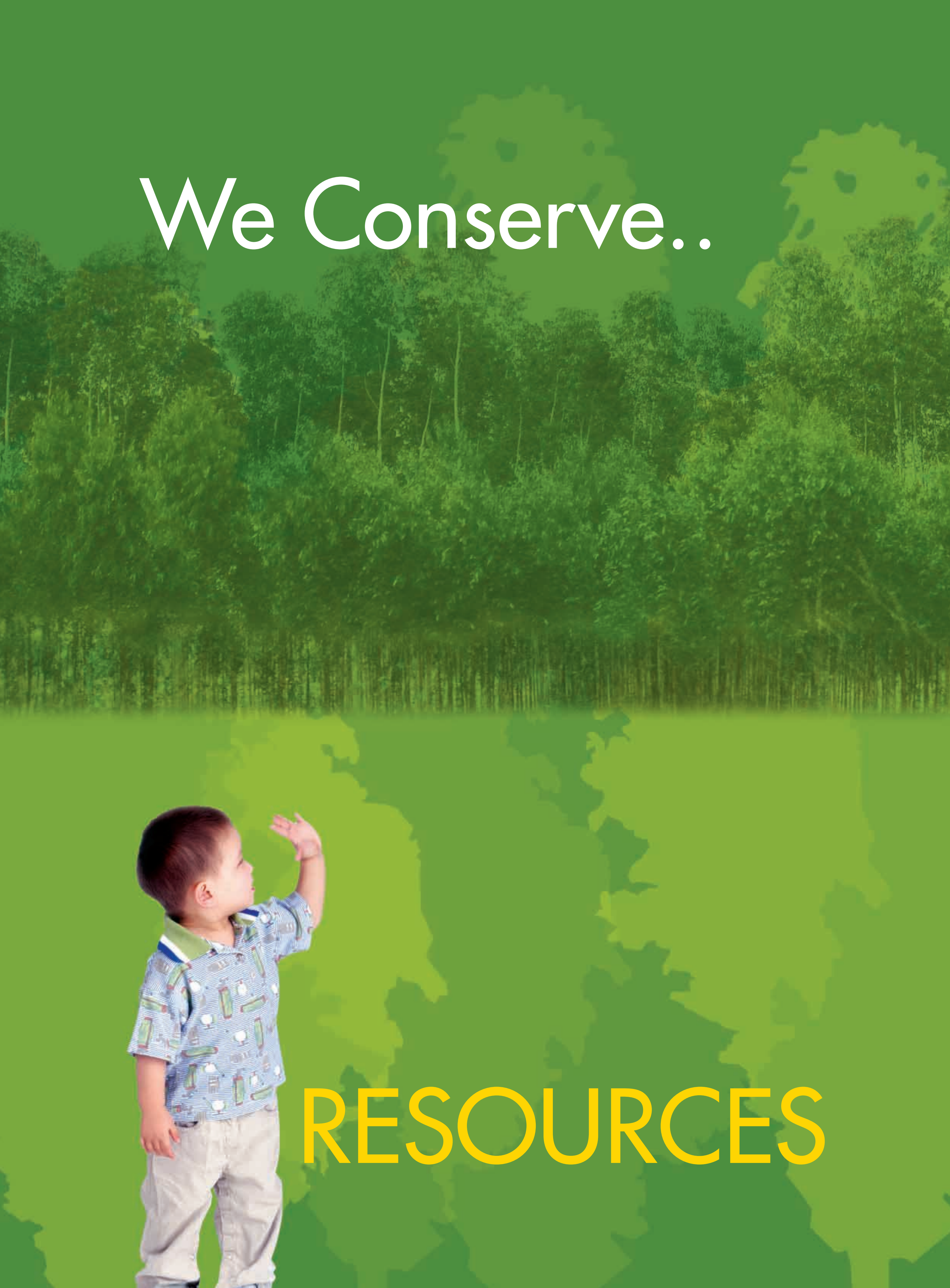
Forward

Looking ahead, we will continue to expand our business in terms of scale, scope and geographic reach to ensure the vitality of ND Paper and a positive return for our Shareholders. To successfully capture increasing demand, we aim to expand our capacity from the current 5.35 million tpa to 10.15 million tpa by 2009 which would bring our CAGR growth to not less than 40%. This would conceivably increase our domestic market share from our current 18% to 35%. Meanwhile, to capitalize on changing demands, we will also expand our product offerings, including the introduction of light weight corrugating medium, light weight linerboard, high-end packaging board and other products that have a sustainable demand while offering attractive returns on investment.

ND Paper will be vigilant regarding strict cost control and the utilization of the highest standard of technology that provides superior results for our Shareholders. We will continue to closely monitor market conditions to ensure that our growth is executed in a responsible, prudent manner while simultaneously capturing opportunities to meet the growing demand for packaging paperboard.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 20 September 2007


We Conserve..
RESOURCES

玖龙集团
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Cohesive Infrastructure

Business Review

The Group is the largest containerboard producer in Asia and one of the leading players in the world. The Group primarily produces linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board. 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 a flexible configuration offering of diversified products in an efficient manner. The broader width of its machines also allows the Group to manufacture products in a large variety of sizes, increasing its flexibility to meet customer demands. Its five principal products are available in 40 different basis weights and over 1,000 different sizes and type specifications.

The Group added three paper machines, namely PM11, PM16 and PM17 during FY2007. The thirteen technologically advanced paper machines imported from Europe, North America and Japan have an annual aggregate designed capacity of 4.5 million tpa, comprising 1.5 million tpa of linerboard, 2.05 million tpa of high performance corrugating medium and 950,000 tpa of coated duplex board. All of the Group's paper machines have advanced 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.

The Group has a fully functional infrastructure that helps it to control costs and operate in an efficient manner. In addition to the thirteen paper machines, the Group also operates facilities that supply power, steam, water supplies and logistical support. These features allow the Group to be self sustaining in several areas while also ensuring the highest standard of environmentally friendly manufacturing.

During FY2007, the Group successfully developed its third production base in Chongqing, a regional industrial hub in central and western China, with its proximity to Hubei, Yunnan, Guizhou and Sichuan. The commercial production of Chongqing base is expected to commence by mid 2008 with an initial capacity of 800,000 tpa.

In September 2007, the Group confirmed the location for its fourth base in Tianjin, which covers the northern and north-eastern market. The commercial production of Tianjin base is expected to commence by June 2009 with an initial capacity of 800,000 tpa.

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. In December 2006, Guangdong Environmental Protection Bureau awarded both Dongguan Nine Dragons Paper Industries Company Limited and Dongguan Sea Dragon Paper Industries Company Limited, both being members of the Group, with honours of Green/Environmental Creditable Enterprise for their laudable environmental protection practices. Besides, the Group obtained the OHSAS18001 certification for its occupational health and safety management system in March 2005.

Business Strategy

The Group strives to achieve the status of the world's number one containerboard manufacturer. While operational efficiency will continue to provide benefits of economies of scale as the Group increases its capacity to meet growing demand, it also continuously strives to improve through the implementation of new, more efficient technologies. During FY2007, the Group maintained its vigilance in consolidating the Group's market leadership position in Asia, further enhancing operating efficiency, attracting high caliber employees and continuing to emphasize and reward performance excellence.

Consolidating the Group's Market Leadership Position in Asia

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 45.6%, 41.7%, 44.7% and 106.3%, respectively, from FYs 2003 to 2007.

The Group will continue to expand its production capacity and market share so as to further strengthen its leading position in Asia. Its annual designed capacity increased by 36.4% to 4.5 million tpa during FY2007 and is expected to increase by 72.2% to 7.75 million tpa in FY2008. The Group is well-prepared to capture any opportunity for future growth. The Group has made the following substantial moves to enlarge its market shares:

Further Capacity Expansion and Investment in Infrastructure in Dongguan and Taicang Bases to Achieve Economies of Scale

(1) Production capacity

During FY2007, the Group not only commenced production of three paper machines, namely PM11, PM16 and PM17, but also commenced construction of six new paper machines, namely PM12, PM13, PM18, PM19, PM20 and PM21 in Dongguan and Taicang bases. The Group also enlarged the production capacity of PM8 with an additional 50,000 tpa and commenced the operations of PM12 & 13 in August 2007.

Paper machine	Product	Annual production capacity	Expected date of commencement of production	Actual date of commencement of production
Completed:				
PM 8	Linerboard	Increased by 50,000 tpa to 500,000 tpa	June 2007	August 2007
PM11	Coated duplex board	500,000 tpa	March 2007	January 2007
PM12 & 13	Linerboard	800,000 tpa	June 2007	August 2007
PM16 & 17	High performance corrugating medium	700,000 tpa	June 2007	January 2007
In construction:				
PM18	Light weight high performance corrugating medium	350,000 tpa	June 2008	On schedule
PM19	Linerboard	450,000 tpa	June 2008	On schedule
PM20	Linerboard	450,000 tpa	June 2008	On schedule
PM21	Light weight high performance corrugating medium	350,000 tpa	June 2008	On schedule

(2) Power Resources

To facilitate expanding production capacity and support large-scale containerboard manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. The Group has set up central coal-fired cogeneration power plants in both Dongguan and Taicang with aggregate installed capacity of 591 MW, providing both electric power and steam for use in the drying process in the production process 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 approximately 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.

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

(3) Land resources

Apart from investment in infrastructure, the Group has made substantial investments in acquiring land use rights in Dongguan, Taicang and Chongqing for its existing operations to allow for future development and expansion. During FY2007, the Group further obtained the land use rights for approximately 2.4 million sq.m. of land in Dongguan and Chongqing bases.

(4) Pier

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.

The current shipping pier in Taicang 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 1.0 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 by eliminating loading and unloading charges that the Group would otherwise incur for transit of coal.

In Dongguan base, the Group also plans to construct a pier to meet the transportation requirements for finished products, raw materials and coal. The relevant approval procedures are expected to be completed by the end of 2007. The Group plans to commence the construction of Dongguan pier in 2008. The expected total annual loading and unloading capacity of Dongguan pier will be approximately 3.0 million tones.

Establishment of the third and fourth production bases to extend market coverage

(1) Chongqing base — third base

In order to further extend our reach and meet the various needs in different regions in the PRC, the Group has been actively seeking opportunities to expand its geographical coverage beyond the Yangtze River Delta and the Pearl River Delta regions. During FY2007, the Group established its third base in Chongqing. Chongqing is a regional hub for the central-western provinces of Hubei, Yunnan, Guizhou and Sichuan and exports to Southeast Asia. The fast growing domestic demand is brought by strong local consumption and matured formation of a supply chain with support from industrial development in various sectors.

The site of Chongqing base is only 40 minutes drive from Chongqing city centre and on the Yangtze River coast with a self-owned pier. It enjoys direct access by a railway spur and nearby expressway system.

The Group commenced the construction of two paper machines with total annual capacity of 800,000 tpa which are expected to commence operations in mid 2008. The Group has obtained a total land reserve of approximately 2.4 million sq.m. that can accommodate 5 million tonnes of annual production capacity. Besides, the Group has planned the construction of ancillary facilities to support packaging paperboard production. The Group has commenced the construction of a self-owned pier and planned to construct a direct railway access to the Chongqing base.

Paper machine	Product	Annual production capacity	Expected date of commencement of operation	Actual date of commencement of operation
PM22	Linerboard	450,000 tpa	June 2008	On schedule
PM23	High performance corrugating medium	350,000 tpa	June 2008	On schedule

(2) Tianjin Base — Fourth Base

In addition to the Chongqing base, the Group continued its efforts to expand its geographical reach to achieve comprehensive market coverage. In September 2007, the Group confirmed that its fourth base will be built in the Ninghe Economic Development Zone in Tianjin. This will enable the Group to fully cover the major economic regions and provide services to customers throughout the PRC.

The Group's fourth base centres around the Tianjin and Beijing areas and services the northern and north-eastern regions, where the supply chains are well formed with escalating containerboard demand from key sectors such as food, medicine, high-tech and IT products, electronics, textile and various light industries. Current containerboard supply in these regions are still limited, with the largest producer having less than 400,000 tpa in capacity. The rest of the suppliers only have annual production capacity of less than 50,000 tpa each — a segment that is expected to go through fast market consolidation in the foreseeable future. Today customers in these regions have to rely on supplies from other provinces such as Henan, Shandong and Jiangsu.

The Tianjin base is situated next to the Binhai New Area and enjoys investment incentives that are the same as those available from the Binhai New Area. It has reserved the land use rights for approximately 2,400,000 sq.m. which can accommodate a planned capacity of 4 million tpa. The first phase will consist of one high performance linerboard paper machine of 450,000 tpa and one high performance corrugating medium paper machine of 350,000 tpa. Production is expected to commence by June 2009.

The Tianjin base is located only 30 km from the Tianjin port, one of the major port destinations in China that serves ocean bound vessels directly, thus allowing direct access to ocean transportation at lower transportation costs as trans-shipment is not required. This also alleviates the need for the base to build its own pier — a significant reduction in capital expenditure. The base is also served by a rail spur for direct movement of coal, raw materials and finished products, and is conveniently accessible by the statewide highway network linking the north-eastern and southern provinces in China. There is an abundant supply of good quality water for paper production in the base.

The establishment of its fourth base in China will enable the Group to take advantage of the needs in northern and north-eastern China and to fully cover the major economic regions while providing services to customers throughout the PRC. The site is planned to commence production by June 2009 and will initially have the capacity to produce 800,000 tpa. When fully functional, the base will contribute 4 million tpa.

Introduction of New Products to Expand Product Offerings

As the leader in the Asian market, the Group is always ahead of its peers by introducing the newest products to the market. The Group is not only able to expand its product lines to offer a broader range of complementary products to customers, but also to leverage its existing production expertise and distribution network.

During FY2007, the Group developed plans for light weight high performance corrugating medium (70-90 g/m^2) which is expected to be commercially produced by mid 2008 through PM18 and PM21. These will be the first facilities to have industrial scale production of light weight high performance corrugating medium outside Europe. The introduction of such high-end product to the market further demonstrates the Group's leading position in Asia.

The light weight high performance corrugating medium is becoming a new trend in the market. It meets customers' increasing demand for lighter weight corrugating medium with the same strength along the 3R's strategy "Reduce, Reuse and Recycle". It is now mainly sourced by leading international retail chains and e-commerce logistics providers. The Group anticipates that the new product will become one of the substantial growth drivers in future.

Committed to Environmentally Responsible Practices

The Group considers the implementation of environmentally responsible practices and the maintenance of high environmental standards as an essential part of being the market leader in the industry. The Group was granted with the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau in December 2006 and obtained ISO14001 certification for its environmental management standards in February 2005. 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.

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 and the Group's target is to increase the percentage of recovered paper fiber to more than 90%.

- 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 with automated programmable logic controller (PLC) systems and online monitoring equipment systems that allow the Group to monitor its wastewater discharge.

- The Group also maintained the water consumption of less than half of the water consumption 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, the Group collects solid waste from its wastewater for incineration or produce recycled pallets. 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.

- 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 regulations.

The high level of commitment and environmental management standard will be maintained in the Group's Chongqing and Tianjin bases.

Continuing to Enhance Operating Efficiency

With the expanding production capacity, the Group is able to enjoy better 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.

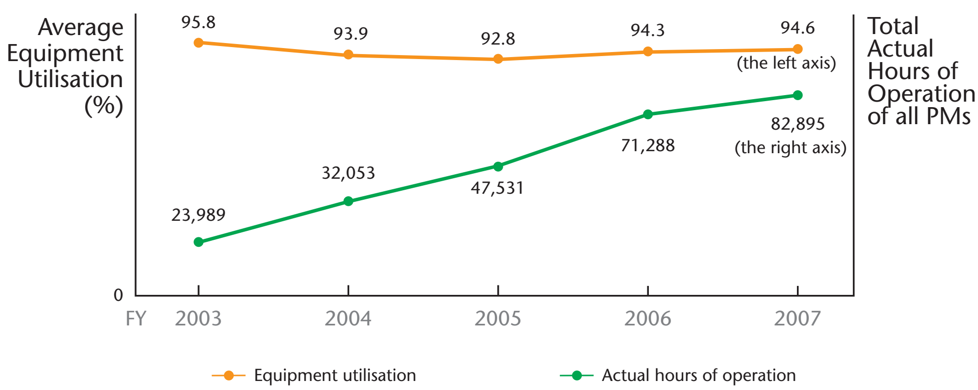
The Group has technologically advanced paper machines with automated DCSs and quality control systems. Its fourdrinier kraftlinerboard paper machines are among the largest and fastest in China, and certain machines can shift the production from one type of product to another without halting production or with a very brief pause before resuming production. 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 byproduct from the production of one product into the production of another product. Leveraging on its technological know-how, the Group has been able to accommodate the use of a broader variety of recovered paper while maintaining product quality and performance standards. 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 three additional paper machines during FY2007 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. PM11, which has an annual production capacity of 500,000 tpa of coated duplex board and PM 16 & 17, which have a total production capacity of 700,000 tpa of high performance corrugating medium, all commenced production in January 2007. The machines achieved the optimal operating efficiency in less than four months, within the historical average optimising time range of three to six months.

The following chart sets forth information on the average utilisation rates and total actual hours of operation of the Group's paper machines:



As of 30 June 2007, the management of the Group has accumulated extensive experience in successful installation of thirteen paper machines. In FY2007, the average utilisation rate of the Group's paper machines was 94.6%, improved even though there was three new paper machines commenced operation during FY2007 as compared with last year. Meanwhile, the optimising time of PM11 and PM16 & 17 was also substantially reduced and achieved the designed capacity and quality within four 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.

(1) Recovered Paper

Recovered paper usually accounts for more than half of the production cost of the Group's products. 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. As the quality of recovered paper improved the Group started to source its recovered paper domestically in late 2006 which can diversify the risk of overreliance on the supply from North America and Europe.

The Group sources the majority of its recovered paper from ACN and the remainder from several trading companies. For FYs 2006 and 2007, the Group's purchases of recovered paper from ACN amounted to RMB2,591.7 million and RMB2,922.4 million, respectively, representing 78.9% and 65.2% of the Group's total purchases of recovered paper. During the same periods, the Group purchased approximately 2.45 million tonnes and 2.59 million tonnes of recovered paper from ACN and the remaining 0.53 million tonnes and 1.25 million 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 not less than 20% of its recovered paper in terms of aggregate value of its purchase of recovered paper from suppliers other than ACN.

Consistently with previous years, the Group has also maintained an independent system with the following features to govern and monitor its recovered paper purchase process:

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

- the Group's selection of successful bid will be reviewed by one of the INEDs with solid industry expertise each time before placement of orders by the Group;

- the INEDs, if required, will decide on whether the Group should proceed with a particular purchase transaction; and

- regular reports regarding the Group's purchase and other relevant information will be provided to the INEDs 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. As the Group's purchases from ACN currently account for only approximately half of ACN's total sales volumes to China, with 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.

(2) 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.

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, with a capital investment of RMB90 million, in ND Xing An while Forestry Industry Group holds the remaining 45%. Up until 30 June 2007, the Group recorded an ample return on investment of 136.7%.

As at 30 June 2007, ND Xing An had the capacity to produce 120,000 tonnes of long-fibred unbleached kraft pulp annually. The Group plans to further increase ND Xing An's annual production capacity to 300,000 tonnes in the future. During FY2007, the Group purchased approximately RMB86.0 million of kraft pulp from ND Xing An. The ND Xing An joint venture enables the Group to secure a future supply of unbleached kraft pulp.

In order to further control raw material costs, the Group has considered developing pulp production and kraft pulp resource. The Group plans to expand its upstream business by building pulp production plants and investing in forestry overseas. As of the date of this report, the Group has several prospects under consideration that provide excellent forestry resources, advanced forestry planting technologies and reasonable growth speed of forestry.

Retaining In-house Maintenance Teams to Enhance the Life Span and Efficiency of Production Equipment

The Group has over 800 maintenance personnel in total in Dongguan and Taicang bases 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 3 to 5 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 by the end of 2007. All paper machines have DCSs that monitor and control all aspects of production and automated quality control systems. 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. The Group also has a fleet of trucks equipped with GPS.

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

The Group is led by an experienced stable and dedicated management team with an average of over 8 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 Asia within a short period of time. In September 2007, a veteran with 25 years' experience in international paper manufacturing business was recruited from Australia and will head the Group's southern China operations commencing October 2007.

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. The Group obtained the OHSAS18001 certification for its occupational health and safety system in February 2005.

As at 30 June 2007, the Group had approximately 8,600 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 RMB503.0 million. 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.

Financial Review

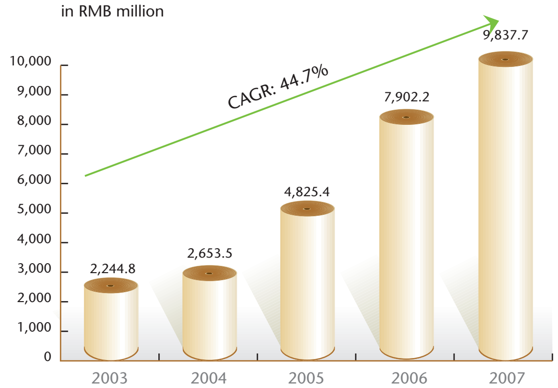
Revenue

The Group achieved a new record revenue of RMB9,837.7 million for FY2007, representing an increase of 24.5% as compared with the last financial year's revenue of RMB7,902.2 million.

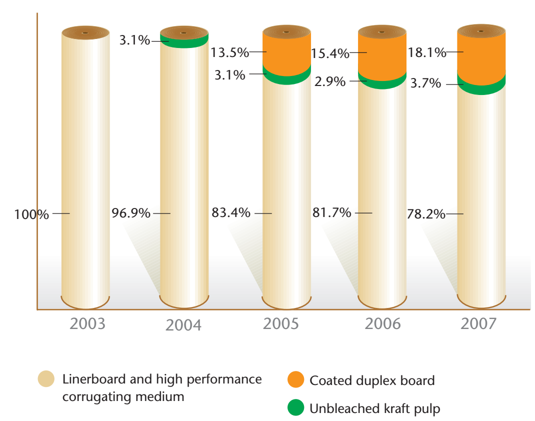
The major contributor of the revenue growth was the increase of sales volume. In FY2007, the Group's total sales volume of packaging paperboard products reached approximately 3,269,000 tonnes, representing an increase of 18.4% as compared to that of the last financial year. The Group's total sales volume of kraft pulp

Revenue and revenue growth

in RMB million



Revenue by products



products increased to approximately 88,000 tonnes from approximately 66,000 tonnes in FY2006, representing an increase of approximately 33.3%. The increase of sales volume was supported by the full year contribution in FY2007 by PM9 and PM10, which commenced operation in January 2006 as well as the newly commenced operation of PM11, PM16 & 17 in January 2007.

The price increment of all the Group's product lines recognised during FY2007, particularly during its second half, also bolstered the top line figure and confirmed the Group's industry leadership and the robust market demand.

The Group mainly manufactures packaging paperboard products, which include containerboard, coated duplex board and high performance corrugating medium, and kraft pulp products. The majority of the Group's sales is in China, whereas a significant portion of the Group's export sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency. For FY2007, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises and direct export, constituted 42.3% of the Group's total sales as compared with 40.1% in the last financial year.

For FY2007, sales to the Group's top five customers in aggregate accounted for approximately 13.4% of the Group's revenue, with that to the single largest customer accounted for 3.8%. The corresponding percentages for the financial years ended 30 June 2006 were 7.9% and 2.4% respectively.

Gross profit

The gross profit for FY2007 was RMB2,528.9 million, an increase of RMB668.0 million or 35.9% as compared with the RMB1,860.9 million recorded in the last financial year. Overall gross margin for the year improved from 23.5% to 25.7%. In the financial year 2007, the gross margin of packaging paperboard products and kraft pulp were improved from 23.4% to 25.4% and 27.2% to 34.0% respectively. The increase in gross margin was due to the Group's strong bargaining power in the industry value chain, economies of scale provided by production capacity expansion, further optimisation of the Group's paper machines, further realisation of synergies from the group companies and management's efforts on overhead control.

Other gains — net

Other gains, net, of the Group decreased to RMB311.2 million in FY2007 from RMB357.0 million in the last financial year. By excluding the interest income of RMB117.7 million derived from the lock up of subscription funds from over-subscription during the listing of the Company's Shares in March 2006, there was an increment of RMB71.9 million over the last financial year. The increment was mainly the net effects of increase in sales of scrap materials and net foreign exchange gains and partly offset by decrease in sales of electricity. The decrease of electricity sales was mainly due to the increase in paper production capacity, which resulted in higher electricity consumption as compared with the last financial year.

Operating profit

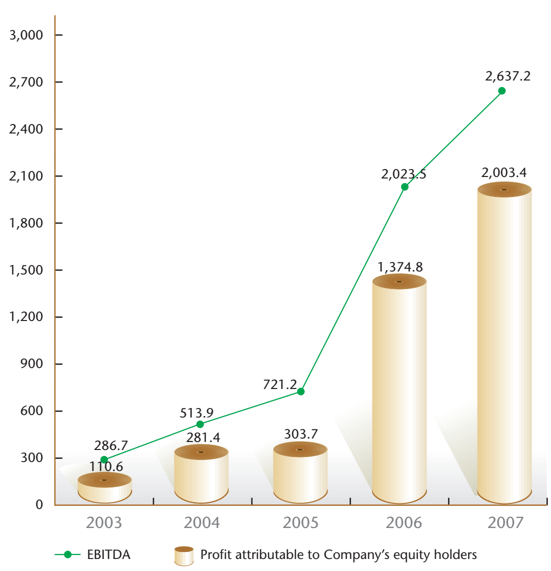
The operating profit for FY2007 was RMB2,293.4 million, going up by 26.6% over the last financial year. The increase percentage was in line with revenue growth rate.

Selling and marketing costs were RMB195.4 million in FY2007, compared with RMB172.8 million in FY2006. The total amount of selling and distribution costs as a percentage of the Group's revenue decreased from 2.2% in the last financial year to 2.0% in FY2007, which was resulted from the Group's continual improvement of management efficiency and strong sales performance.

Administrative expenses increased from RMB233.9 million in the last financial year to RMB351.3 million in FY2007. The increase was mainly a result of RMB102.4 million expenses on share options granted under Pre-IPO Option Scheme and 2006 Option Scheme. Additional management and administrative costs were also incurred to support the commencement of new paper machines. The amount of administrative expenses as a percentage of Group revenue increased from 3.0% in the last financial year to 3.6% in FY2007. The Group's administrative expenses amounted to RMB248.9 million after deducting the share option expenses, representing 2.5% of the group's revenue. While offsetting the profitability enhancement contributed by lower proportion of selling and marketing costs to revenue, the proactive investment in human resources assures the Group's growth sustainability.

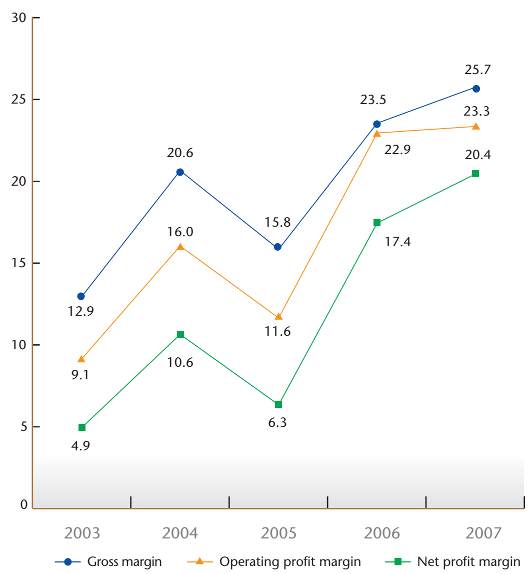
Results performance

RMB million



Profitability ratios

Percentage (%)



Net profit and dividends

The profit attributable to equity holders for FY2007 was RMB2,003.4 million, an increase of RMB628.6 million as compared with the last financial year. The ratios of EBIT and EBITDA to revenue were 23.1% and 26.8% respectively.

The Group's finance costs decreased by 55.4% to RMB131.4 million in FY2007 from RMB294.8 million in FY2006. The substantial decrease in the Group's finance costs was mainly the result of the upgrade of the Group's credit profile and optimising loan portfolio mix in terms of maturity and currency, which was attributable to the amelioration of the Group's financial position after listing and the exchange gains of foreign currency borrowings attributed by continuous appreciation of RMB during the financial year.

Basic earnings per share for FY2007 and the last financial year were RMB0.48 and RMB0.41 respectively. During the year, the Group declared and paid an interim dividend of RMB1.60 cents per share, which amounted to RMB65.6 million. The directors have proposed a final dividend of RMB10.00 cents per share, which will aggregate to RMB429.1 million. The total dividend for the year amounted to RMB11.60 cents per Share, representing an increase of RMB9.30 cents per Share or approximately 4 times from the previous financial year.

Working capital

	As at 30 June	
	2007	2006
Inventories (in RMB million)	1,502.5	932.0
Average inventories as a percentage of Group cost of goods sold (%)	20.6	15.4
Turnover days (days)	75	56
Trade receivables and bills receivable ("trade receivables") (in RMB million)	1,770.4	1,312.4
Average trade receivables as a percentage of Group revenue (%)	18.0	16.6
Turnover days (days)	66	61
Trade payables and bills payable ("trade payables") (in RMB million)	1,068.5	1,516.8
Average trade payables as a percentage of cost of goods sold (%)	14.6	25.1
Turnover days (days)	53	92

The inventories increased by approximately RMB570.5 million for FY2007 and amounted to approximately RMB1,502.5 million, representing an increase of 61.2% from that of last financial year. Inventories mainly comprise recovered paper and kraft pulp of approximately RMB1,219.4 million and finished goods of approximately RMB283.1 million. During FY2007, inventory turnover was approximately 75 days as compared to 56 days for FY2006. The longer inventory turnover period during FY2007 was primarily the result of storing a stable amount of raw materials for deployment by increased production capacity in FY2008.

Trade receivables increased by approximately RMB458.0 million for FY2007 and amounted to approximately RMB1,770.4 million, representing an increase of 34.9% from that of last financial year. During FY2007, the turnover days of trade receivables was approximately 66 days as compared to 61 days for FY2006.

Trade payables decreased by approximately RMB448.3 million for FY2007 and amounted to approximately RMB1,068.5 million, representing a decrease of 29.6% from that of last financial year. Creditors' turnover days was approximately 53 days for FY2007 and was in line with the credit period granted by most suppliers.

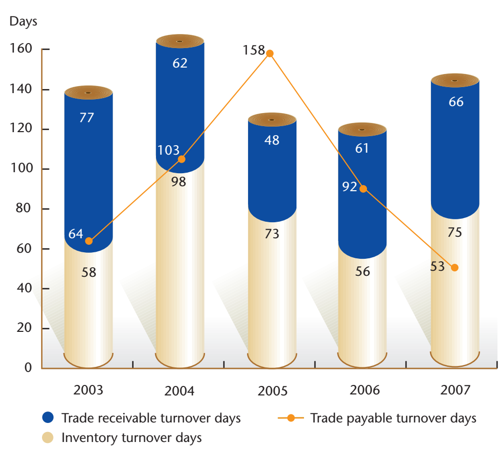
Liquidity and financial resources

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

The Group's net cash inflow from operating activities decreased from approximately RMB1,067.1 million in 2006 to approximately RMB756.1 million in 2007, representing a decrease of approximately 29.1%. The decrease was attributable primarily to the changes in working capital, mainly the increase of year end trade receivables and inventories. In terms of available financial resources as at 30 June 2007, the Group had total undrawn borrowing facilities of RMB8,865.5 million and cash and bank balances of RMB1,748.2 million.

As at 30 June 2007, the shareholders' funds were RMB11,512.9 million, an increase of RMB3,971.5 million from that of the last financial year. The shareholders' fund per share increased by 47.3% from RMB1.82 to RMB2.68.

Liquidity ratios



The Group had outstanding bank loans and borrowings as at 30 June 2007 of approximately RMB6,632.0 million of which approximately RMB2,543.1 million shall be repaid within 1 year, approximately RMB1,028.3 million shall be repaid after 1 year but within 2 years, approximately RMB3,057.4 million shall be repaid after 2 years but within 5 years and approximately RMB3.2 million shall be repaid after 5 years. With most of the procedures for the release of securities for borrowings after listing of the Group completed during FY2007, the percentage of secured loans decreased from 21.3% in previous financial year to 0.05%.

The net borrowings to equity ratio of the Group as at 30 June 2007 increased from 25.2% to 42.4%, due to draw down of bank loans to fund the capital expenditure requirements of the Group.

Treasury policies

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

The treasury policies followed by the Group aim to:

(a) *Minimise interest risk*

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

During FY2007, the Group executed new loan agreement to refinance substantial portfolio of the loans draw down under previous agreements which carried a higher interest rate.

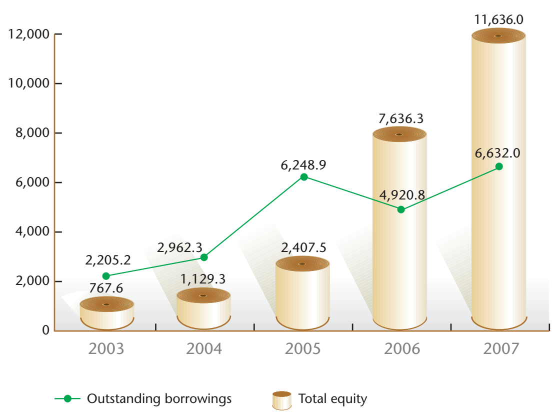
The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR and LIBOR interest rate swap contracts at a minimal price.

(b) *Minimise currency risk*

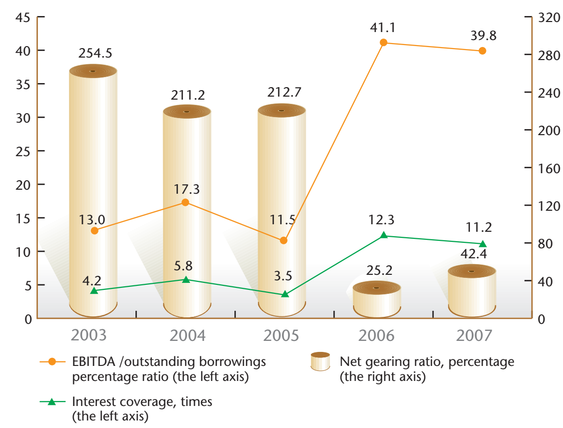
The Group has contracted new bank loans in US$ or HK$ for its subsidiaries in China to the extent allowable in view of the continued strengthening of the RMB.

Debt and equity

RMB million



Debt Serving Capability



Management Discussion & Analysis

Taking advantage of the liquidity in the Hong Kong banking system and with a view to address the Group's capital commitment requirements for capacity expansion, the Group executed two unsecured syndicated loan agreements, one in US$ and the other one in HK$, with financial institutions during FY2007 in a total amount of equivalent to US$644.3 million. The US$ unsecured syndicated loan was executed on 19 September 2006 and has a maturity of 4 years with interest cost of 55 basis points over LIBOR. The 5 year HK$ unsecured syndicated loan was concluded on 18 June 2007 which bears interest rate of 45 basis points over HIBOR. The syndicated loans both received encouraging responses from the market with the support from financial institutions including China Development Bank and Export Development Canada. These new loans have served to push out maturities of loans, reduced the Group's average loan interest margin and have also increased the proportion of non-RMB borrowings considering the appreciation of RMB.

As at 30 June 2007, total foreign currency borrowings amounted to the equivalent of RMB3,406.9 million and RMB loans amounted to RMB3,225.1 million, representing 51.4% and 48.6% of the Group's borrowings respectively. It is the policy of the Group to increase the proportion of foreign currency borrowings in view of the appreciation of RMB.

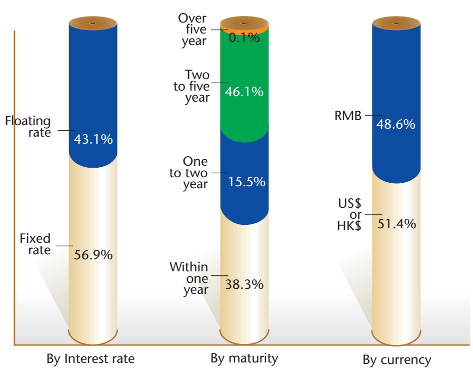
With the fast development of the bond market in China, Dongguan Nine Dragons Paper Industries Limited ("Dongguan Nine Dragons"), a subsidiary of the Company, has issued a RMB short-term corporate bond of RMB400.0 million on 18 September 2007 with annual interest rate of 5.25%. The purpose of the corporate bond is to finance the working capital of Dongguan Nine Dragons. With the issuance of short-term corporate bond, the Group has successfully diversified its funding channel and explored a new fund raising channel, China's bond market, with the benefits of relative lower funding cost, sizeable market and higher efficiency as compared to the traditional short-term bank loans.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

Capital expenditures

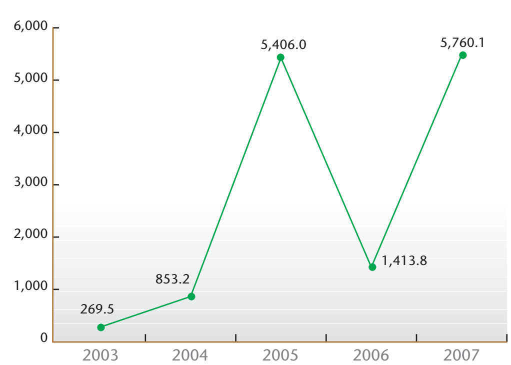
For FY2007, the Group invested approximately RMB5,760.1 million for the construction of factory buildings, purchase of plant and machinery, equipment and land use rights. These capital expenditures were fully financed by internal resources, net proceeds from the issue of new shares and bank borrowings.

Financing means and currency



Capital expenditures

in RMB million



Review of lives for depreciation purpose of property, plant and equipment

The long lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the Group's total assets. The annual depreciation charge depend primarily on the estimated lives of each type of assets and, in certain circumstances, estimates of fair values and residual values. The Directors are reviewing periodically these assets lives and the expected pattern of consumption of the future economic benefits embodied in the assets and change the depreciation method necessary to reflect current consideration on remaining lives in light of technological change, respective economic utilisation and physical conditions of the assets concerned.

Capital commitments and contingencies

The Group expected to invest approximately RMB6,748.8 million on capacity expansion in FY2008 and FY2009.

The Group made capital expenditure commitments mainly for machineries of approximately RMB939.2 million which were authorized but not contracted and approximately RMB5,809.5 million were contracted but not provided for in the financial statements as at 30 June 2007. These commitments were mainly related to the expansion of the Group's production capacity.

As of the financial year end date, the Group had no material contingent liabilities.

Use of proceeds from issue of new Shares

The net proceeds raised from the successful placing and public offer of the Company's Shares on 3 March 2006 amounted to approximately RMB3,829.3 million. During the year, the Group has fully utilised the remaining balance of the net proceeds of RMB1,394.6 million as funding for capital expenditures.

On 16 April 2007, the Group raised proceeds of RMB2,011.0 million by way of subscription for new Shares. The proceeds has been applied to supplement the Group's funding of its expansion and growth plan of the paper manufacturing facilities of the Group in China.

The Group in the Last Five Years

In millions of RMB

For the year ended 30 June

Consolidated Income Statement	FY2007	FY2006	FY2005	FY2004	FY2003
Sales	9,837.7	7,902.2	4,825.4	2,653.5	2,244.8
Cost of goods sold	(7,308.8)	(6,041.3)	(4,064.9)	(2,105.7)	(1,954.3)
Gross profit	2,528.9	1,860.9	760.5	547.8	290.5
Other gains — net	311.2	357.0	24.1	5.3	3.1
Selling and marketing costs	(195.4)	(172.8)	(91.5)	(60.2)	(51.0)
Administrative expenses	(351.3)	(233.9)	(135.0)	(67.3)	(39.1)
Operating profit	2,293.4	1,811.2	558.1	425.6	203.5
Finance costs	(131.4)	(294.8)	(179.8)	(85.1)	(62.1)
Profit before income tax	2,162.0	1,516.4	378.3	340.5	141.4
Income tax expense	(101.7)	(116.3)	(60.4)	(52.7)	(30.9)
Profit for the year	2,060.3	1,400.1	317.9	287.8	110.5
Profit attributable to:					
Equity holders of the Company	2,003.4	1,374.8	303.7	281.4	110.6
Minority interests	56.9	25.3	14.2	6.4	(0.1)

Consolidated Cash Flow Statement	FY2007	FY2006	FY2005	FY2004	FY2003
Net cash generated from operating activities	756.1	1,067.1	1,063.0	341.3	35.3
Net cash used in investing activities	(5,524.0)	(1,454.1)	(1,537.3)	(827.2)	(692.7)
Net cash generated from financing activities	3,727.0	2,556.0	681.4	795.4	490.9
Net (decrease)/increase in bank and cash balances	(1,040.9)	2,169.0	207.1	309.5	(166.5)

In millions of RMB

Consolidated Balance Sheet	As at 30 June FY2007	FY2006	FY2005	FY2004	FY2003
Total assets	20,362.4	14,872.6	11,700.3	5,499.5	3,869.8
Inventories	1,502.5	932.0	998.2	566.1	311.8
Trade receivables and bills receivable	1,770.4	1,312.4	763.3	447.3	472.0
Prepayments and other receivables	417.7	246.6	233.7	715.3	567.6
Derivative financial instruments	24.9	—	—	—	—
Bank and cash balances	1,748.2	3,017.3	1,310.9	746.9	252.2
Total current assets	5,463.7	5,508.3	3,306.1	2,475.6	1,603.6
Property, plant and equipment	13,802.7	8,625.5	7,640.0	2,864.9	2,115.7
Land use rights	949.3	592.1	607.5	159.0	150.5
Intangible asset	146.7	146.7	146.7	—	—
Total non-current assets	14,898.7	9,364.3	8,394.2	3,023.9	2,266.2
Total liabilities	8,726.4	7,236.3	9,292.8	4,370.2	3,102.2
Trade payables and bills payable	1,068.5	1,516.8	2,167.7	593.6	341.5
Other payables	698.1	476.7	646.7	671.2	459.0
Current income tax liabilities	21.4	67.4	44.5	30.1	4.0
Derivative financial instruments	7.4	—	—	—	—
Short-term borrowings	2,543.1	2,176.9	2,431.6	1,236.8	1,124.3
Total current liabilities	4,338.5	4,237.8	5,290.5	2,531.7	1,928.8
Long-term borrowings	4,088.9	2,743.9	3,817.3	1,725.5	1,080.9
Deferred income tax liabilities	281.8	226.8	169.8	103.7	77.3
Other payables	17.2	27.8	15.2	9.3	15.2
Total non-current liabilities	4,387.9	2,998.5	4,002.3	1,838.5	1,173.4
Net current assets/(liabilities)	1,125.2	1,270.5	(1,984.4)	(56.1)	(325.2)
Total assets less current liabilities	16,023.9	10,634.8	6,409.8	2,967.8	1,941.0
Capital and reserves attributable to equity holders of the Company	11,512.9	7,541.4	2,321.9	1,049.0	767.4
Minority interests	123.1	94.9	85.6	80.3	0.2

The Group in the Last Five Years

Financial Ratios	2007	2006	2005	2004	2003
	As at and for the year ended 30 June				
EBITDA *(in RMB million)*	2,637.2	2,023.5	721.2	513.9	286.7
Profitability ratios					
Gross profit margin(1) (%)	25.7	23.5	15.8	20.6	12.9
Operating profit margin(2) (%)	23.3	22.9	11.6	16.0	9.1
Net profit margin(3) (%)	20.4	17.4	6.3	10.6	4.9
EBITDA ratio (%)	26.8	25.6	14.9	19.4	12.8
Rate of return on equity(4) (%)	17.4	18.2	13.1	26.8	14.4
Rate of return on capital employed(5) (%)	12.0	13.3	5.4	8.8	5.3
Liquidity ratios					
Current ratio(6) (times)	1.3	1.3	0.6	1.0	0.8
Quick ratio(7) (times)	0.9	1.1	0.4	0.8	0.7
Inventory turnover(8) (days)	75	56	73	98	58
Trade receivable turnover(9) (days)	66	61	48	62	77
Trade payable turnover(10) (days)	53	92	158	103	64
Capital adequacy ratios					
Gearing ratio(11) (%)	32.6	33.1	53.4	53.9	57.0
Net borrowings to equity ratio(12) (%)	42.4	25.2	212.7	211.2	254.5
Interest coverage(13) (times)	11.2	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 attributable 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.

Environmental Dedication

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 2007, the Company followed the principles and complied with all applicable provisions under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its 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.

Securities Transactions by Relevant Employees

The Board has adopted the Model Code for Securities Transactions by Relevant Employees setting out the guidelines for relevant employees in respect of the dealings in the securities of the Company.

The relevant employees must not deal in any shares of the Company without first notifying in writing the Chairman or the Company Secretary and receiving a dated written acknowledgement.

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 nine directors, including four executive directors, one non-executive director and four independent non-executive directors. Ms. Cheung is the spouse of Mr. Liu while Mr. Zhang is a brother of Ms. Cheung. Mr. Lau Chun Shun is the son of Ms. Cheung and Mr. Liu and a cousin of Mr. Zhang. Save as disclosed above, the Board members have no financial, business, family or other material/ relevant relationship with each other.

Biographical details of the Directors, showing a good balance of professional expertise and diverse range of experience among them, are set out on pages 65 and 70 of this Annual Report.

A Director who considers a need for independent professional advice in order to perform his/her duties as a Director may convene, or request the Company Secretary to convene a meeting of the Board to approve the seeking or independent legal or other professional advice.

All 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 Board held five meetings in FY2007 and meetings attended by each of the Directors were as follows:

Name of Directors	Meetings attended/ eligible to attend
Executive directors	
Ms. Cheung *(Chairman)*	4/5
Mr. Liu	4/5
Mr. Zhang	4/5
Mr. Wang Hai Ying *(resigned on 28 February 2007)*	0/4
Ms. Gao Jing *(appointed on 6 July 2006)*	3/4
Non-executive director	
Mr. Lau Chun Shun	5/5
Independent non-executive directors	
Ms. Tam Wai Chu, Maria	5/5
Mr. Chung Shui Ming, Timpson	4/5
Dr. Cheng Chi Pang	5/5
Mr. Wang Hong Bo	5/5

Chairman and Chief Executive Officer

To avoid concentration of power and control, the position of the Chairman and the Deputy Chairman cum Chief Executive Officer are segregated and each plays a distinctive role but complementing each other. 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.

Independent non-executive Directors

The INEDs are appointed for a specific term, subject to re-election, which will run until the conclusion of the annual general meeting in accordance with the Company's Bye-laws. Two INEDs have professional accounting qualifications and extensive financial management expertise which exceeded the requirement of Listing Rule 3.10. 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 Listing Rules, and considers that all of the independent non-executive directors are independent.

Directors' Responsibility for the Financial Statements

The Directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, 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 2007, 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 are set out in the Auditor's Report on page 79 to 80.

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 (Chairman), Mr. Liu and Mr. Zhang.

Remuneration Committee

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

A separate report prepared by the Remuneration Committee which summarized its works performed during the year ended June 2007, and also set out details of the share options to the Directors and the employees on page 47 to 52 of this Annual Report.

The details of the remuneration of Directors are set out on note 22 to the consolidated financial statements. No Director or any of his/her associates is involved in deciding his/her own remuneration.

Audit Committee

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

A separate report prepared by the Audit Committee which summarized its works performed during the year ended June 2007 is set out on page 53 to 54 of this Annual Report.

Risk Control Committee

The Risk Control Committee is formed by the Supervision Department, Finance Department and Group Management Department. The primary duties of the Risk Control Committee are strengthening the control environment; assessing relevant risks and carrying out necessary control activities; ensuring seamless information exchange; exercising appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identifying risks and analysing such risks which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establishing internal control measures for 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 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 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 30 days prior to the AGM (statutory requirement : 21 days). 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.

The Board endeavours to maintain an on-going dialogue with Shareholders. The annual general meeting provides a useful forum to exchange views with the Board.

Matters resolved at the 2006 AGM and the percentage of votes cast in favour of such resolutions are set out below:

- Approval of the audited financial statements for the year ended 30 June 2006 (99.99%)
- Approval of a final dividend of RMB2.3 cents per share for the year ended 30 June 2006 (99.99%)
- All directors were re-elected and elected as directors (99.31% to 99.17% in respect of each individual resolution)
- Fix the remuneration of the Directors (99.06%)
- Re-appointment of PricewaterhouseCoopers as the external auditors of the ND Holdings (99.99%)
- Grant of a general mandate to Directors to issue additional shares in the Company (93.30%), repurchase by the Company of its own shares (99.99%), extension of the general mandate regarding issue of additional shares (97.59%).

The poll results were published in newspapers and on the Company's website (www.ndpaper.com).

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 pages 135 to 137 in this annual report.

With regard to the consultation paper on "Periodic Financial Reporting" published on August 2007 by the HKSE, proposing the introduction of shortening of reporting deadlines for half-yearly and year-end announcements and reports for Main Board issuer; and the introduction of quarterly reporting for Main Board issuers, we believe such move will further enhance the transparency of the Company. We will closely monitor the progress of implementation and we will accommodate proactively and make every changes if necessary.

The Remuneration Committee was established in March 2006. With primary objective 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.

The Remuneration Committee met twice in FY2007 and meetings attended by each of the members were as follows:

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

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 of the member shall be INEDs.

Objectives

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.

Summary of major work done in FY2007

During the year ended 30 June 2007, the Remuneration Committee held two meetings with 100% attendance. The following is a summary of the major tasks completed by the Remuneration Committee during the year.

- recommended the Board to approve the fee of the INEDs;
- reviewed the remuneration of Directors;
- reviewed and approved the remuneration packages and service contracts of executive directors;
- recommended the performance bonus to be awarded to Directors and senior management; and
- considered and proposed the grant of the share options to the 3 executive directors.

Share Option Schemes

The Company operates two share option schemes, namely a Pre-Listing Share Option Scheme and a 2006 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-Listing Share Option Scheme

The purpose of the Pre-Listing Share Option Scheme is to recognise the contribution of certain employees, executives and officers of the Group made or may have made to the growth of the Group and/or the listing of the shares on the Stock Exchange. The principal terms of the Pre-Listing Share Option Scheme, which were ratified, confirmed and approved by resolutions in writing of all the shareholders passed on 12 February 2006 with effect from 1 January 2006, are substantially the same as the terms of the 2006 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-Listing Share Option Scheme is 100,000,000 shares; and

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

Details of the options outstanding under the Pre-Listing Share Option Scheme during the year are as follows:

		Number of share options				
Grantees	Balance as at 1 July 2006	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2007	Approximate percentage of shareholding
i) Directors						
Ms. Cheung *(note 3)*	16,923,315	(3,384,663)	—	—	13,538,652	0.316%
Mr. Liu *(note 3)*	16,914,184	—	—	—	16,914,184	0.394%
Mr. Zhang	11,814,821	(2,362,964)	—	—	9,451,857	0.220%
Ms. Gao Jing	500,000	(100,000)			400,000	0.009%
Ms. Tam Wai Chu, Maria	1,166,670	(233,334)	—	—	933,336	0.022%
Mr. Chung Shui Ming, Timpson	1,166,670	(233,334)	—	—	933,336	0.022%
Dr. Cheng Chi Pang	1,166,670	—	—	—	1,166,670	0.027%
	49,652,330	(6,314,295)	—		43,338,035	1.010%
ii) Employees and others	48,933,670	(9,337,734)	—	(1,547,600)	38,048,336	0.887%
Total	**98,586,000**	**(15,652,029)**	**—**	**(1,547,600)**	**81,386,371**	**1.897%**

* *The issued share capital of the Company was 4,290,652,029 as at 30 June 2007*

Notes:

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

(2) Each of the grantees to whom options have been conditionally granted under the Pre-Listing 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 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-Listing Share Option Scheme.

(3) Mr. Liu is the spouse of Ms. Cheung. Therefore, 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.

(4) The weighted average closing price immediately before the dates on which the options were exercised was HK$12.57.

Save as disclosed above, no option was granted, cancelled or lapsed under the Pre-Listing Share Option Scheme during the year ended 30 June 2007.

2006 Share Option Scheme

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

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

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

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

	Number of share options						
Grantees	Balance as at 1 July 2006	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2007	Approximate percentage of shareholding
Directors							
Ms. Cheung	—	41,500,000	—	—	—	41,500,000	0.967%
Mr. Liu	—	41,500,000	—	—	—	41,500,000	0.967%
Mr. Zhang	—	41,500,000	—	—	—	41,500,000	0.967%
Total	**—**	**124,500,000**	**—**	**—**	**—**	**124,500,000**	**2.901%**

* *The issued share capital of the Company was 4,290,652,029 as at 30 June 2007.*

Notes:

1. The exercise price of 2006 Share Option Scheme is HK$9.8365 per share, being about 3% premium to the higher of the closing price of the Shares on 26 October 2006, the date of the meeting of the Board to consider and propose the grant of the share options, and the average closing price of the Shares for the five trading days immediately preceding 26 October 2006.

2. The share options granted under 2006 Share Option Scheme will have a maximum term of five years.

3. Ms. Cheung, Mr. Liu and Mr. Zhang have been granted Pre-Listing Share Options for 16,923,315 Shares, 16,914,184 Shares and 11,814,821 Shares respectively, each of them of which when aggregated with the options granted under the 2006 Share Option Scheme were exceeded 1% of the issued share capital of the Company within a 12 month period. Such further grant had been separately approved by the Shareholders at 2006 SGM.

4. The exercisable of the share options is subject to the achievement of the performance targets of profit. The each of the five financial years during from 1 July 2007 to 30 June 2011 (the "Particular Period") has different performance targets of profit. The performance target of profit is calculated based on the net profit of the Group for FY2006 which excludes the interest income of the Company derived from the over-subscription of the shares during the Pre-Listing Initial Public Offering in March 2006 ("Net Profit FY2006"). The performance targets of profit is calculated based on the 35% growth of the Net Profit FY2006 on the annual basis. If the performance target of profit is met in the Particular Period, the share options associated with the Particular Period will be exercised.

   The performance targets are as follows:

	Performance target of profit
FY2007	Not less than 135% of the Net Profit FY2006
FY2008	Not less than 170% of the Net Profit FY2006
FY2009	Not less than 205% of the Net Profit FY2006
FY2010	Not less than 240% of the Net Profit FY2006
FY2011	Not less than 275% of the Net Profit FY2006

The Remuneration Committee will be responsible for monitoring the performance targets of the profit of the Group and whether or not that the Group has been met the targets for each of the relevant years.

Save as disclosed above, no any other options were granted, cancelled or lapsed under the 2006 Share Option Scheme during the year ended 30 June 2007.

Value of Share Options

The fair value of options granted during the year ended 30 June 2007 are determined used "Black-Scholes model" (the "Model"). Key assumptions of the Model are:

Risk-free rate:	3.75% — 3.81%
Expected dividend yield:	1.00% — 4.50% per annum
Expected volatility of the market price of the Company's shares:	28%
Expected life (in year) :	1.2 to 4.7 years

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

The total fair value of the share options granted during the year ended 30 June 2007 are RMB368,000,000.

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. Lau Chun Shun and Ms. Gao Jing had entered into a service contract with the Company for a period of one year commencing on 3 March 2007 and 6 July 2007 respectively, which may be terminated by either party upon three months' notice.

Each of Independent non-executive directors, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang 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 2007, which may be terminated according to the Bye-Laws of the Company.

Save as disclosed above, no director proposed for re-election at the 2007 AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Emolument Details

Details of the emoluments of the directors and the senior management are set out in note 22 to the financial statements.

Members

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

Terms and Reference

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.

Summary of major work done in FY2007

The Audit Committee holds regular meetings at least four times a year and organizes additional meetings if and when necessary. During FY2007, the committee held seven meetings with 100% attendance. The following is a summary of the tasks completed by the Audit Committee during 2006/07:

- reviewed the financial statements for the year ended 30 June 2006 and for the six months ended 31 December 2006;
- reviewed the external auditor's audit plan, 2006 letter of representation and audit engagement letter;
- considered and approved the 2006 external audit fees;
- reviewed the "Connected Transactions" set forth on pages 57 of this Annual Report;
- reviewed the "Continuing Connected Transactions" set forth on pages 57 to 60 of this Annual Report;
- reviewed the purchase terms and the fairness of the Group's basis of selecting its recovered paper suppliers quarterly;
- Reviewed the reports issued by the auditors of the Company on all the transactions conducted between the Group and ACN; and
- reviewed the Company's internal control systems.

Audit Committee

The Audit Committee met seven times in FY2007 and meetings attended by each of the members were as follows:

Name of Member	Meetings attended/ eligible to attend
Dr. Cheng Chi Pang *(Chairman)*	7/7
Ms. Tam Wai Chu, Maria	7/7
Mr. Chung Shui Ming, Timpson	7/7
Mr. Wang Hong Bo	7/7

Financial Reports

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

Review of Internal Control and Risk Management Systems

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

Re-Appointment of External Auditors

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers be re-appointed as the Company's external auditors for 2008.

For the year ended 30 June 2007, the external auditor of the Company received approximately RMB4.50 million for audit services and RMB0.07 million for tax and other services.

The Board holds the overall responsibility for the establishment and maintenance of a sound system of internal control and the review of its effectiveness in order to safeguard the shareholders' investment and the Group's assets. Particular emphasis is placed on professional ethics, personnel competence and management effectiveness.

The Risk Control Committee, consisting of the Deputy Chief Executive Officer as the chairman, Supervision Department, Group Management Department and Finance Department, is established to implement internal controls and risk management of the company. The Group has designed a system of internal control and risk management includes various policies, procedures and control activities to control business risk, financial risk, compliance risk and operational risk.

Business Risk

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

Financial Risk

The Group's financial risk management policies governs the Group's cost control, asset management, treasury management, logistics supervision, financial reporting promptness management, investment return assurance, interest risk management, currency risk management to credit risk management, and ensures overall financial risks are well under supervision and control.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies.

Compliance Risk

Clear systems and procedures are established to ensure compliance with the relevant legislation and regulations.

Besides, we engage the professional firms and consulting companies to keep us abreast of the latest developments in different fields including legal, financial, environment, operation and business.

Internal Control and Risk Management

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

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

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

Operational Risk

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

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

During FY2007 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be connected transactions and continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

(1) Exempt Connected Transaction

On 18 May 2007, Sky Dragon Paper Industries (HK) Co., Limited, an indirect wholly owned subsidiary of the Company, entered into an acquisition agreement with Mr. Zhang, to acquire from Mr. Zhang the entire issued share capital of Sky Dragon Paper Industries Co., Ltd. which indirectly holds the parcel of land of approximately 659,118 sq.m. in Dongguan ("Dongguan Land") for a cash consideration of RMB1.00 (the "Acquisition"). After completion of the Acquisition, the Group assumed the net outstanding obligation of RMB151,928,060 representing the transfer price of the Dongguan Land, other relevant fees payable to the government authorities for obtaining the title of the Dongguan Land and the loans borrowed by Dongguan Sky Dragon Paper Industries Co., Ltd. (東莞天龍紙業有限公司) for acquisition of the Dongguan Land.

The transaction under the Acquisition constitutes an exempted connected transaction of the Company under Rule 14A.32 of the Listing Rules and is thus exempt from independent Shareholders' approval requirement but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

(2) Exempt Continuing Connected Transactions

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.

Before listing on the Stock Exchange, the Group has been granted conditional waivers from strict compliance with the disclosure requirements for the period from 3 March 2006 to 30 June 2008 for these transactions. Due to better-than-expected sales of the Group's products and the anticipated strong growth in demand for the Group's products, the Group has been further granted conditional waiver to increase the annual caps for the Longteng Purchase Agreement, the Longteng Supply Agreement, the Forestry Supply Agreement and the Taicang Purchase Agreement on 27 February 2007.

(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")***

Zhang's Enterprises Company Limited ("Zhang's"), an indirect subsidiary of the Company, and Dongguan Longteng entered into the Longteng Purchase Agreements dated 12 February 2006 and 27 February 2007. Pursuant to the Longteng Purchase Agreements, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 3 March 2006 to 30 June 2008. Dongguan Longteng is a company which is held as to 70% by Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB116.1 million and RMB120 million respectively.

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

Pursuant to the Longteng Supply Agreements entered into between Zhang's and Dongguan Longteng dated 12 February 2006 and 27 February 2007, Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group from 3 March 2006 to 30 June 2008.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB45.7 million and RMB50.0 million respectively.

(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")***

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") is owned as to 55% by the Company and 45% owned by Forestry Industry Group. On 12 February 2006 and 27 February 2007, ND Xing An and Forestry Industry Group, which is a substantial shareholder of ND Xing An, entered into the Forestry Supply Agreement whereby Forestry Industry Group agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group from 3 March 2006 to 30 June 2008.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB108.1 million and RMB130.0 million respectively.

(3) Non-exempt Continuing Connection 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")

Pursuant to the Taicang Purchase Agreements entered into between Zhang's and Taicang Packaging dated 12 February 2006 and 27 February 2007, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from 3 March 2006 to 30 June 2007. Taicang Packaging is a company which is held as to 100% by Mr. Zhang.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB193.6 million and RMB200.0 million respectively.

(ii) Supply Agreement with ACN (the "ACN Supply Agreement")

Pursuant to the ACN Supply Agreement entered into between the Company and ACN dated 12 February 2006, ACN agreed to supply recovered paper to members of the Group from 3 March 2006 to 30 June 2008.

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.

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. During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB2,922.4 million and RMB4,024million respectively.

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

(i) 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

(ii) 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 year ended 30 June 2007.

For the purposes of the conditions of the waiver granted by the Stock Exchange in relation to the ACN Supply Agreement, the auditor of the Company have performed certain agreed-upon procedures on the above continuing connected transactions for the year ended 30 June 2007 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 ("HKICPA").

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.

The connected transaction mentioned in (1) above and the continuing connected transactions mentioned in (2) and (3) above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;
(ii) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
(iii) in accordance with the relevant agreements governing such transactions; and
(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has performed certain agreed-upon procedures in respect of the continuing connected transactions mentioned in (2) to (3) above, and on a sample basis with respect to items (ii) and (iii) below in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the HKICPA. The auditor has, based on the work performed, provided a letter to the Board stating that the continuing connected transactions:

(i) have been 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 and an announcement dated 27 February 2007.

The Group is aware of the seriousness of global warming crisis and has made its full commitment to this challenge by reducing emission and energy usage. ND Paper will continue to invest in energy conservation equipments in new capital investment planning and employ a more comprehensive and upgrade design to ensure higher level of energy efficiency for new PMs.

Commitment to Environmental Protection

ND Paper persists in the concept of "No environment, no paper". As a leading packaging products manufacturer in the world, we always make environmental protection our top priority and our obligation as a corporate citizen.

The Group has maintained high environmental standards in its operation. An environmentally-friendly operation system is adopted for our paper production. ND Paper has established a special department to set up proven environmental protection systems for managing wastewater treatment, emission, solid waste treatment and noise control. With a mission to respect and protect the environment, our environmental protection department improves the environmental protection practices from time to time as our production systems evolve. Our production facilities, which are of internationally-recognised environmental management standard, implement highly-effective environment management measures through the application of environmentally-friendly equipment and technologies of high quality.

In addition to performing our social obligations, higher operating efficiency is also resulted from our energy conservation and environmental protection system. Our environmental protection system can significantly reduce the risk of violation of environmental laws and regulations in our operations. Our commitment in environmental protection is indeed a valuable asset and competitive edge of the Group. Our goal is to strike a balance between our economic benefits and the well-being of the community while maintaining our precious environment, allowing our future generations to enjoy a much healthier and cleaner environment.

Environmentally-friendly Production Process

The production lines of the Group are all imported from international leading manufacturers. The water produced during the operation of the paper machines can be fully recycled. To achieve our objective to save energy and reduce consumption, we carry out clean production in our production lines, reduce water and electricity consumption of per product unit and control the sources of pollutants.

Wastewater Treatment

Clean water is an important natural resource and an essential element in paper production. Therefore, we strive for minimising pollution to water resources. The Group introduced the anaerobic aerobic two-stage biological treatment, which is the most advanced wastewater treatment technology in the world, and adopted the state-of-the-art automatic programmable logic controller (PLC) systems. An online monitoring system is in place to monitor our wastewater discharge for centralised management. The wastewater treatment rates of such systems are 100%. The level of discharged pollutants is measured based on the water quality parameter after treatment. The COD of our discharged water after treatment is less than 80 mg/l, which is better than the grade one national discharge standard of 100 mg/l.

Emission Control

In view of the increasingly serious global warming issue, the Group has a circulation fluidized bed solid waste incinerator which can effectively incinerate a wide range of low-grade fuels, including waste paper pulp, light slag and sewage from the wastewater treatment station. The system has low emission and is effective and environmentally friendly. We believe that ND Paper is one of the few paper manufacturers in China who are using such kind of incinerator. The use of low-grade fuels not only greatly reduces waste discharge but also reduces coal consumption and emission of carbon dioxide.

Our coal-fired power plants in the Dongguan and Taicang production bases are equipped with particulate filtration and desulphurisation equipment, and their emission levels are far better than the approved level under the applicable PRC regulatory requirements.

Solid Wastes Disposal

The solid wastes of the production process of the Company are mainly residual paper pulp, light slag and sewage. The Group installed an incinerator with a daily capacity of 300 tonnes in 2003 and two more incinerators will commence operations this year. By then, we can handle all the wastes produced to eliminate the environmental pressure on the community. Upon completion, each of these two additional incinerators can handle approximately 600 tonnes of wastes every day. These two incinerators apply advanced emission treatment equipment, fabric-bag filters for dust removal and half-dry desulphurisation facilities. Monitoring devices are installed for real-time monitoring.

Noise Control

All of our paper machines comply with the strict standards currently enforced in America and Europe and all international standards for noise control. We have installed noise-insulating enclosures and mufflers to our double-disc refiners and air compressors that produce heavy noises. Noise-insulating control rooms are set up in the paper-making workshops to prevent staff from working long hours under high-level noises. Personal noise protection devices like earplugs are used during inspection patrols.

Law-abiding and Trustworthy Corporate

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

The Group has never been charged for material violation of any environmental laws or regulations, or subject to any fine in respect thereof. In addition to ISO 14001 certification for environmental management, in 2006, Dongguan production base was granted with the honour of Green/Environmental Creditable Enterprise by the Environmental Protection Bureau of Guangdong Province. The Directors believe that the Group's record of environmental compliance in good standing has been a positive factor in obtaining regulatory approvals for its expansion projects.

Discharge Standards:

Projects	Unit	PRC Government approved level	ND Paper Standards	Parameter before treatment 2006	Parameter before treatment 2007	Parameter after treatment 2006	Parameter after treatment 2007
COD_{CR}	mg/l	≤100	80	2,500	2,500	<100	80
BOD_5	mg/l	≤20	20	1,000	1,000	<20	10
SS	mg/l	≤70	30	2,000	2,000	<70	28
PH		6~9	6~9	6~9	6~9	6~9	6~9
SO_2	mg/m^3	≤400	100	2,360	2,520	<55	60
Dust	mg/m^3	≤50	50	24,600	25,400	<29	30
NO_x	mg/m^3	≤450	450	—	—	<356	339

Sound Human Resources Management

High calibre management and staff teams are crucial to ND Paper's success. As a responsible and considerate employer, the Group adheres to the people-oriented philosophy for human resources management. In addition to providing staff with excellent benefits and comprehensive training, we value highly the importance of production safety for the improvement of the life quality of our staff in every aspect. Currently, we take the following measures to enhance the sense of satisfaction and loyalty of our staff:

1) Establish a fair and reasonable system of performance management to realise staff potential.

2) Adopt internal transfer and promotion system. Based on staff's performance and competence, we offer each employee opportunities for transfer, job rotation and promotion to improve the overall development of our staff.

3) Provide our staff with garden-style staff residences which facilities include track and field playground, football pitch, basketball court, tennis court, swimming pool and supermarket, creating a peaceful and harmonious environment to live and work in ND Paper.

4) Apply new staff communication system. All newly-recruited staff have to meet with the management three times during the probation period. These discussions allow the Group to understand how the new staff adapted to the job and to provide necessary assistance.

5) Adopt efficient opinion feedback and handling system. The system ensures strengthened communication between the management and staff, timely collection and handling of advices and complaints from the staff to continuously develop and perfect the management and technologies of the Company.

As for staff management, the Group strictly adheres to its principle of fair appraisal based on staff performance. With a view to boosting staff morale, we also offer competitive remuneration packages and performance-based incentive scheme. Staff salary is adjusted annually with reference to market levels and the Group's performance. Meanwhile, the Group has been assigning positions and tasks based on employees' expertise and encouraging them to initiate internal transfer according to their abilities and interests for fully turning their talents to good account. The Company's regulated internal promotion mechanism helps ensure outstanding performance from and excellent opportunities for talents.

We also encourage all our staff to pursue further studies, and implement a lifelong learning scheme including sending staff to universities for advanced studies which enables them to take advantage of their strengths at work in the future and take on all sorts of changes. The Group has collaborated with Zhongshan University in Guangzhou to launch EMBA and MBA courses as part of our staff incentive scheme for enriching their knowledge. In addition, the Group has helped dropped-out students in the poor regions of China to study in the South China University of Technology, and hired them after their graduation. These initiatives help guarantee the quality of our fast growing human resources for making more contributions to the society.

Apart from investment in personnel trainings, the Group also offers appropriate protection for our staff, so as to ensure a healthy environment for them to work and to live. ND Paper has won due recognition from international markets for our occupational health and safety management system, such as the OHSAS 18001 certification.

Social Responsibility

Apart from actively developing our business, ND Paper has also been devoted to community services. During this financial year, the Group has made donations in the total amount of RMB7 million to different sectors, including substantial subsidies to students from poor regions in China for further studying in the South China University of Technology and to other mainland educational institutions. Besides, the Group donated to local charities for making more contributions to the society.

Summary

ND Paper will continue adhering to the strategy of sustainable development by giving high priority to environmental protection, proactive commitment to social responsibility as a corporate citizen. Looking forward, we are committed to maintaining the harmony between the pursuit of economic achievement and social recognition.

Executive Director

Ms. Cheung Yan, 50, has been the Chairman of the Company since 6 February 2006. She is a founder of the Group and is in charge of the Group's overall corporate development and strategic planning. Ms. Cheung has nearly 8 years of experience in industrial accounting, over 11 years of experience in paper manufacturing and over 21 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, vice chairman of the Women's Federation of Commerce of the All-China Federation of Industry and Commerce, and executive vice president of the Guangdong Overseas Chinese Enterprises Association. 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, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 45, 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 16 years of experience in international trade and over 8 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, the brother-in-law of Mr. Zhang and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 39, 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 13 years of experience in procurement, marketing and distribution. Mr. Zhang is the younger brother of Ms. Cheung, Mr. Liu's brother-in-law and the uncle of Mr. Lau Chun Shun.

Ms. Gao Jing, 44, has been an Executive Director of the Company since 6 July 2006. She joined the Group in June 1996 and has 11 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.

Non-executive Director

Mr. Lau Chun Shun, 26, has been a Non-executive Director of the Company since 6th 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 Industrial 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 and Mr. Liu and the nephew of Mr. Zhang.

Independent Non-Executive Director

Ms. Tam Wai Chu, Maria, GBS, JP, 61, has been an Independent Non-Executive Director of the Company since 6 February 2006. She serves as Non-Executive Director of East Asia Satellite Television Limited, East Asia Satellite Television (Holding) Limited, eSun Holdings Limited and Independent Non-Executive Director of Guangnan (Holdings) Limited, Minmetals Land 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, 55, 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.

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, Deputy Chairman and Managing Director of Hantec Investment Holdings Limited, 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, 50, 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 26 years of experience in auditing, business advisory and financial management.

Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. 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 (Holdings) Limited, Tianjin Port Development Holdings Limited and Fortune Sun (China) Holdings Limited.

Mr. Wang Hong Bo, 53, 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. Ned COLO, 49, an Australian citizen, will become the General Manager, Southern China Region, in October 2007. He will take part in the strategic planning and development of the Group, and head the Group's southern China operations. Previously, he was Chief Executive of Visy Pulp & Paper Pty Ltd., a division of Visy Industries which is the world's largest private-owned recycling and packaging business. His career with Visy Industries spanned 25 years, having engaged in various roles in every facet of pulp and paper manufacturing, recycling, engineering, marketing, sales, export, recruitment, training and new project development. He has opened and managed a Hong Kong sales office and Shenzhen purchasing office for Visy Industries.

Mr. XIA You Liang, 42, 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 21 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, 57, 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, 44, 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 12 years. He has more than 20 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 and an associated member of the Institute of Chartered Accountants in England and Wales. 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.

Mr. ZHANG Du Ling, 37, has served as the Managing Deputy General Manager of Dongguan Nine Dragons Paper Industries Company Limited ("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 11 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. CHEUNG Man Hoi, Ronny, 37, has served as the Group's Financial Controller since June 2007 in charge of financial operation. Mr. Cheung holds a bachelor's degree in Accountancy and a master's degree in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 14 years of experience in accounting, auditing and finance and previously worked in one of the major international accounting firms where he accumulated experience in floatation and business advisory of a wide variety of business. Before joining the Group, he served as Chief Financial Officer and Financial Controller of several public companies listed in Hong Kong.

Mr. NG Kwok Fan, Benjamin, 51, 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, 49, 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 26 years of related working experience. Mr. Chu is a senior economist and he graduated from Shandong College of Economics with a bachelor's diploma in Finance.

Mr. HUANG Tie Min, 44, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering since November 1999. Mr. Huang has approximately 21 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, 39, 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 16 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, 45, 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 21 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, 39, 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 14 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. XIA Ying Hua, 46, has served as the Deputy General Manager of Taicang Nine Dragons in charge of administration, infrastructure development, liaison with relevant government authorities regarding project application and approval since 2003. Prior to joining the Group, Mr. Xia has served as a government official and therefore has the experience in liaising with government authorities. He graduated from Zhengzhou Industry College with a bachelor's degree in Engineering. He is a senior engineer.

Mr. WANG Le Xiang, 40, has served as Deputy General Manager of Dongguan Sea Dragon since July 2006 and became the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. ("Chongqing Nine Dragons") in charge of supervision and management in March 2007. Mr. Wang has over 15 years' experience in production, technology and management in the paper manufacturing industry. He graduated in 1991 from Tianjin Institute of Light Industry with a bachelor's degree in Stock Preparation and Paper Manufacturing Technology.

Mr. GUAN Deng Yuan, 48, has served as Deputy General Manager of Chongqing Nine Dragons in charge of general administration works. Mr. Guan has joined the Group since 1997 and was seconded to Chongqing in March 2007. Prior to joining the Group, he has worked in the Government for the Economic Management Department and therefore has the experience in liaison and communication with relevant government authorities. He graduated in 1992 from School of Central Community Economic Administration.

Comprehensive Staff Facilities

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for the year ended 30 June 2007.

Principal Businesses

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

Results and Appropriations

The results of the Group for the year ended 30 June 2007 are set out in the accompanying financial statements on page 83.

An interim dividend of RMB1.60 cents (equivalent to approximately HK1.60 cents) (2005: Nil) per share, amounting to a total of about RMB65,585,000 (equivalent to approximately HK$66,648,000) (2005: Nil), was paid to Shareholders on 23 March 2007.

The Directors recommend the payment of a final dividend of RMB10.00 cents (equivalent to approximately HK10.31 cents) per share for the year ended 30 June 2007, which is expected to be payable on 12 December 2007 subject to the approval of the 2007 AGM. 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 21 November 2007. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.97 as at 20 September 2007 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

Financial Summary

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 38 to page 40.

Subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2007 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 2007, the five largest customers of the Group accounted for approximately 13.4% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group account for less than 55.4% 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
Mr. Liu
Mr. Zhang
Ms. Gao Jing (appointed on 6 July 2006)
Mr. Wang Hai Ying (resigned on 28 February 2007)

Non-Executive Director

Mr. Lau Chun Shun

Independent non-executive Directors

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

In accordance with 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.

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 2007, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

The Company

(A) Interests in the Company

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

	Number of ordinary shares			Number of underlying shares (in respect of share options)			Approximate
Name of directors	Personal Interests	Family Interests	Corporate Interests	Personal Interests	Family Interests	Total	percentage of shareholding
Ms. Cheung	3,384,663	—	2,986,800,000	55,038,652	58,414,184	3,103,637,499	72.33%
Mr. Liu	—	3,384,663	2,986,800,000	58,414,184	55,038,652	3,103,637,499	72.33%
Mr. Zhang	2,362,964	—	—	50,951,857	—	53,314,821	1.24%
Ms. Gao Jing	100,000	60,000	—	400,000	1,600,000	2,160,000	0.05%
Ms. Tam Wai Chu, Maria	233,334	—	—	933,336	—	1,166,670	0.03%
Mr. Chung Shui Ming, Timpson	40,334	—	—	933,336	—	973,670	0.02%
Dr. Cheng Chi Pang	—	—	—	1,166,670	—	1,166,670	0.03%

Notes:

(1) Best Result directly held 2,986,800,000 shares in the Company. The issued share capital of Best Result is held as to approximately 34.516% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 2.557% by Ms. Cheung and as to approximately 37.053% 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) Details of the share options granted under the Pre-Listing Share Option Scheme and 2006 Share Option Scheme are set out on pages 48 to 52 in the section of Remuneration Committee.

(B) Interests in the Associated Corporation — Best Result

Name of directors	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Beneficiary of a trust	34,516	34.516%
	Beneficiary Owner	2,557	2.557%
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 2007, 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 2007, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executives 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 held	Approximate percentage of shareholding
Best Result *(Note 2)*	Beneficial Owner	2,986,800,000	69.61%
HSBC Bank USA, National Association	Trustee of YC 2006 QuickGRAT	2,986,800,000	69.61%
Bank of the West *(Note 2)*	Trustee of MCL Living Trust	2,986,800,000	69.61%

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 34.516% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 2.557% by Ms. Cheung and as to approximately 37.053% 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.

Save as disclosed above, as at 30 June 2007, 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 RMB7.3 million for charitable purposes.

Post Balance Sheet Date Event

Details of post balance sheet date event of a material nature are set out in note 32 to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 30 June 2007.

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.

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

(a) "Corporate Governance" on page 42, in which the details of the Company's corporate governance compliance are set out;

(b) "Remuneration Committee" on page 47, in which the scope of duties and activities of the Remuneration Committee during the year are set out;

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

(d) "Internal Control and Risk Management" on page 55, 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 57, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 61, 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 31 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 2007 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, 20 September 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

We have audited the consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 81 to 134, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2007

Balance Sheets

	Note	Consolidated		Company	
		30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	13,802,727	8,625,486	—	—
Land use rights	7	949,259	592,125	—	—
Intangible asset	8	146,694	146,694	—	—
Investments in subsidiaries	9	—	—	2,386,700	2,386,700
		14,898,680	9,364,305	2,386,700	2,386,700
Current assets					
Inventories	10	1,502,509	932,031	—	—
Trade and other receivables	11	2,188,107	1,559,012	6,537,694	2,686,883
Derivative financial instruments	12	24,900	—	—	—
Restricted cash		—	200,590	—	—
Bank and cash balances	13	1,748,224	2,816,660	261,023	1,340,200
		5,463,740	5,508,293	6,798,717	4,027,083
Total assets		20,362,420	14,872,598	9,185,417	6,413,783
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	14	6,179,161	4,141,291	6,179,161	4,141,291
Other reserves	15	1,056,189	902,006	2,182,254	2,091,497
Retained earnings					
— Proposed final dividend	27	429,065	95,450	429,065	95,450
— Others		3,848,519	2,402,657	394,903	61,670
		11,512,934	7,541,404	9,185,383	6,389,908
Minority interests		123,084	94,913	—	—
Total equity		11,636,018	7,636,317	9,185,383	6,389,908

Balance Sheets

	Note	Consolidated		Company	
		30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
LIABILITIES					
Non-current liabilities					
Deferred government grants	16(b)	17,215	27,809	—	—
Borrowings	17	4,088,927	2,743,901	—	—
Deferred income tax liabilities	18	281,746	226,808	—	—
		4,387,888	2,998,518	—	—
Current liabilities					
Derivative financial instruments	12	7,417	—	—	—
Trade and other payables	16	1,766,599	1,987,398	34	23,875
Current income tax liabilities		21,416	67,440	—	—
Dividend payable		—	6,050	—	—
Borrowings	17	2,543,082	2,176,875	—	—
		4,338,514	4,237,763	34	23,875
Total liabilities		8,726,402	7,236,281	34	23,875
Total equity and liabilities		20,362,420	14,872,598	9,185,417	6,413,783
Net current assets		1,125,226	1,270,530	6,798,683	4,003,208
Total assets less current liabilities		16,023,906	10,634,835	9,185,383	6,389,908

Ms. Cheung Yan
Chairman

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 86 to 134 are an integral part of these financial statements.

Consolidated Income Statement

	Note	2007 RMB'000	2006 RMB'000
		For the year ended 30 June	
Sales	19	9,837,664	7,902,156
Cost of goods sold	21	(7,308,753)	(6,041,282)
Gross profit		2,528,911	1,860,874
Other gains — net	20	311,216	356,982
Selling and marketing costs	21	(195,429)	(172,756)
Administrative expenses	21	(351,274)	(233,897)
Operating profit		2,293,424	1,811,203
Finance costs	23	(131,441)	(294,793)
Profit before income tax		2,161,983	1,516,410
Income tax expense	24	(101,645)	(116,286)
Profit for the year		2,060,338	1,400,124
Profit attributable to:			
Equity holders of the Company		2,003,408	1,374,782
Minority interests		56,930	25,342
		2,060,338	1,400,124
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
— basic	26	0.4794	0.4072
— diluted	26	0.4703	0.4043
Dividend	27	494,650	95,450

The notes on pages 86 to 134 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	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 July 2005	312,000	828,330	1,181,624	2,321,954	85,622	2,407,576
Profit for the year	—	—	1,374,782	1,374,782	25,342	1,400,124
Dividend paid to a minority shareholder	—	—	—	—	(16,051)	(16,051)
Appropriation to other reserves	—	58,299	(58,299)	—	—	—
Issue of shares in connection with initial public offering of shares of the Company ("IPO")	4,051,151	—	—	4,051,151	—	4,051,151
Listing expenses	(221,860)	—	—	(221,860)	—	(221,860)
Share options granted to directors and employees	—	16,797	—	16,797	—	16,797
Currency translation differences	—	(1,420)	—	(1,420)	—	(1,420)
Balance at 30 June 2006	4,141,291	902,006	2,498,107	7,541,404	94,913	7,636,317
Balance at 1 July 2006	4,141,291	902,006	2,498,107	7,541,404	94,913	7,636,317
Profit for the year	—	—	2,003,408	2,003,408	56,930	2,060,338
Dividend paid to a minority shareholder	—	—	—	—	(31,470)	(31,470)
2006 final and 2007 interim dividends paid to equity holders of the Company	—	—	(161,035)	(161,035)	—	(161,035)
Appropriation to other reserves	—	62,896	(62,896)	—	—	—
Partial disposal of equity interests in certain subsidiaries to minority shareholders	—	—	—	—	2,711	2,711
Placement of shares for cash	2,011,048	—	—	2,011,048	—	2,011,048
Placing expenses	(32,358)	—	—	(32,358)	—	(32,358)
Share options granted to directors and employees	—	102,393	—	102,393	—	102,393
Exercise of share options	59,180	(11,636)	—	47,544	—	47,544
Currency translation differences	—	530	—	530	—	530
Balance at 30 June 2007	6,179,161	1,056,189	4,277,584	11,512,934	123,084	11,636,018

The notes on pages 86 to 134 are an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	For the year ended 30 June 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	28	1,120,580	1,437,707
Income tax paid		(92,731)	(24,706)
Interest paid		(271,758)	(345,899)
Net cash generated from operating activities		756,091	1,067,102
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,345,017)	(1,528,772)
Payment for acquisition of land use rights		(234,867)	(100,483)
Proceeds from disposals of property, plant and equipment	28	987	1,293
Acquisition of a subsidiary, net of cash acquired	30	669	—
Proceeds from disposals of land use rights		26,981	24,505
Cash advances made to directors		—	(2,191)
Cash advances made to related parties		(21)	—
Cash receipts from repayments of cash advances to directors		2,191	500
Cash receipts from repayments of cash advances to related parties		—	10,713
Interest received		25,099	140,347
Net cash used in investing activities		(5,523,978)	(1,454,088)
Cash flows from financing activities			
Proceeds from placement of shares/issue of shares in connection with IPO		2,011,048	4,051,151
Placing and listing expenses		(32,358)	(221,860)
Exercise of share options		47,544	—
Cash advances repaid to related parties		—	(1,063)
Proceeds from borrowings		8,783,028	6,165,573
Repayments of borrowings		(6,987,644)	(7,477,303)
Government grants received		103,902	49,459
Dividend paid to a minority shareholder		(37,520)	(10,001)
Dividend paid to equity holders of the Company		(161,035)	—
Net cash generated from financing activities		3,726,965	2,555,956
Net (decrease)/increase in bank and cash balances		(1,040,922)	2,168,970
Bank and cash balances at beginning of the year		2,816,660	651,587
Exchange losses on bank and cash balances		(27,514)	(3,897)
Bank and cash balances at end of the year	13	1,748,224	2,816,660

The notes on pages 86 to 134 are an integral part of these financial statements.

Notes to the Financial Statements

1. General information

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") mainly engages in the manufacture and sale of packaging paperboard products and kraft pulp in the People's Republic of China (the "PRC").

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 September 2007.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with 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.

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

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations effective but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 July 2006 but are not relevant to the Group's operations:

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

(b) New standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

- HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis for market risk and capital disclosures required by the amendment to HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 July 2007.

- HKFRS 8, Operating Segment, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 will replace HKAS 14, Segment Reporting. HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resource to segments and assess its performance.

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

2.1 Basis of preparation *(continued)*

(b) New standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group *(continued)*

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment, effective for annual periods beginning on or after 1 November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

- HK(IFRIC)-Int 11, HKFRS 2 Group and Treasury Share Transactions, effective for annual periods beginning on or after 1 March 2007. The management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 12, Service Concession Arrangements, effective for annual periods beginning on or after 1 January 2008. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operations in public-to-private service concession arrangements. The management does not expect the interpretation to be relevant to the Group.

- HKAS 23 (Revised), Borrowing Costs, effective for annual periods beginning on or after 1 January 2009. In accordance with the revised standard, management no longer has an option to expense borrowing costs on qualifying assets. It only applies to qualifying assets measured at cost. Inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis, are outside the scope. Companies that expense borrowing costs under their current accounting policies must identify their qualifying assets. It is not expected to have any impact on the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2007.

(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.

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

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

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 unless the transaction provides evidence of an impairment 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 (Note 2.9). The results of subsidiaries are accounted 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.

Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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 is subject to risks and returns that are different from those of segments operating in other economic environments.

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

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 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.

(c) Group companies

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

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

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

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

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 financial period in which they are incurred.

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

2.5 Property, plant and equipment *(continued)*

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

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

The assets' residual values are ranged from 3% to 5%. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains — net, in the income statements.

2.6 Construction in progress

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

2.7 Land use rights

Land use rights in the balance sheet represent up-front prepayment made for operating leases for land use rights paid and payable to the 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 leases which range from 30 years to 50 years.

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

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

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

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

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value though profit and loss. Changes in fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains — net.

2.12 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.

2.13 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 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.

2.15 Trade and other payables

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

2.16 Borrowings

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

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

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

2.17 Borrowing costs

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

2.18 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 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.

2.19 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)*

2.19 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 equity-settled, share-based compensation plans. 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.

2.20 Provisions

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

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

2.20 Provisions *(continued)*

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 that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 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, rebate and discount after eliminating sales within the group companies.

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

(a) Sales of goods 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 the 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.

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

2.21 Revenue recognition *(continued)*

(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.

2.22 Leases (as the lessee for operating leases)

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

2.23 Government grants

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

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

2.24 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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk

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

Details of the Group's bank and cash balances and borrowings denominated in foreign currencies as at 30 June 2007 are disclosed in Notes 13 and 17 respectively.

To mitigate the impact of currency exchange rate fluctuations, the Group continually assesses the exposure to currency risk, and a portion of the risk is hedged by using derivative financial instruments. During the year ended 30 June 2007, the Group used foreign currency forward contracts and cross currency interest rate swaps to hedge the exposure to foreign currency risk on certain transactions.

(b) 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 2007, RMB1,228,259,000 (2006: RMB2,491,318,000) of the Group's borrowings were at fixed rates.

The Group has neither used floating-to-fixed interest rate swaps to hedge cash flow interest rate risk nor used fixed-to-floating interest rate swaps to hedge fair value interest rate risk.

(c) Credit risk

The carrying amounts of cash and cash equivalents, derivative financial instruments and trade and other receivables except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on cash and cash equivalents is limited because the counterparties are banks with good reputation. 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.

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(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 derivative financial instruments is determined by reference to the market available information. 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.

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 CGU 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 CGU is based would not cause a reduction in carrying value of goodwill as at 30 June 2007.

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

(b) Useful lives of plant and machinery

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

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 2007 would be an estimated RMB78,039,000 (2006: RMB57,297,000) higher or RMB95,381,000 (2006: RMB70,029,000) lower.

(c) Valuation of share options

The fair value of options granted under the Pre-IPO Share Option Scheme and 2006 Share Option Scheme is determined using the Binomial and Black-Scholes valuation model, respectively. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected life, expected volatility, 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.

(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.

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

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

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

(g) Income taxation and deferred taxation

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

5. Segment information

The Group is principally engaged in the manufacture and sales of packaging paperboard products and kraft pulp. 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.

The Group's principal market is 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.

6. Property, plant and equipment — Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
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 28)	(430)	(14,872)	(126)	(1,382)	—	(16,810)
Depreciation (Note 21)	(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
Year ended 30 June 2007						
Opening net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Additions	10,981	34,938	22,524	64,627	5,406,113	5,539,183
Transfer	424,271	2,429,006	9,613	5,321	(2,868,211)	—
Disposals (Note 28)	—	(1,009)	(793)	(6,922)	—	(8,724)
Depreciation (Note 21)	(73,151)	(244,041)	(13,757)	(22,269)	—	(353,218)
Closing net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
At 30 June 2007						
Cost	2,108,223	9,260,342	128,407	238,223	3,304,069	15,039,264
Accumulated depreciation	(268,258)	(858,433)	(38,672)	(71,174)	—	(1,236,537)
Net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727

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

Certain property, plant and equipment of the Group with carrying values of approximately RMB5,200,000 as at 30 June 2007 (2006: RMB2,157,234,000) had been pledged for bank borrowings of the Group (Note 17).

As at 30 June 2007, the Group has constructed certain buildings at cost of RMB32,244,000 (2006: RMB21,650,000) 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 RMB70,580,000 (2006: RMB11,520,000) and value added tax refund of RMB33,322,000 (2006: Nil) relating to the purchase of qualified equipment manufactured in the PRC. The amount of credit and refund has been deducted from the cost of additions of the plant and machinery.

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

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Cost of goods sold	289,363	277,283
Other gains — net	10,393	16,918
Administrative expenses	35,205	28,678
Selling and marketing costs	19,286	8,450
Total depreciation expense (Note 28)	354,247	331,329

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 30 years to 50 years. The net book value are analysed as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Opening	592,125	607,562
Additions	220,915	79,562
Acquisition of a subsidiary (Note 30)	151,930	—
Amortisation of prepaid operating lease payments (Note 21)	(15,711)	(21,324)
Disposals	—	(73,675)
	949,259	592,125

No bank borrowings are secured on land as at 30 June 2007 (2006: RMB151,520,000) (Note 17).

7. **Land use rights — Group** *(continued)*

As at 30 June 2007, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB182,366,000 (2006: RMB99,528,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

8. **Intangible asset — Group**

Intangible asset as at 30 June 2006 and 2007 represents goodwill, being the excess of the fair value of the shares of Zhang's Enterprises Company Limited ("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 2007 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited as at 30 June 2007.

Goodwill is allocated to the Group's CGU 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	18.1%–21.9%
— Rate of return on equity	12.1%
— Discount rate	13.2%

These assumptions have been used for the analysis of the CGU.

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 2007:

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI")	Investment holdings/PRC	US$10,000	100%
Indirectly held:				
Zhang's	Hong Kong	Investment holdings/ Hong Kong	HK$1,220,064	100%
Nine Dragons Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Millennium Scope Limited	BVI	Investment holdings/PRC	US$2,300	100%
River Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Emperor Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$100	100%
Sky Dragon Paper Industries (HK) Co., Ltd.	Hong Kong	Investment holdings/ Hong Kong	HK$1	100%
Sky Dragon Paper Industries Co., Ltd. ("Sky Dragon (BVI)")	BVI	Investment holdings/PRC	US$100	100%
Nine Dragons Finance (Group) Limited	BVI	Investment holdings/PRC	US$1	100%
ND Finance Limited	BVI	Financing activities/Hong Kong	US$1	100%
NDP Worldwide Investment Limited	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Worldwide Investment Limited	Hong Kong	Investment holdings/PRC	HK$1	100%

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

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: *(continued)*				
Nine Dragons Machinery Supplies Limited	Hong Kong	Trading of machinery/ Hong Kong	HK$1	100%
Strong Dragon Co., Ltd.	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Resources Limited	Hong Kong	Investment holdings/ Hong Kong	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd.[1]	PRC	Manufacture of paper/PRC	US$214,024,000	100%
Dongguan Sea Dragon Paper Industries Company Limited[2]	PRC	Manufacture of paper/PRC	US$100,300,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$68,040,000	99.9%
Dongguan Sky Dragon Paper Industries Company Limited[1] (“Dongguan Sky Dragon”)	PRC	Manufacture of paper/PRC	—	100%
Nine Dragons Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$169,570,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$26,440,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$29,702,000	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$4,500,000	99.9%

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

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: *(continued)*				
Nine Dragons Terminal (Chongqing) Company Limited[1]	PRC	Provision for loading services/ PRC	US$4,640,000	100%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited[2]	PRC	Manufacture of pulp/PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited[3]	PRC	Provision for transportation services/PRC	RMB5,000,000	90%
Nine Dragons Transportation (Taicang) Company Limited[3]	PRC	Provision for transportation services/PRC	RMB2,000,000	89.6%
Taicang Nine Dragons Coal and Charcoal Trading Company Limited[3]	PRC	Wholesales of coal and charcoal/PRC	RMB5,000,000	99.5%
Taicang Nine Dragons Recycling Company Limited[3]	PRC	Recycle of waste paper/PRC	RMB500,000	99.5%
Sea Dragon Resources (Chongqing) Co., Ltd.[1]	PRC	Recycle of waste paper/PRC	US$2,350,000	100%
Sea Dragon (Lianzhou) Mineral Co., Ltd.[1]	PRC	Manufacture of Calcium Carbonate/PRC	US$200,000	100%

Kind of legal entities in PRC:

1 Wholly foreign owned enterprise
2 Sino-foreign equity joint venture enterprise
3 Domestic enterprise

10. Inventories — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
At cost:		
Raw materials	1,219,399	661,582
Finished goods	283,110	270,449
	1,502,509	932,031

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB7,308,753,000 (2006: RMB6,041,282,000).

11. Trade and other receivables

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade receivables due from:				
— third parties	1,509,713	945,260	—	—
— related parties (Notes a and 31)	33,466	7,358	—	—
	1,543,179	952,618	—	—
Bills receivable	227,235	359,760	—	—
Prepayments	229,621	146,555	—	—
Amounts due from subsidiaries (Note a)	—	—	6,536,315	2,685,445
Amounts due from directors (Notes a and 31)	—	2,191	—	—
Amounts due from related parties (Notes a and 31)	76	55	—	—
Other receivables	187,996	97,833	1,379	1,438
	2,188,107	1,559,012	6,537,694	2,686,883

As at 30 June 2007, 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 major customers are entered into on credit terms around 30 to 60 days.

11. Trade and other receivables *(continued)*

As at 30 June 2007, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2007 RMB'000	30 June 2006 RMB'000
0 — 30 days	1,158,030	704,567
31 — 60 days	269,387	189,776
61 — 90 days	114,214	44,260
Over 90 days	1,548	14,015
	1,543,179	952,618

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.

12. Derivative financial instruments — Group

	30 June 2007		30 June 2006	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swaps	12,000	—	—	—
Forward foreign exchange contracts	12,900	7,417	—	—
	24,900	7,417	—	—

(a) Cross currency interest rate swaps

As at 30 June 2007, the Group has cross currency interest rate swaps in which the Group has an aggregate outstanding notional amount of US$350,000,000 (2006: Nil) which is subject to interest at LIBOR plus 55 basis points per annum to be receivable from counterparties. In exchange, the Group has an outstanding notional amount of HK$1,951,100,000 (2006: Nil) which is subject to interest at HIBOR plus 59.89 basis points per annum and an outstanding notional amount of HK$781,980,000 (2006: Nil) which is subject to interest at HIBOR plus 61 basis points per annum to be payable to counterparties. The contracts will mature on 17 September 2010.

(b) Forward foreign exchange contracts

As at 30 June 2007, the Group has 4 contracts to buy a total notional amount of US$40,000,000 (2006: Nil) for conversion currency of RMB and has 4 contracts to sell a total notional amount of US$40,000,000 (2006: Nil) for conversion currency of RMB. The contracts will mature within 12 months.

13. Bank and cash balances

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Cash at bank and in hand	1,180,541	582,832	3,453	77,183
Time deposits	567,683	2,233,828	257,570	1,263,017
	1,748,224	2,816,660	261,023	1,340,200
Denominated in:				
RMB	286,629	319,803	—	—
HK$	1,270,605	2,019,355	258,355	1,334,088
US$	187,112	468,956	2,668	6,112
Others	3,878	8,546	—	—
	1,748,224	2,816,660	261,023	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
Issued and fully paid						
At 1 July 2005		3,000,000,000	300,000	312,000	—	312,000
Issue of shares in connection with IPO		1,150,000,000	115,000	119,152	3,931,999	4,051,151
Listing expenses		—	—	—	(221,860)	(221,860)
At 30 June 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291
Placement of shares for cash	(a)	125,000,000	12,500	12,353	1,998,695	2,011,048
Placing expenses		—	—	—	(32,358)	(32,358)
Exercise of share options	15(b)	15,652,029	1,565	1,554	57,626	59,180
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161

The total authorised number of ordinary shares as at 30 June 2007 is 8 billion shares (2006: 8 billion shares) with a par value of HK$0.1 per share (2006: HK$0.1 per share).

(a) Pursuant to a placing and subscription agreement entered into between Best Result Holdings Limited ("Best Result"), the Company and certain placing agents on 16 April 2007, the placing agents have agreed to place, on a fully underwritten basis, 125,000,000 existing shares at a price of HK$16.28 per share on behalf of Best Result, and Best Result has agreed to subscribe for 125,000,000 new shares at the placing price. The gross proceeds to the Company amounted to HK$2,035,000,000 (equivalent to approximately RMB2,011,048,000).

15. Other reserves

Group

	Contributed surplus RMB'000 (Note a)	Capital reserve RMB'000	Share options reserve RMB'000 (Note b)	Statutory reserve and enterprise expansion fund RMB'000 (Note c)	Translation RMB'000	Total RMB'000
As at 1 July 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
Transfer from net profit	—	—	—	62,896	—	62,896
Share options granted to directors and employees	—	—	102,393	—	—	102,393
Exercise of share options	—	—	(11,636)	—	—	(11,636)
Currency translation differences	—	—	—	—	530	530
As at 30 June 2007	660,542	98,980	107,554	188,583	530	1,056,189

Company

	Contributed surplus RMB'000 (Note d)	Share options reserve RMB'000 (Note b)	Total RMB'000
As at 30 June 2006	2,074,700	16,797	2,091,497
Transfer from net profit	—	—	—
Share options granted to directors and employees	—	102,393	102,393
Exercise of share options	—	(11,636)	(11,636)
As at 30 June 2007	2,074,700	107,554	2,182,254

15. Other reserves *(continued)*

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

(b) A summary of the share option schemes, details of the movement in share options and valuation of the share options are set out on pages 48 to 52.

(c) Statutory reserve and enterprise expansion fund

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

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

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

16. Trade and other payables

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade payables due to:				
— third parties	570,649	474,279	—	—
— related parties (Notes a and 31)	420,564	617,558	—	—
	991,213	1,091,837	—	—
Bills payable, secured	77,300	425,000	—	—
Deposits from customers	90,411	64,281	—	—
Other payables	515,368	378,599	34	23,875
Staff welfare benefits payable	40,343	32,953	—	—
Accrued expenses	69,179	22,537	—	—
	1,783,814	2,015,207	34	23,875
Less: other payables included in non-current liabilities				
Deferred government grants (Note b)	(17,215)	(27,809)	—	—
	1,766,599	1,987,398	34	23,875

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

(b) In last year, the Group had 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. Up to 30 June 2007, the Group has utilised an amount of RMB32,244,000 (2006: RMB21,650,000) to acquired certain buildings (Note 6).

The ageing analysis of trade payables as at 30 June 2007 is as follows:

	Group	
	30 June 2007 RMB'000	30 June 2006 RMB'000
0 — 90 days	949,693	1,048,913
91 — 180 days	9,536	23,386
181 — 365 days	27,141	17,949
Over 365 days	4,843	1,589
	991,213	1,091,837

17. Borrowings — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
Non-current bank borrowings	4,088,927	2,743,901
Current		
— Short-term bank borrowings	2,373,082	1,737,040
— Current portion of long-term bank borrowings	170,000	439,835
	2,543,082	2,176,875
Total borrowings	6,632,009	4,920,776

(a) As at 30 June 2007, borrowings of RMB3,276,000 (2006: RMB1,046,901,000) are secured by assets of the Group and guarantees given by related parties, which are detailed as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Borrowings secured by assets of the Group only*	3,276	420,901
Borrowings secured by both assets of the Group and guarantees given by related parties* (Note 31)	—	626,000
	3,276	1,046,901

* The above borrowings are secured by the Group's property, plant and equipment (Note 6), land use rights (Note 7) and restricted cash.

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

	30 June 2007 RMB'000	30 June 2006 RMB'000
Within 1 year	2,543,082	2,176,875
Between 1 and 2 years	1,028,259	1,537,000
Between 2 and 5 years	3,057,392	1,016,901
Wholly repayable within 5 years	6,628,733	4,730,776
Over 5 years	3,276	190,000
	6,632,009	4,920,776

17. Borrowings — Group *(continued)*

(c) The effective interest rates as at 30 June 2007 are as follows:

	30 June 2007	30 June 2006
Long-term bank borrowings	5.770%	5.665%
Short-term bank borrowings	5.233%	5.453%

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

The carrying value and fair value of non-current bank borrowings are as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Carrying amounts	4,088,927	2,743,901
Fair values	4,074,037	2,742,635

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(e) The carrying amounts of all the Group's borrowings as at 30 June 2007 are denominated in the following currencies:

	30 June 2007 RMB'000	30 June 2006 RMB'000
RMB	3,225,089	2,771,318
US$	2,657,392	502,418
HK$	749,528	1,647,040
	6,632,009	4,920,776

17. Borrowings — Group *(continued)*

(f) The Group has the following undrawn bank borrowing facilities:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Floating rate:		
— expiring within one year	4,471,618	4,376,497
— expiring beyond one year	4,393,874	1,066,898
	8,865,492	5,443,395

18. Deferred income tax — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
Deferred income tax liabilities to be recovered after more than 12 months	281,746	226,808

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

	30 June 2007 RMB'000	30 June 2006 RMB'000
Beginning of the year	226,808	169,747
Recognised in the consolidated income statement (Note 24)	54,938	57,061
End of the year	281,746	226,808

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

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000
At 1 July 2005	169,747
Charged to the consolidated income statement	57,061
At 30 June 2006	226,808
Charged to the consolidated income statement	54,938
At 30 June 2007	281,746

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. Sales

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Sales of packaging paper	9,469,325	7,675,351
Sales of pulp paper	368,339	226,805
	9,837,664	7,902,156

20. Other gains — net

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Sales of scrap materials	55,338	23,450
Sales of electricity	123,227	150,118
Interest income	25,099	140,347
Net foreign exchange gains	77,855	33,222
Transportation	5,985	(219)
Net gain arising from change in fair value of derivative financial instruments	26,423	—
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	(2,711)	—
Tax refund of re-investment	—	10,064
	311,216	356,982

21. 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	
	2007 RMB'000	2006 RMB'000
Depreciation	342,825	315,016
Employee benefit expense (Note 22)	503,054	337,155
Changes in finished goods	(12,661)	58,413
Raw materials and consumables used	6,647,307	5,432,032
Transportation	55,134	45,212
Operating leases		
— Land use rights (Note 7)	15,711	21,324
— Buildings	902	883
Auditor's remuneration	4,428	3,903
Non-deductible value added tax for indirect export sales	98,793	39,015
Other expenses	199,963	194,982
	7,855,456	6,447,935

22. Employee benefit expense

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Wages and salaries	383,110	306,052
Share options granted to directors and employees (Note 15)	102,393	16,797
Pension costs — defined contribution plans (Note a)	10,763	8,648
Medical benefits	2,772	3,165
Other allowances and benefits	4,016	2,493
	503,054	337,155

(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	
	2007	2006
	RMB'000	RMB'000
Gross scheme contributions	10,763	8,648

22. Employee benefit expense *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 30 June 2007 is set out below:

Name of Director	Fees RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Cheung Yan ("Ms. Cheung")	1,748	—	29,809	—	31,557
Mr. Liu Ming Chung ("Mr. Liu")	3,128	—	29,807	—	32,935
Mr. Zhang Cheng Fei ("Mr. Zhang")	2,930	—	28,508	—	31,438
Mr. Wang Hai Ying (*)	34	—	—	—	34
Ms. Gao Jing (*)	439	—	129	—	568
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
Ms. Tam Wai Chu, Maria	480	114	297	—	891
Mr. Chung Shui Ming, Timpson	480	114	297	—	891
Dr. Cheng Chi Pang	480	114	297	—	891
Mr. Wang Hong Bo	240	198	—	—	438
	9,959	540	89,144	—	99,643

* Mr. Wang Hai Ying is an executive director, and resigned as an executive director of the Company with effect from 28 February 2007. Ms. Gao Jing is an executive director with effect from 6 July 2006.

22. Employee benefit expense *(continued)*

(b) Directors' and senior management's emoluments *(continued)*

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

Name of Director	Fees RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Cheung Yan	1,188	—	2,892	—	4,080
Mr. Liu Ming Chung	2,026	—	2,891	—	4,917
Mr. Zhang Cheng Fei	1,958	—	2,019	—	3,977
Mr. Wang Hai Ying	162	—	—	—	162
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
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

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

22. 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 2007 include three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Pension costs	23	18
Salaries, share options, other allowances and benefits in kind	4,075	4,306
	4,098	4,324

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2007	2006
RMB1,500,001 to RMB2,000,000	1	1
RMB2,000,001 to RMB2,500,000	1	1

23. Finance costs

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interest on bank borrowings		
— wholly repayable within five years	260,404	293,714
— not wholly repayable within five years	139	10,944
	260,543	304,658
Less: interest capitalised	(86,742)	(31,880)
	173,801	272,778
Bills discount charge	35,964	33,647
Other incidental borrowing cost	5,827	4,713
Exchange gains on borrowings	(84,151)	(16,345)
	131,441	294,793

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 5.649% for the year ended 30 June 2007 (2006: 5.366%).

24. Income tax expense

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Current tax		
— Hong Kong profits tax	—	—
— PRC enterprise income tax	94,368	59,225
— Reversal of prior years' PRC enterprise income tax	(47,661)	—
	46,707	59,225
Deferred income tax (Note 18)	54,938	57,061
	101,645	116,286

24. 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	
	2007	2006
	RMB'000	RMB'000
Profit before taxation	2,161,983	1,516,410
Tax calculated at tax rates applicable to respective companies ranging from 18% to 27% (2006: 27%) within the Group	661,206	393,603
Effect of tax holidays	(549,860)	(283,591)
Add: tax losses for which no deferred income tax asset was recognised	11,634	6,274
Less: deferred income tax effect from change of tax rate (Note b)	(21,335)	—
Income tax expense	101,645	116,286

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2007 (2006: Nil).

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law unifies the corporate income tax rate for domestic and foreign enterprises at 25% with effect from 1 January 2008. Foreign enterprises which are entitled to special incentive will be given concessions throughout a five-year transition period, if applicable. As a result of the new CIT Law, the carrying value of deferred tax liabilities has been written down by RMB21,335,000 in the year ended 30 June 2007.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

25. 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 RMB827,883,000 (2006: RMB157,120,000).

26. Earnings per share

— Basic

	For the year ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	2,003,408	1,374,782
Weighted average number of ordinary shares in issue (shares in thousands)	4,179,049	3,376,027
Basic earnings per share (RMB per share)	0.4794	0.4072

— 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	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	2,003,408	1,374,782
Weighted average number of ordinary shares in issue (shares in thousands)	4,179,049	3,376,027
Adjustments for share options (shares in thousands)	80,658	23,980
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	4,259,707	3,400,007
Diluted earnings per share (RMB per share)	0.4703	0.4043

27. Dividend

	For the year ended 30 June	
	2007	2006
Interim dividend of RMB1.60 cents (2006: Nil) per ordinary share (Note a)	65,585	—
Proposed final dividend of RMB10.00 cents (2006: RMB2.30 cents) per ordinary share (Note b)	429,065	95,450
	494,650	95,450

(a) An interim dividend for the six months ended 31 December 2006 of RMB1.60 cents per ordinary share, totalling approximately RMB65,585,000 has been approved in the meeting of board of directors of the Company on 13 February 2007 and paid in the year.

(b) At a meeting held on 20 September 2007, the directors of the Company proposed a final dividend of RMB10.00 cents per share for the year ended 30 June 2007, totalling approximately RMB429,065,000. This 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 2008.

28. Cash generated from operations

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Profit for the year	2,060,338	1,400,124
Adjustments for		
Income tax expense (Note 24)	101,645	116,286
Depreciation (Note 6)	354,247	331,329
Amortisation (Note 7)	15,711	21,324
Share options granted to directors and employees (Note 15)	102,393	16,797
Loss on sale of property, plant and equipment (see below)	7,737	15,517
Negative goodwill (Note 30)	(2)	—
Loss on disposal of equity interests in certain subsidiaries to minority shareholders (Note 20)	2,711	—
Net gain arising from change in fair value of derivative financial instruments (Note 20)	(26,423)	—
Interest income (Note 20)	(25,099)	(140,347)
Finance cost (Note 23)	131,441	294,793
Exchange losses on bank and cash balance	27,514	—
	2,752,213	2,055,823
Changes in working capital		
Inventories	(571,507)	66,748
Trade and other receivables	(457,126)	(148,434)
Trade and other payables	(603,000)	(536,430)
Cash generated from operations	1,120,580	1,437,707

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

	30 June 2007	30 June 2006
	RMB'000	RMB'000
Net book amount (Note 6)	8,724	16,810
Loss on sale of property, plant and equipment	(7,737)	(15,517)
Proceeds from sale of property, plant and equipment	987	1,293

29. Commitments

(a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred is as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Contracted but not provided for:		
— Property, plant and equipment	5,809,540	2,214,035
Authorised but not contracted for:		
— Property, plant and equipment	939,222	1,762,470
	6,748,762	3,976,505

(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 2007 RMB'000	30 June 2006 RMB'000
Property, plant and equipment:		
Not later than one year	2,131	2,386
Later than one year and not later than five years	612	2,574
	2,743	4,960

30. Business combination

On 18 May 2007, the Group acquired 100% of the share capital of Sky Dragon (BVI) from Mr. Zhang, a director of the Company.

Sky Dragon (BVI) is an investment holding company and its principal investment is holding 100% equity in Dongguan Sky Dragon. Dongguan Sky Dragon did not engage in the manufacture of paper but holding of certain land use rights for future paper manufacturing establishment.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000	Fair value RMB'000
Bank and cash balances	669	669
Land use rights (Note 7)	145,156	151,930
Payables	(152,597)	(152,597)
Net assets	(6,772)	2
Purchase consideration settled in cash*		—
Negative goodwill		2
Purchase consideration settled in cash*		—
Cash and cash equivalents in subsidiary acquired		669
Cash inflow on acquisition		669

* Nominal value of the consideration was RMB1.

31. 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
Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging")	Beneficially owned by Mr. Zhang

31. Related party transactions *(continued)*

(b) Transactions with related parties

For the year ended 30 June 2007, 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	
	2007 RMB'000	2006 RMB'000
Sales of goods:		
Taicang Packaging	193,592	78,043
Sales of utilities:		
Taicang Packaging	4,553	1,352
Purchase of recovered paper:		
ACN	2,922,405	2,591,692
Taicang Packaging	6,353	5,296
	2,928,758	2,596,988
Purchase of logistic services		
ACN	—	3,627

(c) Key management compensation

Other than compensation for directors as disclosed in Note 22, compensation for other key management is as follows:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Salaries and other short-term employee benefits	7,443	9,816
Share options	7,563	4,842
	15,006	14,658

31. Related party transactions *(continued)*

(d) On 18 May 2007, the Group acquired the issued share capital of Sky Dragon (BVI) from Mr. Zhang, a director of the Company. Details of the business combination are disclosed in Note 30.

(e) Balances with related parties

	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade balances due from:		
Related parties:		
— Taicang Packaging	33,466	7,358
Non-trade balances due from:		
Related parties:		
— Taicang Packaging	76	55
Directors:		
— Ms.Cheung	—	867
— Mr. Liu	—	869
— Mr. Zhang	—	455
	—	2,191
Trade balances due to:		
Related parties:		
— ACN	417,589	616,850
— Taicang Packaging	2,975	708
	420,564	617,558

31. Related party transactions *(continued)*

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

	30 June 2007 RMB'000	30 June 2006 RMB'000
Non-trade balances due from:		
Directors:		
Beginning of the year	2,191	500
Cash advances	—	2,191
Cash receipts	(2,191)	(500)
End of the year	—	2,191
Related parties:		
Beginning of the year	55	10,768
Cash advances	21	—
Cash receipts	—	(10,713)
End of the year	76	55
Non-trade balances due to:		
Related parties:		
Beginning of the year	—	1,063
Cash repayments	—	(1,063)
End of the year	—	—

31. Related party transactions *(continued)*

(f) 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		Maximum outstanding during the year ended 30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Cheung	—	867	867	867
Mr. Liu	—	869	869	869
Mr. Zhang	—	455	455	455
	—	2,191	2,191	2,191

(g) Guarantees

Guarantees given by related parties for bank borrowings and credit facilities granted to the Group at the balance sheet date presented are as follows:

	30 June 2007	30 June 2006
	RMB'000	RMB'000
ACN	—	176,000
ACN together with Dongguan Sea Dragon	—	450,000
Total	—	626,000

32. Event after balance sheet date

On 18 September 2007, Nine Dragons Worldwide Investment Limited has entered into an agreement with the Government of Ninghe County, Tianjin City in the PRC, for the establishment of a production base at the Ninghe Economic Development Zone. The funding commitment is estimated to be approximately RMB2,300,000,000.

33. Ultimate holding company

The directors of the Company regard Best Result, a company incorporated in the British Virgin Islands, as the ultimate holding company of the Group.

Investors and ND Holdings

The Board and senior management recognize their responsibilities to safeguard the interest of the shareholders of the Company.

The senior management has established and maintained continuous dialogues with the Company's shareholders through various channels. During the Company's annual general meetings, the Board and senior management of the Group are present to answer questions raised by the Shareholders regarding the Company's performance and future development.

Communication with Institutional Investors

We are devoted to high standard of corporate governance and disclosure. Currently, more than 20 local and international research institutions publish reports on the company on a regular basis (2006: 10). We are also closely followed by analysts from a wide range of institutional investors. It is our policy to disseminate relevant, uniformed and consistent information to analysts to facilitate their fair assessment on the Company.

In order to provide updated information to these investors and enhance their understanding in ND paper, during the FY2007, in additional to the post-results investor presentations and meetings, we have organized quarterly briefings and regular production base visits to enhance the investment community's understanding of our business, strategies and future development. Our management also visited major international investment centers and participated in a number of regional and global investor conferences organized by reputable securities houses. The management also conducted one-on-one meetings and telephone conferences with institutional investors based in different parts of the world. Our management's proactive approach to investor relations has made us one of the most well-known and highly recognised paper-making companies in the region.

Access to Corporate Information

We are dedicated to keep our investors abreast of the financial and operational performances as well as the latest development of ND Paper. In addition to annual and interim report, our corporate website is being updated on a regular basis to ensure timely and updated information will be delivered to our Shareholders, including interim and annual reports, announcements as well as recent development of the Company. All information and reports are available in English and Chinese.

Our Shareholders

As at 30 June 2007, the Company had over 5,700 (2006: 9,420) registered Shareholders and sufficient shares of the Company were on public float as required by the Listing Rules.

Investor Relations

Dividend policy

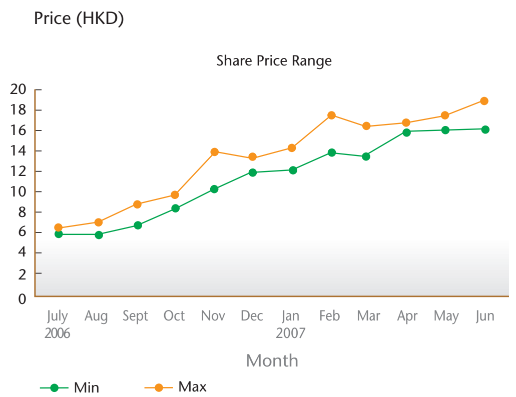
Subject to the financial performance and business development requirements of the Company, we expect to distribute no less than 20% of distributable profit to our Shareholders in each financial year.

Award

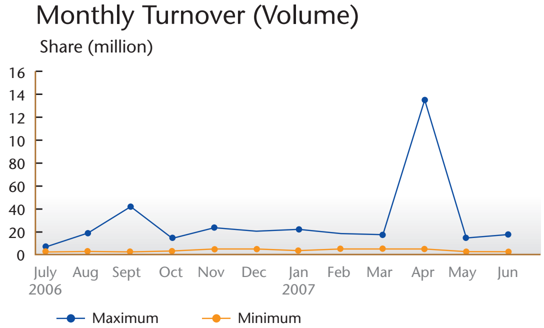
The Company was voted as the "Best mid-cap IPO" in the Asset Asian Awards 2006.

Share Price Performance

Share Price Performance



Monthly Turnover (Volume)



Financial Calendar

Announcement:	
FY2007 interim results	13 February 2007
FY2007 annual results	20 September 2007
Closure of register of Members	22–26 November 2007 (both dates inclusive)
2007 AGM	27 November 2007
FY2007 Final dividend payment#	12 December 2007

subject to shareholders' approval of the final dividend at 2007 AGM.

Share Information

Listing

The Shares of ND Holdings have been listed on the Main Board of the HKSE since 3 March 2006.

Ordinary shares

Issued Shares as at 30 June 2007:	4,290,652,029 Shares
Market Capitalisation as at 30 June 2007:	HK$78,175,679,968
Nominal Value:	HK$0.1 per Share
Broad lot:	1,000 Shares

Dividends

Dividends per Share for the year ended 30 June 2007

— Interim dividend	RMB1.6 cents per Share
— Final dividend	RMB10.0 cents per Share

Share Registrar and Transfer Office

Principal:

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 08 Bermuda
Tel: (441) 2993954
Fax: (441) 2956759

Hong Kong Branch:

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

Investor Relations Contact

Corporate Communications Department
Nine Dragons Paper (Holdings) Limited
Room 3129, 31/F, Sun Hung Kai Centre,
30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2511 6338
Fax: (852) 2511 6778
Email: ir@ndpaper.com

Stock Code

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

Index Constituent

ND Holdings is a constituent
of the following indices:
Hang Seng Composite Index Series
Morgan Stanley Capital International ("MSCI")
Standard Index Series
MSCI Global Value and Growth Index Series

Website

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

Definition

2006 AGM	Annual general meeting held on 17 November 2006
2006 SGM	Special general meeting held on 17 November 2006
2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2007 AGM	Annual general meeting to be held on 27 November 2007
ACN	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, is indirectly wholly owned by Ms. Cheung and Mr. Liu
Associate(s)	has the meaning ascribed to it under the Listing Rules
Best Result	Best Result Holdings Limited, a company incorporated under the laws of BVI, is a substantial shareholder of the Company
Board	The board of directors of the Company
BVI	the British Virgin Islands
Bye-laws	the bye-laws of ND Holdings
CAGR	Compound annual growth rate
Company or ND Holdings or ND Paper	Nine Dragons Paper (Holdings) Limited (玖龍紙業(控股)有限公司), a Company which was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt Company with limited liability
Director(s)	the director(s) of the Company or any one of them
FY	Financial year ended/ending 30 June
Group	The Company and its subsidiaries
HKD/HK$	Hong Kong dollars
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange

MCL Living Trust	a living trust set up by Mr. Liu as the settlor and Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee. The object of the trust is Mr. Liu
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Mr. Liu	Mr. Liu Ming Chung (劉名中先生), an executive Director, the Deputy Chairman and the Chief Executive Officer of the Company
Mr. Zhang	Mr. Zhang Cheng Fei (張成飛先生), an executive Director and the Deputy Chief Executive Officer of the Company
Ms. Cheung	Ms. Cheung Yan (張茵女士), an executive Director and the Chairman of the Company
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
Pre-IPO Share Option Scheme	the Pre-IPO Share Option Scheme adopted by the Company with effect from 1 January 2006
RMB	Renminbi, the lawful currency of the PRC
USD/US$	US dollars
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share Option Schemes	Pre-IPO Share Option Scheme and 2006 Share Option Scheme
Share(s)	Ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
sq.ft	square feet
sq.m	square metre
tpa	tonnes per annum
YC 2006 QuickGRAT	grantor retained annuity trust set up by Ms. Cheung as the settlor and the trustee and HSBC Bank USA, National Association as the administrative trustee. The objects of the trust include Ms. Cheung for a term of years and thereafter, an irrevocable trust for family members of Ms. Cheung
%	per cent

Glossary

coated duplex board	a type of duplex board with a glossy coated surface on one side for superior printability, including coated duplex board with grey back
containerboard	the paperboard components used to manufacture corrugated containers. Containerboard primarily includes linerboard and corrugating medium and can also include coated duplex board
corrugating medium	a paperboard used to form the corrugated or fluted component sandwiched between the linerboard
DCS	Distributed Control System, typically a large-scale process control system characterized by a distributed network of equipment that encompass the functions of control, user interface, date collection, and system management
kraft pulp	pulp produced by the kraft or sulphate chemical process. The kraft process is the predominant chemical pulping process used globally, and involves cooking (digesting) wood chips in an alkaline solution for several hours during which time the chemicals attack the lignin in the wood. The dissolved lignin is later removed leaving behind the cellulose fibers (the primary constituent of pulp)
kraftlinerboard	a high grade of linerboard manufactured wholly or partially from kraft pulp
recovered paper	used paper and board separately collected for re-use as fiber raw material in containerboard manufacture
testlinerboard	linerboard made entirely from recovered paper
white top linerboard	a type of linerboard comprising a multiple-ply sheet composed of one bleached layer with the remaining layer(s) unbleached