IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Global Offering

Total number of Offer Shares under the Global Offering	**:**	**1,000,000,000 Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	**:**	**100,000,000 Shares (subject to adjustment)**
Number of International Offer Shares	**:**	**900,000,000 Shares (subject to the Over-allotment Option and adjustment)**
Offer Price	**:**	**Not more than HK$3.40 per Share and expected to be not less than HK$2.85 per Share**
Nominal value	**:**	**HK$0.10 per Share**
Stock code	**:**	**2689**

Joint Global Coordinators and Joint Sponsors

(in alphabetical order)

BNP PARIBAS PEREGRINE **Merrill Lynch Far East Limited**

Joint Bookrunners and Joint Lead Managers

(in alphabetical order)

BNP PARIBAS PEREGRINE **BOCI ASIA LIMITED**

Merrill Lynch Far East Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. A copy of this prospectus, together with copies of the Application Forms, has been delivered to the Registrar of Companies in Bermuda for filing as required by the Companies Act 1981 of Bermuda. The Securities and Futures Commission of Hong Kong, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and the Company on or before Friday, 24 February 2006 or such later time as may be agreed between the parties, but in any event, no later than Monday, 27 February 2006. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and the Company are unable to reach an agreement on the Offer Price by Monday, 27 February 2006, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK$3.40 per Share and is expected to be not less than HK$2.85 per Share although the Joint Global Coordinators, on behalf of the Underwriters, and the Company may agree to a lower price. The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK$2.85 per Share to HK$3.40 per Share) at any time prior to the morning of the latest date for lodging applications under the Public Offering. In such a case, notices of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offering. If applications for Public Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offering, then even if the Offer Price is so reduced such application cannot be subsequently withdrawn (except in the circumstances described in "How to Apply for the Public Offer Shares").

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, the risk factors set out in "Risk Factors".

Pursuant to the termination provisions contained in the Public Offer Underwriting Agreement in respect of the Public Offer Shares, the Joint Global Coordinators on behalf of the Public Offer Underwriters have the right in certain circumstances, in the sole opinion of the Joint Global Coordinators, to terminate the obligation of the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in "Underwriting — Grounds for Termination". It is important that you refer to that section for further details.

* *For identification purposes only*

20 February 2006

2006

Latest time for lodging **PINK** Application Forms	4:00 p.m. on Wednesday, 22 February
Application lists for the Public Offering open *(note 2)*	11:45 a.m. on Thursday, 23 February
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC	12:00 noon on Thursday, 23 February
Application lists close *(note 2)*	12:00 noon on Thursday, 23 February
Price Determination Date *(note 3)*	Friday, 24 February
Announcement of the Offer Price, the level of indication of interest in the International Placing, the results of applications and basis of allocation of the Public Offer Shares (with successful applicants' identification document numbers) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before *(note 4)*	Thursday, 2 March
Share certificates in respect of wholly or partially successful applications to be despatched on or before	Thursday, 2 March
Refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications to be despatched on or before *(notes 5 to 10)*	Thursday, 2 March
Dealings in Shares on the Main Board of the Stock Exchange to commence on	9:30 a.m. on Friday, 3 March

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering".

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 23 February 2006, the application lists will not open on that day. Further information is set out in "How to Apply for the Public Offer Shares — Effect of bad weather conditions on the opening of the application lists".

(3) The Offer Price is expected to be determined by Friday, 24 February 2006, but in any event, the expected time for determination of the Offer Price will not be later than Monday, 27 February 2006. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and the Company by Monday, 27 February 2006, the Global Offering will not proceed.

(4) If the Offer Price is determined on Friday, 24 February 2006, the announcement of the Offer Price, the level of indication of interest in the International Placing, the results of applications and basis of allocation of the Public Offer Shares and the successful applicants' identification document numbers will be published on or before Thursday, 2 March 2006.

(5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offering and also in respect of wholly or partially successful applications in the event that the Offer Price is less than the price payable on application. Further details are set out in the paragraphs headed "If your application for the Public Offer Shares is successful (in whole or in part)" and "Refund of your money — additional information" in "How to Apply for the Public Offer Shares".

(6) Applicants who apply on **WHITE** Application Forms for 500,000 Public Offer Shares or more under the Public Offering and have indicated on their Application Forms that they wish to collect any refund cheque(s) and/or Share certificate(s) in person from the Company's branch share registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Thursday, 2 March 2006. Applicants being individuals who are applying for 500,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 500,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to the Company's branch share registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, must be produced at the time of collection.

(7) Applicants who apply on **YELLOW** Application Forms for 500,000 Public Offer Shares or more under the Public Offering may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (6) above.

(8) The Share certificate(s) and/or refund cheque(s) for applicants who apply on **PINK** Application Forms will be sent to the addresses indicated on their Application Forms on the date of despatch (which is expected to be Thursday, 2 March 2006) by ordinary post and at their own risk.

(9) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for the Public Offer Shares — How to apply by giving electronic application instructions to HKSCC" for details.

(10) Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. Further details are set out in the paragraphs headed "If your application for the Public Offer Shares is successful (in whole or in part)" and "Refund of your money — additional information" in "How to Apply for the Public Offer Shares".

Share certificates for the Public Offer Shares are expected to be issued on Thursday, 2 March 2006, but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in "Underwriting" has not been exercised.

For details of the structure of the Global Offering, including the conditions thereof, please refer to "Structure and Conditions of the Global Offering".

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorised by the Company, the Joint Sponsors, the Underwriters, their respective directors or affiliates, or any other person involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

The Group is the largest producer in China, and one of the largest producers in the world, of containerboard products, in terms of production capacity as of 31 December 2004, based on data from RISI. The Group produces primarily linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board with grey back. The Group also produces unbleached kraft pulp. The Group's operations enable it to serve as a one-stop shop for a broad range of high quality packaging paperboard products.

- 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 67.3%, 39.8%, 46.6% and 65.7%, respectively, from fiscal years 2003 to 2005;

- The Group has technologically advanced and fully automated production equipment, effective quality control systems and a highly skilled and well trained workforce;

- The Group has integrated manufacturing operations supported by its own coal-fired power plants, water treatment systems, shipping pier capable of accommodating oceangoing vessels of up to 50,000 tonnes and other transportation infrastructure; and

- The Group is well positioned to capture future growth opportunities as it has already made substantial capital investment to secure valuable resources, including land use rights and supporting infrastructure next to its current production sites.

As of the Latest Practicable Date, the Group operated ten technologically advanced paper machines imported from Europe, North America and Japan with an aggregate annual design production capacity of 3,300,000 tonnes. The Group's paper machines are located in three factories in China, two of which are located in Dongguan, Guangdong province, in the Pearl River Delta region and one located in Taicang, Jiangsu province, in the Yangtze River Delta region. The Group plans to further expand its production capacity to position itself to take advantage of future growth opportunities.

For the fiscal year ended 30 June 2005 and the three months ended 30 September 2005, the Group had sales of RMB4,825.4 million and RMB1,847.8 million, respectively, and profit attributable to equity holders of RMB303.7 million and RMB242.1 million, respectively.

COMPETITIVE STRENGTHS

Details of the Group's competitive strengths are set out in "Business — Competitive Strengths". These are summarised as follows:

- The Group is the largest containerboard manufacturer in China;
- The Group is one of the most efficient packaging paperboard manufacturers in China;
- The Group's operations enable it to serve as a one-stop shop for a broad range of packaging paperboard products;
- The Group's plants are strategically located in close proximity to the Group's key customers, transportation links, including the Group's shipping pier, and water sources;
- The Group has secure sources of high quality and price competitive raw materials;
- The Group has built a large, diversified and stable base of customers;
- The Group is committed to environmentally responsible practices; and
- The Group is led by an experienced and dedicated management team.

BUSINESS STRATEGIES

Details of the Group's business strategies are set out in "Business — Business Strategies" and summarized below.

- Continue to expand its market leadership position in China;
- Continue to enhance operating efficiency;
- Seek to expand geographical coverage and products offerings; and
- Seek to attract high caliber employees and continue to emphasize and reward performance excellence.

SUMMARY FINANCIAL INFORMATION

The following tables present summary financial information of the Group for the periods indicated. The summary audited combined income statements and combined cash flow statements of the Group for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the summary unaudited, reviewed combined income statements and combined cash flow statements of the Group for the three months ended 30 September 2004, and the summary audited combined balance sheet information of the Group as of 30 June 2003, 2004 and 2005 and 30 September 2005 have been derived from the Accountants' Report on the Group included in Appendix I to this prospectus. For the basis of presentation of the Group's summary financial information, see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation".

The summary financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

As a result of the Acquisition, which was effective from 1 January 2005, the Group's financial condition and the results of operation for each of the two fiscal years ended 30 June 2003 and 2004, the first six months for the fiscal year ended 30 June 2005 and the three months ended 30 September 2004 included the results of the Initial Subsidiaries alone, while the Group's financial condition and results of operations for the last six months for the fiscal year ended 30 June 2005 and the three months ended 30 September 2005 included the results of the Acquired Subsidiaries in addition to the Initial Subsidiaries. As a result, the financial information as of and for the fiscal year ended 30 June 2005 is not necessarily comparable with that as of and for the fiscal years ended 30 June 2003 and 2004, and the financial information as of and for the three months ended 30 September 2005 is not necessarily comparable with that as of and for the three months ended 30 September 2004.

SUMMARY

	Years ended 30 June						Three months ended 30 September			
	2003		2004		2005		2004		2005	
	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	% of sales
							(unaudited, reviewed)			
	(in millions of RMB, except for percentages)									
Combined income statements of the Group										
Sales	2,244.8	100.0	2,653.5	100.0	4,825.4	100.0	836.7	100.0	1,847.8	100.0
Cost of goods sold	(1,954.3)	(87.1)	(2,105.7)	(79.4)	(4,064.9)	(84.2)	(702.2)	(83.9)	(1,468.2)	(79.5)
Gross profit	290.5	12.9	547.8	20.6	760.5	15.8	134.5	16.1	379.6	20.5
Other gains — net	3.1	0.1	5.3	0.2	24.1	0.5	2.1	0.3	48.5	2.6
Selling and marketing costs	(51.0)	(2.3)	(60.2)	(2.3)	(91.5)	(1.9)	(17.2)	(2.1)	(32.4)	(1.8)
Administrative expenses	(39.1)	(1.6)	(67.3)	(2.5)	(135.0)	(2.8)	(24.7)	(3.0)	(42.4)	(2.3)
Operating profit	203.5	9.1	425.6	16.0	558.1	11.6	94.7	11.3	353.3	19.0
Finance costs	(62.1)	(2.8)	(85.1)	(3.2)	(179.8)	(3.7)	(29.8)	(3.6)	(71.3)	(3.8)
Profit before income tax	141.4	6.3	340.5	12.8	378.3	7.9	64.9	7.7	282.0	15.2
Income tax expense	(30.9)	(1.4)	(52.7)	(2.0)	(60.4)	(1.3)	(8.2)	(1.0)	(32.6)	(1.8)
Profit for the year/period	110.5	4.9	287.8	10.8	317.9	6.6	56.7	6.7	249.4	13.4
Profit attributable to:										
Equity holders	110.6	4.9	281.4	10.6	303.7	6.3	52.8	6.2	242.1	13.1
Minority interests	(0.1)	—	6.4	0.2	14.2	0.3	3.9	0.5	7.3	0.3

	As of 30 June			As of 30 September
	2003	2004	2005	2005
	(in millions of RMB)			
Summary combined balance sheet data of the Group				
Total non-current assets	2,266.2	3,023.9	8,394.2	8,589.2
Total current assets	1,603.6	2,475.6	3,306.1	3,190.7
Total assets	3,869.8	5,499.5	11,700.3	11,779.9
Total non-current liabilities	1,173.4	1,838.5	4,002.3	5,307.3
Total current liabilities	1,928.8	2,531.7	5,290.5	3,792.2
Total liabilities	3,102.2	4,370.2	9,292.8	9,099.5
Net current liabilities	325.2	56.1	1,984.4	601.5
Total assets less current liabilities	1,941.0	2,967.8	6,409.8	7,987.7
Net assets	767.6	1,129.3	2,407.5	2,680.4

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
				(unaudited, reviewed)	
	(in millions of RMB)				
Summary combined cash flows of the Group					
Net cash generated from operating activities .	35.3	341.3	1,063.0	320.0	273.3
Net cash used in investing activities	(692.7)	(827.2)	(1,537.3)	(422.0)	(411.1)
Net cash generated from/(used in) financing activities.	490.9	795.4	681.4	140.1	(177.7)
Net (decrease)/increase in bank and cash balances	(166.5)	309.5	207.1	38.1	(315.5)

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
Other financial information of the Group					
EBITDA[(1)] (in millions of RMB)	286.7	513.9	721.2	126.0	428.9
EBITDA margin[(1)] (%)	12.8%	19.4%	14.9%	15.1%	23.2%

(1) The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable HKFRS measure, profit for the fiscal year, and the calculation of EBITDA margin. EBITDA is not a calculation based on HKFRS. The amounts included in the EBITDA calculation, however, are derived from amounts included in the combined income statement data, of which the data for the three months ended 30 September 2004 were reviewed but unaudited. In addition, EBITDA should not be considered as an alternative to profit attributable to equity holders as an indicator of the Group's operating performance, or as an alternative to operating cash flows as a measure of liquidity. Potential investors should be aware that the EBITDA measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	(in millions of RMB, except EBITDA margin)				
Profit for the year/period	110.5	287.8	317.9	56.7	249.4
Interest income	(1.6)	(3.3)	(9.0)	(1.2)	(3.0)
Finance costs	62.1	85.1	179.8	29.8	71.3
Income tax expense	30.9	52.7	60.4	8.2	32.6
Depreciation	83.0	89.8	167.4	32.1	75.8
Amortisation	1.8	1.8	4.7	0.4	2.8
EBITDA	286.7	513.9	721.2	126.0	428.9
Sales	2,244.8	2,653.5	4,825.4	836.7	1,847.8
EBITDA margin	12.8%	19.4%	14.9%	15.1%	23.2%

FUTURE PLANS AND PROSPECTS

The Group aims to become the world's leading manufacturer of packaging paperboard products. To achieve this, among other strategies, the Group plans to significantly expand its production capacity in the next few years.

The Group plans to start constructing in fiscal year 2006, and bring online by fiscal year 2007, PM11 in Dongguan with a planned annual production capacity of 500,000 tonnes of coated duplex board with grey back, PM12 in Dongguan with a planned annual production capacity of 400,000 tonnes of linerboard and PM13 in Taicang with a planned annual production capacity of 400,000 tonnes of high performance corrugating medium. In addition, the Group plans to start constructing in fiscal year 2007, and bring online by fiscal year 2008, additional paper machines with aggregate annual production capacity of 800,000 tonnes.

USE OF PROCEEDS

The Directors believe that the Global Offering will raise and strengthen the Group's corporate profile and capital base, and will provide funding for achieving the Group's business strategies and carrying out its future plans.

The net proceeds of the Global Offering are estimated to be approximately HK$2,934 million, before exercise of the Over-allotment Option, after deducting underwriting commission and other estimated expenses and assuming an Offer Price of HK$3.125 per Share, being the mid-point of the stated range of the Offer Price, or approximately HK$3,384 million if the Over-allotment Option is exercised in full, after deducting underwriting commission and other estimated expenses and assuming the same mid-point Offer Price. The Directors intend to use such net proceeds as follows:

- not more than 55% of the net proceeds, or approximately RMB1,678 million (equivalent to HK$1,614 million), to fund capital expenditures on PM11, PM12 and PM13 which the Group plans to begin construction in the current fiscal year 2006 and bring online by fiscal year 2007;

- not more than 35% of the net proceeds, or approximately RMB1,068 million (equivalent to HK$1,027 million), (a) to repay a portion of the short-term bank borrowings with interest rates ranging from 4.65% to 5.76% per annum, and (b) the remaining balance of such portion, if any, after the settlement of the aforementioned short-term bank borrowings, to repay part of the long-term bank borrowings at interest rates ranging from 3.85% to 6.21% per annum; and

- the remaining amount to provide funding for working capital and other general corporate purposes.

The Directors intend to use additional net proceeds of approximately HK$450 million (the mid-point Offer Price of HK$3.125 per Share) that the Group estimates it will receive from subscription for additional Shares in the event the Over-allotment Option is exercised in full to fund the Group's capital expenditure and repay debt obligations.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if the Group is unable to effect any part of its development plan as intended, it may hold such funds in short-term deposits so long as it deems to be in the best interests of the Group. In such event, the Company will comply with the appropriate disclosure requirements under the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING 30 JUNE 2006

Forecast profit attributable to equity holders(1)(4)	Not less than RMB1,050 million (HK$1,010 million)
Forecast earnings per Share	
(a) pro forma diluted(2)(4)	RMB0.26 (HK$0.25)
(b) weighted average(3)(4)	RMB0.32 (HK$0.30)

(1) The bases and assumptions on which the profit forecast has been prepared are set forth in "Financial Information — Profit Forecast".

(2) The calculation of the forecast earnings per Share on a pro forma diluted basis is based on the forecast consolidated profit attributable to equity holders for the year ending 30 June 2006, assuming that the Company had been listed on the Stock Exchange since 1 July 2005 and a total of 4,000,000,000 Shares have been in issue on 1 July 2005. The calculation assumes that the Over-allotment Option will not be exercised and that the Pre-IPO Share Option were exercised in full on 1 July 2005. It is also assumed that all shares under the Pre-IPO Share Option being issued at no consideration. It has not taken into account the impact of average market price of the Shares for the year ending 30 June 2006 on the computation of the number of dilutive potential shares.

(3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit attributable to equity holders for the fiscal year ending 30 June 2006 and a weighted average number of 3,328,767,123 Shares issued and outstanding during the year. This calculation assumes that (i) the Over-allotment Option is not exercised and (ii) 1,000,000,000 Offer Shares will be issued by the Company pursuant to the Global Offering on 3 March 2006.

(4) The forecast profit attributable to equity holders and forecast earnings per Share are converted into HK$ at the rate of HK$1.00 = RMB1.04.

DIVIDEND POLICY

The Group has not declared or paid any dividends, but has retained earnings for use in its business and to invest in additional facilities. Going forward, the Company currently expects to maintain a general policy that not less than 20% of its profits available for distribution in each financial year commencing from the Listing Date will be distributed to its shareholders. However, the declaration or recommendation of, payment and amount of dividends will be subject to the discretion of the Board and will be dependent upon the Group's future operations, earnings, financial conditions, business needs, prospects, cash requirements and availability and other factors as the Board may deem relevant at such time.

For further details on the timing, amount and form of future dividends, if any, the Company's ability to pay cash dividends, the factors affecting the payment of dividends and PRC laws and regulations governing dividend distribution for the Company's operating PRC subsidiaries incorporated as foreign invested enterprises and domestic enterprises, please see "Financial Information — Dividend Policy".

OFFER STATISTICS

	Based on an Offer Price of HK$2.85	**Based on an Offer Price of HK$3.40**
Market capitalisation of the Shares[(1)]	HK$11,400 million	HK$13,600 million
Prospective price/earnings multiple		
(a) pro forma diluted[(2)]	11.4 times	13.6 times
(b) weighted average[(3)]	9.5 times	11.3 times
Unaudited pro forma adjusted net tangible asset value per Share[(4)]	RMB1.30 (HK$1.25)	RMB1.44 (HK$1.38)

Notes:

(1) The calculation of market capitalisation is based on 4,000,000,000 Shares expected to be in issue following completion of the Global Offering assuming the Over-allotment Option is not exercised.

(2) The calculation of pro forma diluted prospective price/earnings multiple is based on the pro forma forecast diluted earnings per Share of RMB0.26 (approximately HK$0.25) for the fiscal year ending 30 June 2006 and on the respective Offer Prices of HK$2.85 and HK$3.40 per Public Offer Share.

(3) The calculation of weighted average prospective price/earnings multiple is based on the forecast weighted average earnings per Share of RMB0.32 (approximately HK$0.30) for the fiscal year ending 30 June 2006 and on the respective Offer Prices of HK$2.85 and HK$3.40 per Public Offer Share.

(4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Adjusted Net Tangible Assets" in Appendix III to this prospectus and on the basis of a total of 4,000,000,000 Shares expected to be in issue following completion of the Global Offering assuming the Over-allotment Option is not exercised.

RISK FACTORS

The operations of the Group involve certain risks. Prospective investors should read carefully "Risk Factors". These risks can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to China; and (iv) risks relating to the Global Offering. These risks are summarised below:

Risks relating to the Group

- The Group purchases from ACN, a company wholly owned by Ms. Cheung and Mr. Liu, a substantial majority of its supplies of recovered paper and may have difficulty obtaining required quantities of recovered paper if ACN were unable to provide adequate supply of recovered paper for any reason

- The interests of the Company's Controlling Shareholders may conflict with the best interests of its other shareholders

- A material disruption of the Group's operations could adversely affect its revenues and profits

- The Group may not be able to implement its business strategies on schedule or within budget or at all

- The Group may experience difficulties managing its growth

- The Group may not be able to obtain land use rights certificates for additional land for future use

- The Group may be subject to additional enterprise income tax liabilities if the central tax authority determines that the Group should be subject to a higher enterprise income tax rate than the rate currently assessed by the local tax authority

- The Group may be subject to losses that might not be covered in whole or in part by its insurance coverage

- The Group may be subject to liability in connection with industrial accidents at its production sites

- The Group depends on the continued service of its senior management team

- The Group's financial performance and operating results could be adversely affected by its indebtedness and rising interest rates

- The Group may not have adequate capital resources to provide for all of its substantial capital requirements to implement its business strategies

Risks relating to the industry

- The demand and supply of packaging paperboard products are correlated to macro-economic market conditions

- Prices of raw materials and coal can be volatile and fluctuate, and price increases would lead to higher cost of goods sold, which could reduce the Group's profit margins

- The markets for the Group's products are highly competitive

- The Group's operations are subject to comprehensive environmental regulation and involve significant expenditures for compliance with regulations

Risks relating to China

- China's economic, political and social conditions, as well as government policies, could adversely affect the financial markets in China and the Group's business

- The Group's operations are subject to the uncertainty of the legal system in China which could limit the legal protection available to potential investors

- The Group has benefited from tax incentives offered by the Chinese government, which may expire or be revoked or changed in the future

- Chinese restrictions on foreign exchange may limit the operating subsidiaries' ability to remit payments to the Group, which could affect the Group's liquidity

- Restrictions on payment of dividends under applicable regulations may limit the operating subsidiaries' ability to remit dividends to the Group, which could affect the Group's liquidity and its ability to pay dividends

- Fluctuations in exchange rates of Renminbi against foreign currencies may affect the Group's financial condition and results of operations

- Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or another widespread public health problem could adversely affect the Group's business and results of operations

- Acts of God, war or terrorism could affect the Group's business directly or indirectly

Risks relating to the Global Offering

- There has been no prior public market for the Shares

- The liquidity and market prices of the Shares following the Global Offering may be volatile

- Sales or perceived future sales of substantial amounts of the Shares in the public market after the Global Offering could adversely affect the prevailing market price of the Shares

- Potential investors will experience immediate and substantial dilution as a result of the Global Offering

- Enforcement of judgments in China may be difficult to obtain

- The Group cannot guarantee the accuracy of facts and statistics with respect to certain information obtained from official governmental sources contained in this prospectus

- Potential investors should read the entire prospectus carefully and the Group strongly cautions potential investors not to place any reliance on any information contained in press articles or disseminated through other media, including, in particular, any financial projections, valuations or other forward-looking information, certain of which may not be consistent with the information contained in this prospectus

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are defined in "Glossary".

"ACN"	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States
"Acquired Subsidiaries"	Emperor Dragon Paper Industries Co., Ltd., MSL, NDP Industries, River Dragon Paper Industries Co., Ltd. and their subsidiaries
"Acquisition"	the acquisition of the Acquired Subsidiaries by Zhang's Enterprises Company Limited effective on 1 January 2005. See "Statutory and General Information — A. Further Information About the Company — 4. Acquisitions and disposals" in Appendix VII to this prospectus and Note 27 to the Accountants' Report on the Group included in Appendix I to this prospectus
"Application Form(s)"	**white** application form(s), **yellow** application form(s) and **pink** application form(s) or where the context so requires, any one of them
"AQSIQ"	the State Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee" .	the audit committee of the Board
"Best Result"	Best Result Holdings Limited, a company incorporated under the laws of BVI whose issued share capital is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 37.1% by Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust, as to approximately 10.0% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and as to approximately 15.8% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust
"Board"	the board of Directors

"Business Day". . . .	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are normally open for normal banking business
"BVI"	the British Virgin Islands
"Bye-laws"	the bye-laws of the Company, a summary of which is set out in Appendix VI to this prospectus
"CAGR"	compound annual growth rate
"Catalogue of Industry Guidelines"	the Catalogue of Industry Guidelines for Foreign Investment (外商投資產業指導目錄) jointly promulgated by NDRC and MOFCOM on 30 November 2004 and effective on 1 January 2005
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC" .	the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"China Paper Association"	a national trade association among paper manufacturers in China which provides its members with regulatory and market information relating to the paper manufacturing industry in China
"Companies Act". . .	the Companies Act 1981 of Bermuda (as amended)
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
"Company"	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability on 17 August 2005

"Controlling Shareholders"	Best Result, Max Dragon, Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang
"Corporate Investors"	Ample Glory Limited, Chow Tai Fook Nominee Ltd. and Bestfull Limited, or any of them
"Director(s)"	the director(s) of the Company or any one of them
"Dongguan Land Dragon"	Dongguan Land Dragon Paper Industries Company Limited (東莞地龍紙業有限公司), a wholly foreign-owned enterprise established in the PRC on 28 January 2005 and an indirectly wholly owned subsidiary of the Company
"Dongguan Nine Dragons".	Dongguan Nine Dragons Paper Industries Company Limited (東莞玖龍紙業有限公司), a wholly foreign-owned enterprise established in the PRC on 14 December 1995 and an indirectly wholly owned subsidiary of the Company
"Dongguan Sea Dragon"	Dongguan Sea Dragon Paper Industries Company Limited (東莞海龍紙業有限公司), a wholly foreign-owned enterprise established in the PRC on 17 April 2002 and an indirectly wholly owned subsidiary of the Company
"Dongguan Transportation" . . .	Dongguan Nine Dragons Transportation Company Limited (東莞市玖龍運輸有限公司), a domestic enterprise established in the PRC on 22 June 2001 and indirectly owned as to 90% by the Company and 10% by an Independent Third Party
"Exporting Enterprises"	the foreign enterprises exporting wastes used as raw materials to the PRC
"GDP"	gross domestic product
"Global Offering" . .	the Public Offering and the International Placing
"Group"	the Company and its subsidiaries at the relevant point of time (including where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company)
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"HK$" or "HK dollars" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Independent Third Party"	a party which is not connected (as defined in the Listing Rules) to the Directors, substantial shareholders or chief executives of the Company
"Initial Subsidiaries"	Zhang's Enterprises Company Limited and its subsidiaries immediately before the Acquisition, namely, Dongguan Nine Dragons, ND Xing An and Dongguan Transportation
"International Offer Shares".	the 900,000,000 new Shares initially being offered for subscription by the Company at the Offer Price under the International Placing (subject to adjustment as described in "Structure and Conditions of the Global Offering") together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
"International Placing"	the conditional placing by the International Underwriters of the International Offer Shares for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in "Structure and Conditions of the Global Offering" on and subject to the terms and conditions stated herein and in the International Underwriting Agreement
"International Underwriters". . . .	the underwriters of the International Placing, led by the Joint Global Coordinators, who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the conditional placing and underwriting agreement relating to the International Placing and to be entered into by, among others, the Company and the International Underwriters on or about the date of the Price Determination Agreement
"Joint Global Coordinators". . . .	BNP Paribas Peregrine Capital Limited and Merrill Lynch Far East Limited
"Joint Sponsors" . . .	BNP Paribas Peregrine Capital Limited and Merrill Lynch Far East Limited
"Latest Practicable Date".	15 February 2006, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus

"Listing Date"	the date expected to be on or about Friday, 3 March 2006, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules". . . .	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended)
"Macau"	the Macau Special Administrative Region of the PRC
"Max Dragon"	Max Dragon Profits Limited, a company incorporated under the laws of BVI whose entire issued share capital is held by Ms. Chang
"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
"Measures on Pollution Sources Monitoring".	the Measures on the Administration of Pollution Sources Monitoring (污染源監測管理辦法) issued by State Environmental Protection Administration of China on 1 November 1999
"MOFCOM".	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Liu"	Mr. Liu Ming Chung (劉名中先生) is interested in the Company through Best Result, which will be holding approximately 74.7% of the issued share capital of the Company immediately upon completion of the Global Offering (assuming the Over-Allotment Option is not exercised) and whose issued share capital is held as to approximately 37.1% by Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust. Mr. Liu is the spouse of Ms. Cheung
"Mr. Zhang"	Mr. Zhang Cheng Fei (張成飛先生) is interested in the Company through Best Result, which will be holding approximately 74.7% of the issued share capital of the Company immediately upon completion of the Global Offering (assuming the Over-Allotment Option is not exercised) and whose issued share capital is held as to approximately 10.0% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and as to approximately 15.8% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust. Mr. Zhang is the brother of Ms. Cheung and Ms. Chang

"Ms. Chang"	Ms. Chang Siu Hon (張秀紅女士) is interested in 0.3% of the Company through her interest in Max Dragon immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Ms. Chang is the sister of Ms. Cheung and Mr. Zhang
"Ms. Cheung"	Ms. Cheung Yan (張茵女士) is interested in the Company through Best Result, which will be holding approximately 74.7% of the issued share capital of the Company immediately upon completion of the Global Offering (assuming the Over-Allotment Option is not exercised) and whose issued share capital is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT. Ms. Cheung is the spouse of Mr. Liu and the sister of Mr. Zhang and Ms. Chang
"MSL"	Millennium Scope Limited, a company incorporated under the laws of BVI on 21 August 2000 and an indirectly wholly owned subsidiary of the Company
"MSL Group".	MSL and its subsidiaries
"NDP (BVI)"	Nine Dragons Paper (BVI) Group Limited, a company incorporated under the laws of BVI on 13 June 2005 and a directly wholly owned subsidiary of the Company
"NDP Group".	NDP (BVI) and its subsidiaries
"NDP Industries" . .	Nine Dragons Paper Industries Co., Ltd., a company incorporated under the laws of BVI on 6 March 2002 and an indirectly wholly owned subsidiary of the Company
"NDP Industries Group"	NDP Industries and its subsidiaries
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"ND Xing An"	Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited (玖龍興安漿紙(內蒙古)有限公司), an equity joint venture established in the PRC on 16 February 2004 and which is 55% indirectly owned by the Company and 45% owned by China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司)

"Offer Price"	the final Hong Kong dollar price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK$3.40 and is expected to be not less than HK$2.85, to be determined as described in "Structure and Conditions of the Global Offering — Determining the Offer Price"
"Offer Shares"	the Public Offer Shares and the International Offer Shares
"Over-allotment Option"	the option to be granted by the Company to the Joint Global Coordinators under the International Underwriting Agreement pursuant to which the Company may be required by the Joint Global Coordinators to allot and issue up to 150,000,000 additional new Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Placing
"Over-allotment Shares".	up to 150,000,000 Shares which the Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
"PBOC"	People's Bank of China (中國人民銀行)
"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, the principal terms of which are summarised in "Statutory and General Information — D. Other Information — 2. Pre-IPO Share Option Scheme" in Appendix VII to this prospectus
"Price Determination Agreement"	the agreement to be entered into among the Company and the Joint Global Coordinators (for itself and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price
"Price Determination Date".	the date, expected to be on or about Friday, 24 February 2006 (Hong Kong time), when the Offer Price is determined and in any event no later than Monday, 27 February 2006

"Public Offer Shares"	the 100,000,000 new Shares initially being offered for subscription by the Company at the Offer Price under the Public Offering (subject to adjustment as described in "Structure and Conditions of the Global Offering")
"Public Offer Underwriters". . . .	the underwriters of the Public Offering named in "Underwriting — Underwriters — Public Offer Underwriters" of this prospectus
"Public Offer Underwriting Agreement"	the conditional public offer underwriting agreement dated 17 February 2006 relating to the Public Offering entered into by, among others, the Company and the Public Offer Underwriters
"Public Offering" . .	the offer by the Company of the Public Offer Shares for subscription by the public in Hong Kong as described in "Structure and Conditions of the Global Offering" at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the US Securities Act
"Reorganisation" . . .	the reorganisation by the companies comprising the Group in preparation for the listing of the Shares on the Stock Exchange. See "Statutory and General Information — A. Further Information About the Company — 5. Formation of NDP (BVI) as an investment holding company" and "Statutory and General Information — A. Further Information About the Company — 6. Reorganisation", each included in Appendix VII to this prospectus, and Note 1 to the Accountants' Report on the Group included in Appendix I to this prospectus
"RISI"	Resource Information Systems, Inc., an internationally recognized source for independent economic analysis for the international forest products industry
"RMB".	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外滙管理局)

"SEPA"	State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)" . . .	holder(s) of Shares
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 12 February 2006, the principal terms of which are summarized in "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in Appendix VII to this prospectus
"sq.ft"	square feet
"sq.m.".	square metre
"Standing Committee"	the Standing Committee of the National People's Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
"Stock Exchange" . .	The Stock Exchange of Hong Kong Limited
"Taicang Nine Dragons".	Nine Dragons Paper Industries (Taicang) Company Limited (玖龍紙業(太倉)有限公司), a wholly foreign-owned enterprise established in the PRC on 26 June 2002 and an indirectly wholly owned subsidiary of the Company
"Taicang Packaging"	Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司), a wholly foreign-owned enterprise established in the PRC on 9 April 2002
"Taicang Sea Dragon"	Sea Dragon Paper Industries (Taicang) Company Limited (海龍紙業(太倉)有限公司), a wholly foreign-owned enterprise established in the PRC on 20 June 2002 and an indirectly wholly owned subsidiary of the Company
"Taicang Transportation" . . .	Nine Dragons Transportation (Taicang) Company Limited (太倉玖龍運輸有限公司), a domestic enterprise established in the PRC on 8 January 2004 and indirectly owned as to 90% by the Company and 10% by an Independent Third Party

"The Golden Nest Trust"	a discretionary trust set up by Mr. Zhang as the settlor and BNP Paribas Jersey Trust Corporation Limited as the trustee. The objects of the trust include Mr. Zhang and his family members
"The Zhang Family Trust"	a discretionary trust set up by Mr. Zhang as the settlor and BNP Paribas Jersey Trust Corporation Limited as the trustee. The objects of the trust include Mr. Zhang and his family members
"Three Authorities" .	the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation
"Track Record Period".	the periods comprising the three financial years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005
"Underwriters"	the International Underwriters and the Public Offer Underwriters
"Underwriting Agreements"	the International Underwriting Agreement and the Public Offer Underwriting Agreement
"United States" or "US"	the United States, as defined in Regulation S
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"US Person"	has the meaning given to it in Regulation S
"US Securities Act" .	the United States Securities Act of 1933 (as amended)
"WTO".	World Trade Organization
"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.

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-Allotment Option.

All times refer to Hong Kong time.

If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.

Unless otherwise specified, amounts denominated in RMB and US$ have been converted into Hong Kong dollars in this prospectus for the purpose of illustration only at the rates set out below:

HK$1.00 : RMB1.04
HK$7.76 : US$1.00

No representation is made that any amounts in RMB, US$ or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates or at all.

In this prospectus, references to years are to calendar years unless otherwise stated.

In this prospectus, references to the Group's "production capacity" are references to design capacity, which is calculated based primarily on drive speed, water removal capacity and drying capacity as well as certain assumptions including assumptions about product grade, product mix and equipment utilization rates. The actual production may differ from design capacity depending on various factors including product grade, product mix and equipment utilization rates. The design capacity of the Group's paper machines should not be relied on as a precise measure of the actual production volume produced during any particular historical period or as an accurate predictor of the actual production volume that will or can be produced in any future period.

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for reference only.

This glossary contains certain technical terms used in this prospectus. Such terms and their meanings may not correspond to standard industry definitions or usage:

"basis weight" or "grammage"	weight per unit area of a paper product. This can be expressed as the weight in grams per sq.m. (g/m^2) or pounds per 1,000 sq.ft., among others
"boxboard"	the general term describing the type of paperboard used for fabricating boxes, which may be plain, lined or clay coated, and includes duplex board
"burst index"	a paper strength indicator derived from dividing bursting strength (measured in kPa) by basis weight (measured in g/m^2), and expressed as kPa m^2/g. Bursting strength is the combined tensile strength and stretch of a material as measured by the ability of the material to resist rupture when pressure is applied under specified conditions to one of its sides by an instrument used for testing the property
"coated duplex board with grey back" . .	a type of duplex board with a glossy coated surface on one side for superior printability
"containerboard" . . .	the paperboard components used to manufacture corrugated containers. Containerboard primarily includes linerboard and corrugating medium and can also include coated duplex board
"corrugated board". .	the structure formed by adhering one or more sheets of fluted corrugating medium to one or more layers of linerboard
"corrugating medium"	a paperboard used to form the corrugated or fluted component sandwiched between the linerboard
"corrugator".	a machine that presses corrugations into the corrugating medium and glues linerboard to each side to make corrugated board, or a company that makes corrugated board
"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, data collection, and system management
"duplex board"	a type of boxboard made from two separate webs (with, for example, different finish or colour characteristics) combined together while still damp, without using adhesives

"flute" or "corrugation"	the wave shapes or ridges that are pressed into the corrugating medium
"fourdrinier"	a traditional forming technology employed in the manufacture of all grades of paper including containerboard. The fourdrinier machine, for descriptive purposes, can be divided into four sections: the wet end, the press section, the dryer section and the calendar section
"GPS"	Global Positioning System. A system of satellites that was developed by the U.S. Department of Defense that is widely used, in addition to military uses, for marine and terrestrial navigation, and that allows one's position to be calculated with great accuracy by the use of an electronic receiver
"ISO"	International Organisation for Standardisation
"ISO 14001"	ISO standards for environmental management which are primarily concerned with what an organisation does to minimise harmful effects on the environment caused by its activities and which set requirements for what an organisation must do to manage processes influencing the impact of its activities on the environment
"ISO 9001"	ISO standards for quality management which are primarily concerned with what an organisation does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organisation must do to manage processes influencing product quality
"kraftlinerboard" . . .	a high grade of linerboard manufactured wholly or partially from kraft pulp
"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)
"lignin"	One of the three main constituents of wood, along with cellulose and hemi-cellulose. Lignin acts as the cementing agent in wood, binding the cellulose fibers together

"linerboard"	the outer and inner facings of corrugated board
"MW"	megawatt, a unit of power equal to 1,000,000 watts
"OHSAS 18001" . . .	an international occupational health and safety management system specification
"packaging paperboard" or "paperboard"	a generic term encompassing primarily containerboard, boxboard and industrial converted products. Packaging paperboard is one of two general subdivisions of paper and is generally heavier in basis weight, thicker and more rigid than paper
"PLC"	programmable logic controller, a device used to automatically monitor and control industrial plant process and/or production operations by interfacing software control with input/output devices
"recovered paper" . .	used paper and board separately collected for re-use as fiber raw material in containerboard manufacture
"stacking strength" .	a paper strength indicator that can be expressed in Newton metre/gram, or Nm/g, derived from the box compression test
"surface sizing" . . .	the treatment of the surface of the paper after it has dried or partially dried with materials or chemicals to impart resistance to water, oils and other fluids, to seal down its surface fibers and to improve its surface strength
"testlinerboard". . . .	linerboard made entirely from recovered paper
"tonne".	a metric tonne, equivalent to 1,000 kilograms
"virgin fiber"	wood fiber, derived from trees, that have not previously been processed into paper
"white top linerboard"	a type of linerboard comprising a multiple-ply sheet composed of one bleached layer with the remaining layer(s) unbleached

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the Group's business strategies and plan of operations;
- the Group's capital expenditure plans;
- the amount and nature of, and potential for, future development of the Group's business;
- the Group's operations and business prospects;
- the prospective financial information regarding the Group's business;
- the Group's dividend policy;
- projects under construction or planning;
- the regulatory environment of the Group's industry in general; and
- future development in the Group's industry.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to the Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting the Group's current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, the Group does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this prospectus, including the Accountants' Reports included in Appendices I, IIA and IIB to this prospectus, before deciding to purchase the Shares. You should be aware that the Group's subsidiaries in China are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries.

If any of the following risks occur, the Group's business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and your investment could be adversely affected.

RISKS RELATING TO THE GROUP

The Group purchases from ACN, a company wholly owned by Ms. Cheung and Mr. Liu, a substantial majority of its supplies of recovered paper and may have difficulty obtaining required quantities of recovered paper if ACN were unable to provide adequate supply of recovered paper for any reason.

The Group purchases from ACN, a connected party wholly owned by Ms. Cheung and Mr. Liu, who are among the Controlling Shareholders of the Group under the Listing Rules, a substantial majority of its supply of recovered paper as the primary raw material for its packaging paperboard products. In the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, purchases of recovered paper from ACN amounted to approximately RMB999.0 million, RMB1,211.0 million, RMB1,888.0 million and RMB551.0 million, which constituted approximately 83.2%, 91.1%, 86.0% and 80.5%, respectively, of the Group's total purchases of recovered paper and approximately 51.1%, 57.5%, 46.4% and 37.5%, respectively, of the Group's total cost of goods sold. Although the Directors believe that the Group should be able to increase the supply from its existing suppliers other than ACN in order to completely substitute its supply from ACN within three to six months in the event that ACN were unable to provide adequate supply of recovered paper to the Group, due to a change in control, a disruption to its operations or for other reasons, or were to cease or reduce the supply of recovered paper to the Group for any reason, there is no assurance that the Group would not have any difficulty in obtaining recovered paper in the quantities required by its operations within a short period of time. Its business, financial condition and results of operation could be adversely affected if it were unable to find alternative supplies of recovered paper of the same quality at competitive prices.

The Group has entered into a long-term contract with ACN for recovered paper supplies in priority over ACN's other customers effective from the Listing Date and expiring on 30 June 2008, renewable in the Group's option for successive terms of three years upon its expiration, based on prices determined by reference to the prevailing price in the recovered paper market in China comparable to those offered by third party independent suppliers. Failure by ACN to fulfill its obligations under such contractual arrangements may have an adverse effect on the Group's business, financial condition and results of operations. See "Business — Raw Materials", "Business — Continuing Connected Transactions" and "Business — Relationship with the Controlling Shareholders".

The interests of the Company's Controlling Shareholders may conflict with the best interests of its other shareholders.

Upon completion of the Global Offering, assuming the Over-allotment Option is not exercised, the Controlling Shareholders will in the aggregate beneficially own approximately 75% of the Company's issued Shares. Subject to its Bye-laws and applicable laws and regulations, the Company's Controlling Shareholders will continue to have the ability to exercise a controlling influence on its management, policies and business by controlling the composition of its Board, determining the timing and amount of its dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving its annual budgets. No assurance can be given that the Controlling Shareholders will not cause the Group to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of its other shareholders.

A material disruption of the Group's operations could adversely affect its revenues and profits.

The Group's operations are subject to uncertainties and contingencies beyond its control that could result in material disruptions and adversely affect its revenues and profit. These include industrial accidents, fires, floods, droughts, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labor difficulties and disruptions of public infrastructure such as roads, ports or pipelines.

The Group's operations require significant and stable supplies of water, electricity and steam, which will further increase substantially as it expands its production capacity. Any of the events listed above, as well as power interruptions or rationing, could disrupt or restrict supply of such utilities. The Group has experienced power shortages and disruptions in the past, most recently in fiscal year 2005, and may in the future experience such disruptions again.

Any such disruption of the Group's operations could cause it to disrupt, limit or delay its production, prevent it from meeting customer orders, increase its costs of production or require it to make unplanned capital expenditures, each of which could adversely affect its business and results of operations.

The Group may not be able to implement its business strategies on schedule or within budget or at all.

The Group may be unable to implement fully its business strategies or implement them on schedule or within budget or at all. Its strategies are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond its control and could delay or increase the costs of implementation. Such potential events relating to its expansion plans include, but are not limited to: delays in the delivery and installation of manufacturing equipment; seasonal factors; labor disputes or civil unrest; design or construction changes costs or requirements related to compliance with environmental or other laws and regulations; delays in securing the necessary governmental approvals and land use rights; a downturn in the economy; and changes to plans for additional facilities necessitated by changes in market conditions. Delays in the expansion of the Group's production facilities could result in the loss or delayed receipt of revenues, an increase in financing costs, or a failure to meet profit and earnings projections, any of which would adversely affect its business and results of operations. In order to implement its expansion strategy, the Group may selectively seek strategic acquisitions or joint venture investment opportunities in the future. The Group's ability to consummate and integrate effectively any future acquisitions or joint venture investment opportunities on terms that are favorable to it may be limited by the number of attractive acquisition targets, joint venture partners, internal demands on its resources and, to the extent necessary, its ability to obtain financing on satisfactory terms, if at all.

The Group may experience difficulties managing its growth.

The Group has grown rapidly over the past few years and intends to further expand its production capacity in the future. See "Business — Business Strategies — Continue to Expand Its Market Leadership Position in China" and "Future Plans and Use of Proceeds". The Group also plans to expand the coverage of its distribution network throughout China. These expansion plans have presented, and continue to present, significant challenges for the Group's management and administrative systems and resources. The Group's planned expansion of its production capacity will require substantially increased supplies of raw materials and utilities and corresponding increases or expansion of supporting infrastructure, such as water treatment facilities, transportation infrastructure and staff. If the Group fails to develop and maintain management and administrative systems, resources and supporting infrastructure sufficient to keep pace with its planned growth or to handle the additional responsibilities of becoming a public company, it may experience difficulties managing its growth and its business and results of operations could be materially and adversely affected.

The Group may not be able to obtain land use rights certificates for additional land for future use.

Under PRC law, the Group is required to obtain land use rights certificates for its land. In anticipation of future expansion plans, the Group has entered into compensation agreements with existing users of additional land of approximately 0.8 million sq.m. in Dongguan. See "Business — Property, Plant and Equipment". Although the Group has entered into compensation agreements with existing users, there is no assurance that the government will enter into land use rights agreement with the Group to obtain land use rights certificates for such land. If the Group is unable to obtain land use rights for such additional land or is unable to locate alternative land for future use, the Group may not be able to implement its expansion plans as scheduled or within budget.

The Group may be subject to additional enterprise income tax liabilities if the central tax authority determines that the Group should be subject to a higher enterprise income tax rate than the rate currently assessed by the local tax authority.

On 5 September 2005, Dongguan Nine Dragons obtained a confirmation from the local tax authority in Dongguan to the effect that Dongguan Nine Dragons is subject to enterprise income tax at a rate of 15% at the central level, and 3% at the local level due to its status as a foreign-invested "advanced technology enterprise" certified by the Science and Technology Bureau of Guangdong province pursuant to the relevant laws and regulations of the Guangdong provincial government. However, under PRC tax laws and regulations, foreign-invested advanced technology enterprises are eligible for such favorable enterprise income tax rate if they are registered in the advanced technology industry development zones approved by the central government. Although Dongguan Nine Dragons is certified as a foreign-invested advanced technology enterprise, it is registered in Dongguan, which is not within the advanced technology industry development zone approved by the central government. As a result, there is no assurance that the central tax authority with the final authority to assess the enterprise income tax rate applicable to Dongguan Nine Dragons would not take a view contrary to the local government or the local tax authority.

In the event that the central tax authority were to determine that all the foreign invested enterprises certified by the Science and Technology Bureau of Guangdong province registered outside the advanced technology industry development zones, including Dongguan Nine Dragons, are not entitled to the favourable enterprise income tax rate at 15%, Dongguan Nine Dragons may be retroactively liable for payment of the applicable amount of enterprise income tax, which would amount to approximately RMB27.1 million as of 30 September 2005, provision for which has been made in the Accountants' Report included in Appendix I to this prospectus. See Note 22 to Accountants' Report included in Appendix I to this prospectus. In addition, the Group may be subject to surtaxes or penalties in respect of such enterprise income tax liabilities. Since such surtaxes and penalties are not quantifiable, they have not been provided for in the Accountants' Report included in Appendix I to this prospectus. Ms. Cheung, Mr. Liu and Mr. Zhang have agreed to indemnify the Group against any surtaxes and penalties incurred by the Group for enterprise income taxes payable in respect of any period up to and including the fiscal year ending 30 June 2006 (for which the profit forecast of the Company as contained in Appendix IV to this prospectus has been prepared), subject to certain exclusions. See "Statutory and General Information — D. Other Information — 4. Estate Duty and Tax Indemnity" in Appendix VII to this prospectus.

The Group may be subject to losses that might not be covered in whole or in part by its insurance coverage.

The Group's business may be adversely affected due to the occurrence of typhoons, earthquakes, floods, droughts, fire or other natural disasters or similar events at its production facilities. Should an accident occur, it may cause significant property damage and personal injuries. Consistent with customary practice in China, the Group does not carry any business interruption insurance, third party liability insurance for personal injury or environmental damage arising from accidents at its production facilities or relating to its operations or product liability insurance against claims or liabilities that may arise from products sold by it. In addition, there are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which the Group cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in that property, as well as the anticipated future revenues derived from the manufacturing activities conducted at that property. Any material uninsured loss could materially and adversely affect the Group's business, financial condition and results of operations.

The Group may be subject to liability in connection with industrial accidents at its production sites.

The Group's operations involve the operation of heavy machinery, and industrial accidents resulting in employee injuries or deaths may occur. In January 2006, the Group experienced its first serious industrial accident, resulting in the deaths of two employees and minor bodily injury of a third employee. In connection with this accident, the Group paid compensation as required by applicable PRC labour protection laws. There is no assurance that other industrial accidents at the Group's production sites, whether due to malfunctions of machinery or other reasons, will not occur in the future. In such an event, the Group may be liable for loss of life and property, medical expenses, medical leave payments, fines or penalties for violation of applicable PRC laws and regulations as well as subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Enhanced safety measures imposed by PRC government authorities could have a material adverse effect on the manner in which the Group conducts its operations, thereby adversely impacting its operations.

The Group depends on the continued service of its senior management team.

The Group's success depends on the continued service of its senior management team, the details of which are included in "Directors, Senior Management and Employees" in this prospectus. In particular, the experience and contributions of the three executive Directors, Ms. Cheung, Mr. Liu and Mr. Zhang, are crucial to the success of the Group. The Group does not carry key person insurance on any of its personnel.

The Group will require an increased number of experienced and competent executives and engineers in the future to implement its growth plans. Competition for such personnel may be intense. If the Group were to lose the services of any of its key senior management team, and were unable to recruit and retain such personnel at any time, the growth of its business could be disrupted or delayed.

The Group's financial performance and operating results could be adversely affected by its indebtedness and rising interest rates.

The Group is a highly leveraged company. As of 30 September 2005, the Group's total bank borrowings amounted to approximately RMB6,004.0 million, of which RMB930.9 million represented bank borrowings due within less than one year. As of such date, the Group's total borrowings as a percentage of total assets, or gearing ratio, was 51.0%. In addition, as of 30 September 2005, the Group had a net current liabilities position of approximately RMB601.5 million due primarily to substantial bank borrowings due within less than one year and trade and other payables. If the Group incurs additional indebtedness, the risks that it faces as a result of its already substantial indebtedness and leverage could intensify. The Group's liquidity depends on cash from operations and its access to further financial resources to fulfill its short-term payment obligations, which will be affected by the Group's future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond its control.

The Group is exposed to interest rate risk resulting from fluctuations in interest rates. As of 30 September 2005, the Group's borrowings were denominated in RMB and US dollars with, RMB5,460.3 million, or 90.9%, denominated in RMB and the remaining RMB543.7 million, or 9.1%, denominated in US dollars. Most of the Group's RMB loans are at fixed rates although most of the Group's RMB loans are short term loans and interest rates under certain loans are subject to adjustment if PBOC rates are adjusted. The Group's US dollar loans are at floating rates.

The Group does not currently hedge any of its interest rate risk. Increases in interest rates would increase interest expenses relating to the Group's outstanding floating rate borrowings and increase the cost of new debt including rolled over short term loans. Although the Group intends to use a portion of its net proceeds from the Global Offering to repay a portion of its borrowings, a significant increase in prevailing interest rates could substantially increase the Group's finance costs, which could adversely affect its financial condition and results of operations. Increase or decrease of the Group's effective interest rate by 50 basis points would increase or decrease, respectively, the Group's interest payable under the borrowings by approximately RMB30.0 million annually, based on total borrowings of RMB6,004.0 million as of 30 September 2005.

The Group may not have adequate capital resources to provide for all of its substantial capital requirements to implement its business strategies.

The Group's operations are capital intensive, and the Group regularly makes capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws and regulations. The Group's total capital expenditures were approximately RMB5,406.0 million in fiscal year 2005. The Group expects to spend approximately RMB1,607.2 million in fiscal year 2006 and RMB2,234.3 million in fiscal year 2007 on capital expenditures, including expenditures on new paper machines to expand its production capacity. Depending on market conditions and opportunities, it intends to further expand its production capacity in the future. In addition, the Group is actively exploring opportunities to expand its product lines to allow it to offer a broader range of complementary products to customers. If the Group cannot obtain additional funds when required, it may not be able to fund the necessary capital expenditures, including to upgrade or purchase additional plant and equipment, or to implement its business strategies fully or at all. If the Group is unable to satisfy its working capital needs or to repay its debt obligations as they become due when it seeks to fund the necessary capital expenditures or implement its business strategies, it may be subject to creditors' actions or be forced to adopt an alternative strategy that may include reducing production or delaying capital expenditures, selling assets, refinancing its indebtedness or seeking equity capital. Any of the above could impede the implementation of its business strategies or prevent it from entering into transactions that would otherwise benefit its business on commercially reasonable terms or at all and adversely affect the Group's financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY

The demand and supply of packaging paperboard products are correlated to macro-economic market conditions.

Although the demand for packaging paperboard products in China has been increasing substantially compared to other countries in the past as a result of China's role as a global manufacturing and export center which generated demand for packaging paperboard products as packaging materials for both domestic and export sales, there is no assurance that such trend will continue in the future. If China's economy experiences a slowdown or downturn thereby resulting in decreased demand or if industry participants add new capacity or increase capacity utilization rates thereby causing supply to exceed demand for the Group's products, the Group may experience downward price pressure or decreased sales volume of its products. These and other factors that may affect the average selling prices and sales volume of the

Group's products are beyond its control and the Group has little influence over the timing and extent of price changes resulting from overall macro-economic market conditions, which could adversely affect the Group's financial condition and results of operations.

Prices of raw materials and coal can be volatile and fluctuate, and price increases would lead to higher cost of goods sold, which could reduce the Group's profit margins.

The Group's operations consume substantial amounts of recovered paper, kraft pulp and chemicals. Any substantial increase in the costs of these raw materials, particularly recovered paper which accounted for a majority of cost of goods sold during the Track Record Period, could adversely affect the Group's financial condition and results of operations.

The availability and price of recovered paper, kraft pulp and chemicals depends on a number of factors outside of the Group's control, including general economic conditions, environmental and conservation regulations and other factors. Fluctuations in demand in China and elsewhere in Asia and changes in generation and collection rates may affect recovered paper prices. The market for recovered paper in particular is highly competitive. Any increase in worldwide demand for products manufactured, in whole or in part, from recovered paper may lead to an increase in the prices the Group will pay for recovered paper. As a result of various factors, the prices of recovered paper, kraft pulp and chemicals can also be volatile and have fluctuated in recent years. The Group's weighted average cost of recovered paper per tonne decreased by 11.3% between fiscal year 2003 and fiscal year 2004, increased by 7.9% between fiscal year 2004 and fiscal year 2005, and decreased by 2.7% between fiscal year 2005 and the three months ended 30 September 2005. The Group's weighted average cost of kraft pulp per tonne increased by 1.5% between fiscal year 2003 and fiscal year 2004, by 8.9% between fiscal year 2004 and fiscal year 2005, and by 1.7% between fiscal year 2005 and the three months ended 30 September 2005. The Group may be unable to adjust the prices for its products to fully recover significant increases in raw material prices, which could adversely affect the Group's financial condition and results of operations.

In addition, the Group uses coal as fuel for its coal-fired power plants that supply electricity and steam for its operations at its Dongguan plant in Guangdong province, and its Taicang plant in Jiangsu province. The price of coal can also be volatile and has fluctuated in recent years. The Group's weighted average cost of coal per tonne increased by 17.1% between fiscal year 2003 and fiscal year 2004, by 34.0% between fiscal year 2004 and fiscal year 2005, and by 2.6% between fiscal year 2005 and the three months ended 30 September 2005. The Group may be unable to adjust the prices for its products to fully recover significant increases in coal prices, which could adversely affect the Group's financial condition and results of operations. Any sustained increases in kraft pulp, recovered paper, chemicals or coal prices could reduce its operating margins.

The markets for the Group's products are highly competitive.

The markets for packaging paperboard products are highly competitive. The Group's packaging paperboard products compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price. If the Group is unable to anticipate and respond to changing customer preferences or control its costs in connection with its planned expansion, raw materials and energy, it may not be able to compete effectively.

Under China's foreign investment rules, foreign investment in paper manufacturing is permitted. A number of foreign companies have established packaging paperboard manufacturing enterprises in China, and others may do so in the future, in which case the Group may face increasing competition from such enterprises, which may have greater access to financial resources, higher levels of vertical integration and longer operating histories. If the Group is unable to maintain its operating efficiency and economies of scale, it may not be able to compete effectively. In addition, as part of China's obligation subsequent to its accession to the World Trade Organization, China has reduced the import tariffs on certain paper products. Effective from 1 January 2005, the import tariff for kraftlinerboard was reduced to 5.0%, and the import tariff for corrugating medium was reduced to 7.5%. As a consequence, the Group expects stronger competition in China from foreign competitors, which could adversely affect its business, financial condition and results of operations. The Group also competes with producers of alternative forms of packaging, such as plastic containers, plastic film and containers made of other materials.

The Group's operations are subject to comprehensive environmental regulation and involve significant expenditures for compliance with regulations.

The Group's operations, which generate solid and liquid waste by-products, including wastewater, sludge and gaseous emissions, are subject to a variety of national and local PRC environmental laws and regulations. These environmental laws and regulations impose stringent standards on the Group regarding water discharge, airborne emissions, the use, handling, discharge and disposal of solid waste and hazardous materials, noise pollution and remediation of environmental contamination.

The Group believes that its operations are in compliance with the applicable requirements of environmental laws and regulations. Notwithstanding the Group's efforts to comply with applicable environmental laws and regulations, there is no assurance that the Group will at all times be in full compliance with all of the environmental requirements that apply to its operations. Any failure, or any claim that the Group has failed, to comply with environmental laws and regulations could cause delays in the Group's production and capacity expansion and affect its public image, either of which could harm its business. In addition, any failure to comply with these laws and regulations or the occurrence of accidental leakage of wastewater, airborne emissions, hazardous material or noise or other unanticipated environmental contamination could subject the Group to substantial fines, clean-up costs other environmental liabilities or require the Group to suspend or modify its operations. Further, environmental laws and regulations may become more stringent in the future. The Group has made and expects to continue to make necessary capital and other expenditures for environmental compliance. The adoption of new laws and regulations in the PRC relating to environmental compliance could require the Group to make capital expenditures in excess of what was anticipated, which may adversely affect its financial condition and results of operations.

RISKS RELATING TO CHINA

Substantially all of the Group's assets are located in China, and substantially all of the Group's sales are derived from its operations in China. Accordingly, the Group's business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

China's economic, political and social conditions, as well as government policies, could adversely affect the financial markets in China and the Group's business.

China's economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of infrastructure development, level of capital reinvestment, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. China's economy has been transitioning from a planned economy to a more market-oriented economy. Although the Chinese government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government.

The Chinese government exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary and industrial policies and providing preferential treatment to particular industries or companies. Since late 2003, the Chinese government has implemented a number of measures to prevent China's economy from overheating. While some of these measures may benefit the overall Chinese economy, they may have a negative effect on the Group. Moreover, changes in relations between China and Taiwan or other political conditions or potential social instability arising from the increasing income disparity between the rich and poor associated with a rapidly developing economy in the major big cities and in different parts of China could cause a decrease in the overall level of economic activities in China, including demand for paper products, and may have an adverse effect on the Group's business, financial condition and results of operations.

The Group's operations are subject to the uncertainty of the legal system in China which could limit the legal protection available to potential investors.

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited precedential value. Since 1979, the Chinese government has promulgated laws and regulations governing economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade. Although legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular, these laws, regulations and legal requirements are relatively new and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve greater uncertainties than those in jurisdictions under common law systems. These uncertainties could limit the legal protections available to you. The Group cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

The Group has benefited from tax incentives offered by the Chinese government, which may expire or be revoked or changed in the future.

In accordance with China's tax regulations, certain of the Group's subsidiaries in China benefit from tax incentives. See Note 22 to Accountants' Report on the Group included in Appendix I to this prospectus. The tax exemption and reduction period for each subsidiary will begin with the first profitable year of operations after that subsidiary has offset all tax losses carried forward from the previous years. In the case of Dongguan Nine Dragons, its preferential tax treatment applies with respect to profit from production lines that are treated, either individually or on a group basis, as separate operations. China's tax system and further benefits extended by local governments are, however, subject to substantial uncertainties, and any of these tax incentives could be reduced or eliminated by governmental authorities at any time. Any such reduction, elimination or expiration of the Group's tax incentives could have an adverse effect on net income after taxes. See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Components of Results of Operations — Taxation" for further information on the Group's tax status.

Chinese restrictions on foreign exchange may limit the operating subsidiaries' ability to remit payments to the Group, which could affect the Group's liquidity.

Substantially all of the Group's sales are generated by its operating subsidiaries in China, and the majority of such sales in fiscal year 2005 were denominated in Renminbi, which under current regulations is freely convertible into foreign currency, subject to compliance with procedural requirements, for payment of current account items. These include payment of dividends, trade and service-related foreign exchange transactions. However, conversion of Renminbi for payment of capital account transactions, such as purchase of capital equipment and repayment of loans denominated in foreign currencies, is subject to prior approval by SAFE.

Under the current structure, the Company's source of funds will primarily consist of dividend payments and repayment of intercompany loans by its subsidiaries in China. If the subsidiaries are unable to obtain SAFE approval to repay loans to the Company, or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to the Company, the Company's liquidity and ability to pay its obligations, and its ability to pay dividends in respect of the Shares, could be materially adversely affected.

Restrictions on payment of dividends under applicable regulations may limit the operating subsidiaries' ability to remit dividends to the Group, which could affect the Group's liquidity and its ability to pay dividends.

The Company is a Bermuda holding company, and substantially all of the Group's operations are conducted through its operating subsidiaries in China. The ability of these subsidiaries to make dividend and other payments to the Group is restricted by Chinese law and regulations, which permit payment of dividends only out of accumulated profits, after:

- making up prior year losses; and
- allocations to various non-distributable reserve funds,

as determined in accordance with generally accepted accounting principles in China ("PRC GAAP") and applicable regulations. These regulations may restrict the amount of profit available for distribution from the operating subsidiaries, which could affect the Group's liquidity and its ability to pay dividends. Moreover, the calculation of profit available for distribution under PRC GAAP may differ from profit available for distribution calculated under HKFRS. As a result, it is possible that the Company might not receive distributions from the operating subsidiaries, even if its Hong Kong GAAP financial statements indicate that its operations have been profitable.

The Group has not declared or paid any dividends, but has retained earnings for use in its business and to invest in additional facilities. Going forward, the Company currently expects to maintain a general policy that not less than 20% of its profits available for distribution in each financial year commencing from the Listing Date will be distributed to its shareholders. However, the declaration or recommendation of, payment and amount of dividends will be subject to the discretion of the Board and will be dependent upon the Group's future operations, earnings, financial conditions, business needs, prospects, cash requirements and availability and other factors as the Board may deem relevant at such time. In addition, the ability of the Company to pay dividends is also subject to the requirements of Bermuda law, as set forth in the

Company's Bye-laws and the Companies Act, and the judgment of the Board as to the declaration of dividends, which may be subject to a number of factors. See "Financial Information — Dividend Policy".

Fluctuations in exchange rates of Renminbi against foreign currencies may affect the Group's financial condition and results of operations.

The exchange rate of Renminbi is affected by changes in PRC government policies and international economic and political developments. On 21 July 2005, the PBOC announced a reform of its exchange rate system and revalued the Renminbi from RMB8.27 = US$1.00 to RMB8.11 = US$1.00, resulting in an approximately 2.0% appreciation of Renminbi against US dollars. Under the reform, Renminbi is no longer effectively linked to US dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies.

Substantially all of the Group's sales are generated from its operating subsidiaries in China and a majority of such sales in fiscal year 2005 were denominated in Renminbi. Exchange rate fluctuations could adversely affect the Group's results of operations and financial condition and could result in foreign exchange gains or losses because the Group has foreign currency-denominated revenues, primarily from sales to foreign invested processing enterprises, as well as foreign currency indebtedness and other obligations, expenses and other requirements, including repayment of bank loans and payment for procurement of raw materials and paper machines, operating expenses and dividends. The Group does not generally enter into hedging transactions to hedge its exposure to exchange rate fluctuations between the Renminbi and other currencies.

Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or another widespread public health problem could adversely affect the Group's business and results of operations.

From November 2002 to June 2003, China and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in April 2004. A renewed outbreak of SARS, pandemic avian influenza or another widespread public health problem in China, particularly in Dongguan, located in Guangdong province, and Taicang, in Jiangsu province, where the Group's operations and headquarters are located, could have a negative effect on its operations. The Group's operations may be affected by a number of health-related factors, including quarantines or closures of some of its offices and manufacturing facilities, which would severely disrupt its operations, travel restrictions, the sickness or death of its key officers and employees, import and export restrictions and a general slowdown in China's economy.

Additionally, the World Health Organization or the Chinese government may recommend or impose other measures that could cause significant interruption to the Group's business operations. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect the Group's business, financial condition and results of operations.

Acts of God, war or terrorism could affect the Group's business directly or indirectly.

The Group's business is affected by the general economic conditions in China and other parts of the world. Acts of God such as natural disasters including inclement weather or earthquakes could directly affect the Group's clients, its modes of transportation or its facilities. War, terrorist attacks and other hostilities may also cause damage or disruption to the Group's operations. Additionally, acts of God, war or terrorism in any part of the world, potential, threatened or otherwise could adversely affect the Group's operations and profitability by causing general economic downturn in China or elsewhere.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares.

Prior to the Global Offering, there was no public market for the Shares. The initial Offer Price range to the public for the Offer Shares was the result of negotiations among the Company and the Joint Global Coordinators on behalf of the Underwriters. You should not view the Offer Price that they and the Company establish as any indication of the price that will prevail in the trading market. The market price for the Shares may decline below the Offer Price. The Company has applied to list and deal in the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Global Offering or in the future.

The liquidity and market prices of the Shares following the Global Offering may be volatile.

The price and trading volume of the Shares may be highly volatile. The market price for the Shares may be influenced by many factors, some of which are beyond the Group's control, including those described above under "Risks Relating to the Group", actual or anticipated fluctuations in the Group's or the Group's competitors' operating results, announcements by the Group or the Group's competitors of new products, capacity changes, significant contracts, acquisitions, strategic alliances or strategic investments, the Group's and the Group's competitors' growth rates, the financial market and general economic conditions, changes in stock market analyst recommendations regarding the Group, the Group's competitors or the containerboard and paper industry generally, or lack of analyst coverage of the Shares, conditions in the containerboard and paper industry in China, additions or departures of key personnel, release of lock-up or other transfer restrictions on the outstanding Shares or sales of additional Shares, potential litigation or regulatory investigations, fluctuations in market prices for the Group's products or the costs of raw materials and changes in accounting principles.

Any such developments may result in large and sudden changes in the volume and price at which the Shares will trade. The Group can give no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced substantial price volatility in the past, and it is possible that the Shares will be subject to changes in price that may not be directly related to the Group's financial or business performance. Further, there has been significant volatility in the market price and trading volume of securities of companies operating in the containerboard and paper industry, which has often been unrelated to the operating performance of particular companies. As a result of these factors, you may not be able to resell your Shares above the Offer Price and you may suffer loss on your investment.

Sales or perceived future sales of substantial amounts of the Shares in the public market after the Global Offering could adversely affect the prevailing market price of the Shares.

Immediately after completion of the Global Offering, the Company will have 4,000,000,000 Shares in issue, of which 1,000,000,000 Shares, or 25%, will be publicly held by investors participating in the Global Offering and 3,000,000,000 Shares, or 75%, will be privately held in aggregate by the Controlling Shareholders, assuming the Over-allotment Option is not exercised. The Offer Shares sold in the Global Offering will be eligible for immediate resale in the public market in Hong Kong without restriction, while the Shares held by the Controlling Shareholders may be sold in the public market subject to a lock-up of six months following the Listing Date pursuant to Rule 10.07 of the Listing Rules and subject to a lockup of 12 months following the Listing Date pursuant to undertakings of the trustees of The Golden Nest Trust, MCL Living Trust, The Zhang Family Trust and YC 2006 QuickGRAT, which in aggregate hold all of the issued share capital of Best Result. See "Underwriting — Underwriting Arrangements and Expenses — Undertakings From the Company and the Controlling Shareholders". If the Controlling Shareholders or other shareholders, sells, or are perceived to sell, a substantial amount of Shares, the prevailing market price for the Shares could be adversely affected. Such sales, or perceived future sales, also might make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price that it deems appropriate.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering.

Potential investors will pay a price per Share that substantially exceeds the per Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if the Company were to distribute its net tangible assets to the shareholders immediately following the Global

Offering, potential investors would receive less than the amount they paid for their Shares. In addition, the Company granted options under the Pre-IPO Share Option Scheme that are exercisable upon satisfaction of certain conditions. See "Statutory and General Information — D. Other Information — 2. Pre-IPO Share Option Scheme" included in Appendix VII to this prospectus. Your shareholding will be diluted as a result of the exercise of the options granted under the Pre-IPO Share Option Scheme. In addition, the earnings per Share will be reduced by 2.4% as a result of exercise of the outstanding options assuming all options are exercised. If the Company issues additional Shares in the future, you may experience further dilution. In addition, you may experience further dilution to the extent that Shares are issued upon the exercise of stock options.

Enforcement of judgments in China may be difficult to obtain.

Substantially all of the Group's assets are located in China, and most of the directors and executive officers reside in China. As a result, it may be difficult for investors to effect service of process upon the directors and executive officers. China does not have treaties providing for the reciprocal recognition and enforcement of judgments with many regions or countries, including Hong Kong, the United Kingdom and the United States. As a result, recognition and enforcement in China of judgments of courts in those jurisdictions may be difficult or impossible.

The Group cannot guarantee the accuracy of facts and statistics with respect to certain information obtained from official governmental sources contained in this prospectus.

Facts and statistics in this prospectus relating to China, its economy and the packaging paperboard industry derived from official governmental sources are generally believed to be reliable. However, the Group cannot guarantee the quality and reliability of such information. These facts and figures have not been independently verified by the Group, Joint Sponsors or Underwriters and, therefore, the Group, Joint Sponsors and Underwriters make no representation as to their accuracy or completeness. Further, there can be no assurance that these sources have stated or compiled such facts and figures on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. In all cases, you should not unduly rely on these facts and statistics.

Potential investors should read the entire prospectus carefully and the Group strongly cautions potential investors not to place any reliance on any information contained in press articles or disseminated through other media, including, in particular, any financial projections, valuations or other forward-looking information, certain of which may not be consistent with the information contained in this prospectus.

There has been certain press coverage prior to the publication of this prospectus about the Company and the Global Offering that have included therein certain projections, valuations and other forward-looking information, including but not limited to the article dated 25 January 2006 in The South China Morning Post, the articles dated 3 February 2006 in Hong Kong Economic Times, Apple Daily, am730, Metropolis Daily, Sing Pao Daily News and The Sun, and the articles dated 7 February 2006 in Ming Pao, The Sun, Hong Kong Economic Times, Oriental Daily New, The South China Morning Post, Wen Wei Po, The Standard, Hong Kong Daily News, am730, China Daily (Hong Kong edition), Apple Daily and Hong Kong Economic Journal. The Group wishes to emphasise to potential investors that the Group does not accept any responsibility for the accuracy or completeness of such press articles and that such press articles were not prepared, nor have they been approved, by the Group. The Group makes no representation whatsoever as to the appropriateness, accuracy, completeness or reliability of any of the contents of such press articles, in particular, of the projections, valuations, and other forward-looking information, or any assumptions underlying such projections, valuations or other forward-looking information, included in or referred to by the media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, the Group expressly disclaims any liability associated therewith and any loss or damage howsoever incurred as a result of reliance thereon. Accordingly, potential investors should not rely on any of such information.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Act, the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

FULLY UNDERWRITTEN

The Global Offering comprises the International Placing and the Public Offering. A total of 1,000,000,000 Offer Shares will initially be made available under the Global Offering, of which 900,000,000, representing 90% of the total number of Offer Shares will initially be placed (subject to restrictions stated in the paragraph headed "Selling Restrictions" below) with professional and institutional investors and, to the extent permitted by applicable laws, other investors in Hong Kong and elsewhere at the Offer Price under the International Placing. The remaining 100,000,000 Offer Shares, representing 10% of the total number of the Offer Shares, will be offered in Hong Kong to the public for subscription at the Offer Price under the Public Offering. The number of Shares offered for subscription under the Global Offering will be subject to re-allocation and the Over-allotment Option. Details of the structure of the Global Offering are described in "Structure and Conditions of the Global Offering".

This prospectus is published in connection with the Global Offering which together with the Application Forms, set out the terms and conditions of the Global Offering.

The Global Offering is sponsored by the Joint Sponsors and managed by the Joint Lead Managers. The Public Offering is fully underwritten by the Public Offer Underwriters. The International Placing will be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement expected to be entered into on or about the date of the Price Determination Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to "Underwriting".

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and the Company on or before Friday, 24 February 2006 or such later time as may be agreed by the Joint Global Coordinators, on behalf of the Underwriters, and the Company, but in any event no later than Monday, 27 February 2006. If the Joint Global Coordinators, on behalf of the Underwriters, and the Company are unable to reach agreement on the Offer Price by Monday, 27 February 2006, the Global Offering will not proceed.

SELLING RESTRICTIONS

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law, in particular, but without limitation, the following jurisdictions. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it circulated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. Persons who possess this prospectus are deemed to have confirmed with the Company, the Joint Global Coordinators, the Joint Sponsors and the Underwriters that such restrictions have been observed.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

United States

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold or delivered within the United States except in certain transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Group has been advised by the Joint Global Coordinators of the Global Offering on behalf of the Underwriters, that the Underwriters propose (i) to sell (as agent or as principal) the Offer Shares only to qualified institutional buyers, or QIBs, in the United States in reliance on Rule 144A or another exemption from registration under the US Securities Act and (ii) to sell (as agent or as principal) the Offer Shares outside of the United States in offshore transactions in reliance on Regulation S under the US Securities Act and in accordance with applicable law. Any offer or sale of the Offer Shares in the United States in reliance on Rule 144A or another exemption from the registration requirements of the US Securities Act will be made by broker-dealers who are registered as such under the Exchange Act. The Joint Global Coordinators is expected to make offers and sales in the United States through their selling agents who are registered broker-dealers in the United States. Terms used above have the meanings given to them by Regulation S and Rule 144A under the US Securities Act.

Until 40 days after the commencement of the Global Offering, an offer or sale of the Offer Shares within the United States by a dealer (whether or not participating in the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements of the US Securities Act.

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Canada

The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made and only be a dealer duly registered under the applicable securities laws of that province or territory in circumstances where an exemption from the applicable registered dealer requirements is available.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") the Offer Shares may not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of Offer Shares to the public may be made in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Offer Shares to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Offer Shares may not be offered or sold other than in compliance with all applicable provisions of the United Kingdom Financial Services and Markets Act 2000 ("FSMA") with respect to anything done in relation to the Offer Shares in, from or otherwise involving the United Kingdom. Each of the Underwriters may only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company. Without limitation to the other restrictions referred to herein, this prospectus is directed only at (i) persons outside the

United Kingdom or (ii) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005; or (iii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Without limitation to the other restrictions referred to herein, any investment or investment activity to which this prospectus relates is available only to and will be engaged in only with such persons and persons with the United Kingdom who receive this communication (other than persons who fall within (ii) or (iii) above) should not rely or act upon this communication.

Singapore

This prospectus has not been and will not be lodged with or registered by the Monetary Authority of Singapore as a prospectus under the Securities and Futures Act (Cap 289) of Singapore (the "SFA") and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the SFA. Accordingly, this prospectus and any other offering document or material in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchase or made the subject of an invitation or offer for subscription or purchase, whether directly or indirectly, in Singapore other than (i) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the SFA and to persons to whom the Offer Shares may be offered or sold under such exemption; or (ii) otherwise pursuant to, and in accordance with the conditions of, any applicable other provisions of the SFA, as amended from time to time.

Taiwan

The Offer Shares have not been and will not be registered with the Financial Supervisory Commission, the Executive Yuan of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan or to, or for the benefit of, any resident of Taiwan, except (i) pursuant to the requirements of the related securities laws and regulations in Taiwan; and (ii) in compliance with any other applicable requirements of Taiwanese laws.

Japan

The Offer Shares have not been and will not be registered for public offering under the Securities and Exchange Law of Japan (Law No. 235 of 1948 as amended) (the "Securities and Exchange Law"). Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, a "resident of Japan" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering of re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Bermuda

No offer of the Offer Shares may be made in Bermuda or to any person regarded as a resident of Bermuda for exchange control purposes.

CONSENT OF THE BERMUDA MONETARY AUTHORITY AND FILING WITH THE BERMUDA REGISTRAR OF COMPANIES

The Bermuda Monetary Authority has given its consent to the issue of the Offer Shares pursuant to the Global Offering, the issue of Shares upon the exercise of the Over-allotment Option, the issue of options, warrants, depositary receipts, rights, loan notes, bonds and the Company's other securities and the issue of further Shares up to the amount of the authorised share capital of the Company from time to time to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. A copy of this prospectus, together with copies of the Application Forms, has also been filed with the Registrar of Companies in Bermuda. In giving such consent and in accepting this prospectus and the Application Forms for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus or in the Application Forms. None of the Offer Shares may be offered or sold in Bermuda, by means of any document, or to any person, firm or company regarded as a resident of Bermuda for exchange control purposes.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including the Offer Shares (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be issued pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme as described in Appendix VII to this prospectus. No part of the Company's share capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek the listing of, or permission to deal in, the Shares on any other stock exchange. All the Shares will be registered on the register of members of the Company in order for them to be traded on the Main Board of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert. The Company, the Joint Sponsors, the Underwriters, their respective directors, agents or advisers or any other party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY

All of the Shares issued pursuant to the Global Offering will be registered on the Company's branch register of members to be maintained in Hong Kong by its branch share registrar and transfer agent, Tricor Investor Services Limited. The Company's principal register of members will be maintained by its principal registrar and transfer agent, The Bank of Bermuda Limited, in Bermuda.

Dealings in the Shares registered on the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is HK$2 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in "How to Apply for the Public Offer Shares" and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including details of the Over-allotment Option, are set out in "Structure and Conditions of the Global Offering".

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Offer Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Ms. Cheung	Flat A, 7th Floor, Belgravia 3 Macdonnell Road Central, Hong Kong	Chinese
Mr. Liu	Flat A, 7th Floor, Belgravia 3 Macdonnell Road Central, Hong Kong	Brazilian
Mr. Zhang	No. 12 Guangma Road Mayong Town, Dongguan Guangdong Province PRC	Chinese
Mr. WANG Hai Ying	Dormitory Zone Dongguan Nine Dragons Paper Industries Co., Ltd. Mayong Town, Dongguan PRC	Chinese
Non-Executive Director		
Mr. LAU Chun Shun	2859 Water Course Drive Diamond Bar, CA 91765 U.S.A.	Chinese
Independent non-executive Directors		
Ms. TAM Wai Chu, Maria	3rd Floor 52A Macdonnell Road Central, Hong Kong	Chinese
Mr. CHUNG Shui Ming, Timpson	2A, 6th Floor 12 May Road Hong Kong	Chinese
Dr. CHENG Chi Pang	Flat A, 22nd Floor Glory Heights 52 Lyttelton Road Hong Kong	Chinese
Mr. WANG Hong Bo	No. 53–3, Sima Road Yantai Municipality Shandong Province PRC	Chinese

PARTIES INVOLVED	Name and Address
Joint Global Coordinators and Joint Sponsors *(in alphabetical order)*	BNP Paribas Peregrine Capital Limited 59th–63rd Floors Two International Finance Centre 8 Finance Street Central, Hong Kong Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
Joint Bookrunners and Joint Lead Managers *(in alphabetical order)*	BNP Paribas Peregrine Capital Limited 59th–63rd Floors Two International Finance Centre 8 Finance Street Central, Hong Kong BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road, Hong Kong Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
Legal advisers to the Company	*As to Hong Kong and United States laws* Sidley Austin 39th Floor, Two International Finance Centre 8 Finance Street Central, Hong Kong *As to PRC law* Jingtian & Gongcheng 15th Floor, The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020, PRC *As to Bermuda law* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central, Hong Kong

PARTIES INVOLVED	Name and Address
Legal advisers to the Joint Global Coordinators	*As to Hong Kong and United States laws* Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong *As to PRC law* Commerce & Finance Law Offices 6th Floor, NCI Tower A12 Jianguomenwai Avenue Beijing 100022, PRC
Auditors and reporting accountants	PricewaterhouseCoopers *Certified Public Accountants* 22nd Floor, Prince's Building Central, Hong Kong
Property Valuer	Vigers Appraisal & Consulting Limited 10th Floor, The Grande Building 398 Kwun Tong Road Kowloon, Hong Kong
Receiving bankers *(in alphabetical order)*	Bank of China (Hong Kong) Limited 3rd Floor, Bank of China Tower 1 Garden Road Central, Hong Kong Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kowloon, Hong Kong

	Name and Address
Registered office	Clarendon House 2 Church Street Hamilton HM11, Bermuda
Head office and principal place of business in Hong Kong	3129–3140, 31st Floor Sun Hung Kai Centre 30 Harbour Road Wanchai, Hong Kong
Company secretary	Ms. CHENG Wai Chu, Judy *ACS, ACIS* Mr. Ira Stuart OUTERBRIDGE* *FCIS*
Qualified accountant	Mr. LAW Wang Chak, Waltery *FCPA, FCCA*
Authorised representatives	Mr. Zhang No. 12 Guangma Road Mayong Town, Dongguan Guangdong Province PRC Ms. CHENG Wai Chu, Judy Rear, 10th Floor, Block M 425 Queen's Road West Hong Kong
Executive committee	Ms. Cheung *(Chairman)* Mr. Liu Mr. Zhang
Audit committee	Dr. CHENG Chi Pang *(Chairman)* Mr. CHUNG Shui Ming, Timpson Ms. TAM Wai Chu, Maria Mr. WANG Hong Bo
Remuneration committee	Ms. TAM Wai Chu, Maria *(Chairman)* Mr. CHUNG Shui Ming, Timpson Dr. CHENG Chi Pang Mr. Liu Mr. Zhang
Compliance adviser	Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong

* Mr. Ira Stuart Outerbridge will resign as secretary and be appointed as assistant secretary of the Company immediately after the listing of the Shares on the Stock Exchange.

	Name and Address
Principal share registrar and transfer office	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke, HM 08 Bermuda
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Principal bankers *(in alphabetical order)*	Bank of China Limited Dongguan Branch 72, Guan Tai Road Dongguan, PRC
	Bank of China (Hong Kong) Limited 3rd Floor, Bank of China Tower 1 Garden Road Central, Hong Kong
	Bank of Communications No. 785, Xiagang Road Guangzhou Economic and Trade Development Zone Guangzhou, PRC
	China Merchants Bank 1st Floor, Service Centre Eastern Garden Overseas Chinese Town Shenzhen, PRC
Bermuda resident representatives	Mr. John C.R. Collis Mr. Anthony Devon Whaley *(Deputy)*
Company website address	www.ndpaper.com

This section contains information and statistics relating to the Group's industry and related industry sectors. The Group has derived such information and data from official and independent third party sources, including the Group's affiliates and shareholders. The Directors have taken reasonable care in the extraction, compilation and reproduction of the information in this section. You should not place undue reliance on such information in this section. References to containerboard industry data from RISI in this prospectus do not include coated duplex board.

OVERVIEW OF THE GLOBAL CONTAINERBOARD INDUSTRY

Containerboard is one of three main product groups of packaging paperboard and the largest of the three, the other two being boxboard and industrial converted products. Containerboard includes primarily linerboard and corrugating medium and can also include coated duplex board when used to manufacture corrugated containers. Containerboard is widely used as packaging and shipping materials because of their flexibility, tensile and compression strength. The lightweight nature of containerboard materials allows for cost-efficient transportation. Modern containerboard production technologies of the Group also involve the use of a high percentage of recovered paper as raw materials, which conserves forestry resources otherwise required to produce paper products. Moreover, the increasing awareness of environmentally responsible practices among consumers and producers results in substitution of plastic and metal packaging materials with paper packaging materials to decrease the amount of non-biodegradable waste as paper packaging materials are recyclable and biodegradable. These factors have contributed to increased demand for containerboard products.

The global demand for containerboard products has grown steadily in the last decade. The demand for containerboard products is generally influenced by economic conditions, and in particular, by consumer spending, industrial output and export sales. As a result, the demand for containerboard is generally correlated with the growth in GDP. Containerboard prices are primarily influenced by demand, primarily from corrugators and paperboard packaging companies, and by supply. According to RISI, global containerboard consumption increased at a compound annual growth rate of 5.1% from approximately 101.3 million tonnes in 2002 to approximately 111.9 million tonnes in 2004 whereas China containerboard consumption experienced significant growth at a compound annual growth rate of 18.3% from approximately 13.0 million tonnes in 2002 to approximately 18.2 million tonnes in 2004.

The supply of containerboard products is principally affected by the building of new capacity by manufacturers of such products, equipment utilization rates and the level of imports and exports. The global containerboard markets are highly competitive. Many of the major producers are located in North America, Europe and Asia. According to RISI, global containerboard capacity increased at a compound annual growth rate of 3.2% from approximately 113.8 million tonnes in 2002 to approximately

121.2 million tonnes in 2004. In addition, global containerboard production during the same period increased at a compound annual growth rate of 5.3% from approximately 100.9 million tonnes in 2002 to approximately 111.9 million tonnes in 2004.

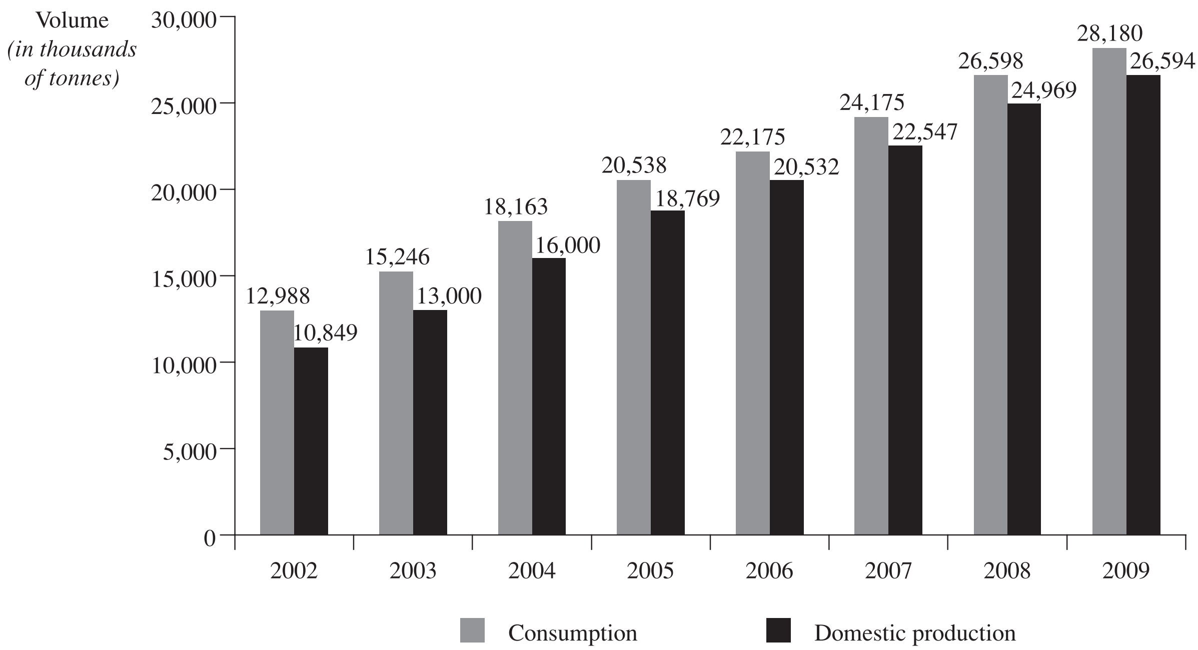
THE CONTAINERBOARD INDUSTRY IN CHINA

Overview

The growth in demand for containerboard products in China has primarily been driven by the sustained economic growth as reflected by the increase in consumer spending, industrial output and export sales from China to overseas countries. Export sales have been reinforced by China's role as a global manufacturing and export center which generated a significant amount of demand for containerboard products for use as packaging and shipping materials for export sales of manufactured products. According to RISI, China's containerboard consumption increased at a compound annual growth rate of 18.3% from approximately 13.0 million tonnes in 2002 to approximately 18.2 million tonnes in 2004 and is projected to further grow to approximately 28.2 million tonnes in 2009, representing a projected compound annual growth rate of 9.2% from 2004 to 2009.

From 2002 to 2004, the consumption of containerboard products has been exceeding the domestic production of such products, resulting in imports of containerboard products to meet the shortfall in domestic supply. The shortage in domestic supply of containerboard products has also resulted in containerboard manufacturers moving their containerboard manufacturing to China or expanding their capacities in China to meet such demand. According to RISI's projection, China's containerboard consumption is projected to continue to exceed China's domestic containerboard production within the next ten years.

The following chart sets forth China's historical consumption and production from 2002 to 2004 and projected consumption and production from 2005 to 2009.



Source: RISI

The Demand for Containerboard Products in China

The rapid economic growth in China in recent years resulted in increased consumer spending and a fast growing domestic market. From 2002 to 2004, China's GDP, gross industrial output and export sales increased at a compound annual growth rate of 10.0%, 30.0% and 35.0%, respectively, all of which contributed to substantially increased demand for containerboard products.

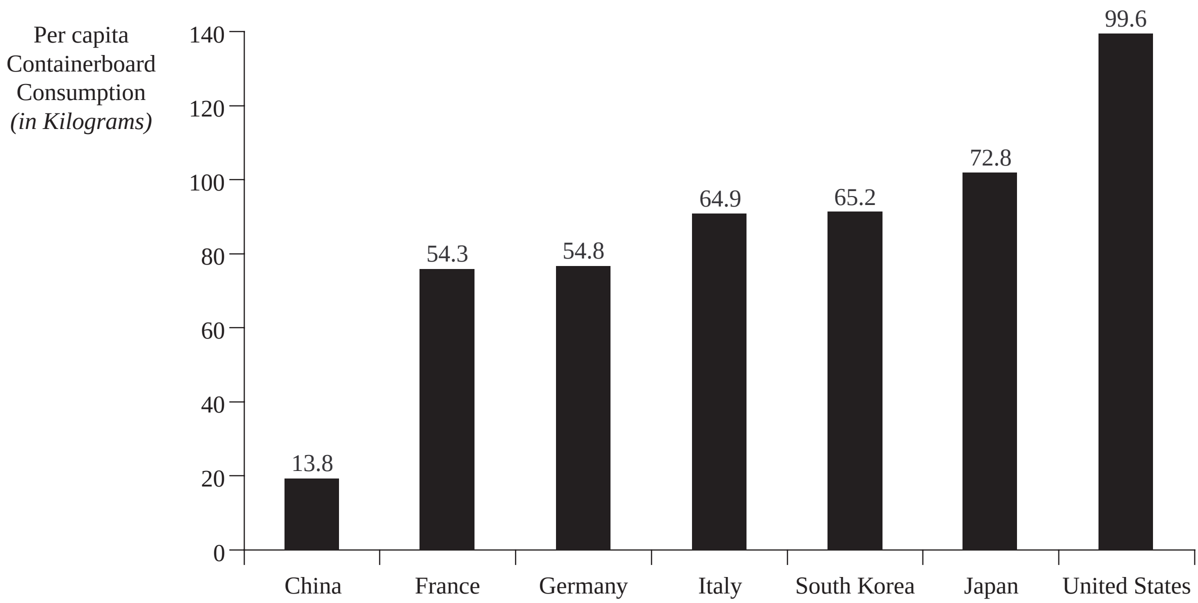
In addition, the economic growth in China has attracted an influx of foreign invested manufacturers which take advantage of the low labor costs and tax benefits extended to foreign invested processing enterprises. China's role as a global manufacturing and export center generated a significant amount of demand from such foreign invested manufacturing enterprises for containerboard products as packaging and shipping materials for export sales of their finished products overseas.

The following table sets forth China's consumption volume of linerboard and corrugating medium from 2002 to 2004.

	Year ended 31 December 2002	2003	2004	CAGR 2002–2004 (%)
	(in thousand of tonnes, except percentages)			
Linerboard	7,313	8,352	9,940	16.6
Corrugating medium	5,676	6,894	8,223	20.4
Total	12,989	15,246	18,163	18.3

Source: RISI

Despite of significant historical growth of containerboard consumption from 2002 to 2004, China's per capita containerboard consumption remained substantially lower than that of certain developed countries such as France, Germany, Italy, South Korea, Japan and the United States. The following chart sets forth a comparison of the 2004 per capita containerboard consumption for China compared with other selected countries.



Source: RISI for consumption data; United Nations Population Fund State of World Population 2004 for population data.

The Supply of Containerboard Products in China

According to RISI, China's containerboard capacity increased at a compound annual growth rate of 18.3% from approximately 12.5 million tonnes in 2002 to approximately 17.5 million tones in 2004.

The following table sets forth China's domestic containerboard production from 2002 to 2004.

	Year ended 31 December			CAGR
	2002	2003	2004	2002–2004
				(%)
	(in thousand of tonnes, except percentages)			
Linerboard	6,076	7,176	8,752	20.0
Corrugating medium	4,774	5,824	7,248	23.2
Total	10,850	13,000	16,000	21.4

Source: RISI

From 2002 to 2004, the consumption of containerboard products has been exceeding the domestic production of such products. As a result, between 2002 and 2004, China imported containerboard products from overseas to meet the shortfall in domestic supply. Imported containerboard products are typically of higher quality and therefore command higher prices, and meet the demand which otherwise cannot be met by most domestic containerboard manufacturers which lack the technology and equipment to produce high quality containerboard products.

The following table sets forth China's import of containerboard products from 2002 to 2004.

	Year ended 31 December			CAGR
	2002	2003	2004	2002–2004
				(%)
	(in thousand of tonnes, except percentages)			
Linerboard	1,245	1,190	1,202	(1.7)
Corrugating medium	917	1,080	985	3.6
Total	2,162	2,270	2,187	0.6

Source: RISI

The Demand for and Supply of Coated Duplex Board Products in China

According to China Paper Association, China's consumption of coated duplex board increased at a compound annual growth rate of 20.4% from approximately 5.0 million tonnes in 2002 to approximately 7.3 million tonnes in 2004. During the same period, China's production of coated duplex board increased at a compound annual growth rate of 21.0% from approximately 4.3 million tonnes in 2002 to approximately 6.3 million tonnes in 2004. Given the shortfall in domestic production, imports of coated duplex board experienced a high level of growth at a compound annual growth rate of 16.0% from 0.8 million tonnes in 2002 to 1.1 million tonnes in 2004.

Raw Materials

The main raw materials used to produce containerboard are recovered paper and kraft pulp. Due to the short supply of such raw materials in China, paper manufacturers import most of such raw materials for their production requirements. There are multiple suppliers of varying sizes in the recovered paper markets in North America, China, Europe, Japan, Australia and elsewhere in the world. A majority of China's recovered paper imports used for production of paper products in China is imported from North America, Europe, Japan and Australia. Kraft pulp imports used for production of paper products in China is primarily imported from North America, South Africa, Chile, Brazil, Russia and New Zealand. According to China Paper Association, imported recovered paper represented 42.4%, 48.9% and 53.4% of China's total consumption of recovered paper in 2002, 2003 and 2004, respectively. Imported pulp represented 71.1%, 73.5% and 75.5% of China's total consumption of pulp in 2002, 2003 and 2004, respectively.

According to China Paper Association, the average price of imported recovered paper increased by 7.0% from US$131.2 per tonne in 2003 to US$140.3 per tonne in 2004. The average price of imported kraft pulp increased by 10.5% from US$441.0 per tonne in 2003 to US$487.4 per tonne in 2004.

China's consumption of recovered paper and pulp have increased rapidly to meet the raw material requirements of increased production from 2002 to 2004. The following table sets forth China's consumption of recovered paper and pulp from 2002 to 2004.

	Year ended 31 December			**CAGR**
Raw materials	**2002**	**2003**	**2004**	**2002–2004**
				(%)
	(in thousands of tonnes, except percentages)			
Recovered paper	16,200	19,200	23,050	19.3
Kraft pulp	7,400	8,200	9,700	14.5

Source: China Paper Association

Competition

The overall paper manufacturing industry in China, including the containerboard manufacturing industry, is relatively fragmented with a large number of manufacturers. However, due to the capital intensity, environmental sensitivity and constraints in raw material supplies in the paper manufacturing industry, there are significant entry barriers to large-scale paper manufacturing operations. Consequently, the paper manufacturing industry in China is characterized by a limited number of large manufacturers. As of 31 December 2004, although there were a large number of containerboard manufacturers in China, only a couple, including the Group, had an annual production capacity of more than one million tonnes, based on data from RISI. The five largest paper products manufacturers in China accounted for 10.6% and 12.5% of China's overall annual production volume in 2003 and 2004, respectively.

The following table sets forth the five largest paper products manufacturers in China in 2004 in terms of production volume and their year-on-year growth rate from 2003 to 2004.

2004 Ranking	Company	Principal Products	Year ended 31 December 2004	Year-on-Year Growth Rate 2003–2004
				(%)
			(in thousands of tonnes, except percentages)	
1	Dongguan Nine Dragons Paper Industries Co., Ltd. (東莞玖龍紙業有限公司)	linerboard, high performance corrugating medium and coated duplex board with grey back	1,699[(1)]	86.1[(1)]
2	Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司)	coated duplex board, copy paper, art paper, writing paper, containerboard, corrugating medium and paper box	1,440	13.4
3	Gold East Paper (Jiangsu) Co., Ltd. (金東紙業(江蘇)有限公司).	art paper	1,301	7.2
4	Shandong Sunpaper Corporation (山東太陽紙業股份有限公司) . . .	copy paper, coated duplex board with grey back, art paper, coated ivory board and offset plate color printing paper	879	47.2
5	Lee & Man Paper Manufacturing Limited (理文造紙有限公司).	linerboard and corrugating medium	870	53.2
Total			6,189	35.7

Source: China Paper Association; websites of the respective paper manufacturers listed above

(1) Includes production of the Acquired Subsidiaries which were consolidated with the Group with effect from 1 January 2005.

The containerboard manufacturing industry is largely driven by regional demand. The major containerboard manufacturers in China are primarily located in the coastal provinces in northern, eastern and southern China with convenient transportation links and facilities where manufacturing enterprises are concentrated. In 2004, the top five containerboard manufacturing provinces in China in terms of production capacity were all located in coastal provinces in China to meet the regional demand from manufacturing enterprises. The Group operates out of Guangdong Province in southern China and Jiangsu Province in eastern China to meet the substantial amount of demand from manufacturing enterprises in these regions. Based on data from RISI, in 2004, Guangdong Province was the largest containerboard manufacturing province and Jiangsu Province was the third largest containerboard manufacturing province in terms of production capacity in 2004.

The following table sets forth the top five containerboard manufacturing provinces in terms of annual production capacity in China in 2004.

Provinces	**As of 31 December 2004** (in thousands of tonnes)
Guangdong Province	4,049[1]
Shandong Province	1,606[1]
Jiangsu Province	1,456[1]
Zhejiang Province	1,052[1]
Hebei Province	851[1]
Total	9,014[1]

Note:

(1) Does not take into account an estimated 5.3 million tonnes of capacity in China which has not been specifically tracked and with respect to which a portion may be located in these provinces.

Source: RISI

For regulations and government policies affecting the paper manufacturing industry in China, see "Regulation".

HISTORY AND DEVELOPMENT

The Group's paper manufacturing operations are primarily located in three factories in China, two in Dongguan, Guangdong province, in the Pearl River Delta region and one in Taicang, Jiangsu province, in the Yangtze River Delta region. The Group also has an equity joint venture engaged in the manufacture of unbleached kraft pulp in Inner Mongolia. See "— The Group's Operations in Inner Mongolia".

Each of the Group's facilities at Dongguan and Taicang are ISO9001:2000 certified. The Group obtained ISO9001:2000 certification for its facilities in Dongguan in November 2003 and for its facilities in Taicang in December 2004. The Group obtained ISO14001 certification for its environmental management standards in February 2005. The Group also obtained OHSAS 18001 certification for its occupational health and safety management systems in March 2005.

Since the Group began commercial production in 1998, it has rapidly increased its manufacturing capacity, from 200,000 tonnes per annum in 1998 to 3,300,000 tonnes per annum as of the Latest Practicable Date to meet China's demand for containerboard. The Group has been successful in becoming the preferred supplier to a number of customers that use the Group's packaging paperboard products as raw materials to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally recognized brand names.

The Group's Operations in Dongguan

In 1995, in light of the increasing demand for containerboard products from the growing manufacturing industries in the Pearl River Delta Region, Dongguan Nine Dragons was established to manufacture such products in Dongguan. Zhang's Enterprises Company Limited held approximately 86.8% interest in Dongguan Nine Dragons since its establishment and acquired the remaining 13.2% interest in August 2002. Following completion of such acquisition, Dongguan Nine Dragons became a wholly owned subsidiary of Zhang's Enterprises Company Limited and was therefore converted into a wholly foreign-owned enterprise.

In July 1998, the Group's first paper machine, or PM1, with a design capacity of 200,000 tonnes of kraftlinerboard per annum, commenced production at its production site in Dongguan.

In June 2000, the Group's second paper machine, or PM2, with a design capacity of 400,000 tonnes per annum, commenced production. This paper machine is able to produce both kraftlinerboard and white top linerboard, allowing the Group to vary production volumes of either type of product depending on their respective market demand.

In May 2002, the Group's third paper machine, or PM3, with a design capacity of 400,000 tonnes per annum, commenced production. This paper machine is able to produce kraftlinerboard, testlinerboard, white top linerboard and high performance corrugating medium, allowing the Group to vary production volumes of those products depending on their respective market demand.

In October 2004, the Group's sixth and seventh paper machines, or PM6 and PM7, each with a design capacity of 200,000 tonnes of high performance corrugating medium per annum, commenced production.

As a result of the Acquisition effective as of 1 January 2005, the paper machine of Dongguan Sea Dragon became the Group's fourth paper machine, or PM4, with a design capacity of 450,000 tonnes of coated duplex board with grey back. See "— Acquisition".

In December 2005, the Group's ninth and tenth paper machines, or PM9 and PM10, with an aggregate design capacity of 500,000 tonnes per annum of high performance corrugating medium, commenced production.

The finished products from the Group's operations in Dongguan are sold primarily to customers located in the Pearl River Delta region that further process the Group's products for sale in the domestic market in China and for export to overseas customers.

To provide a more stable and economical source of power for its paper manufacturing operations, the Group constructed in four phases six coal-fired cogeneration units with an aggregate installed capacity of 351 MW in Dongguan, which commenced operation between June 1998 and May 2005. See "Business — Property, Plant and Equipment — Power Plants".

In order to meet the Group's significant water requirements in Dongguan, the Group constructed two fresh water reservoirs, which were completed in September 1998 and November 2004, respectively, with an aggregate storage capacity of 250,000 tonnes. The Group is also in the process of constructing a desalination plant with a planned capacity of 100,000 tonnes of water per day in two phases, with the first phase with capacity of 50,000 tonnes per day expected to be completed by March 2006. See "Business —Utilities — Water".

The Group's Operations in Taicang

As a result of the Acquisition that was effective as of 1 January 2005, the paper machine of Taicang Nine Dragons became the Group's fifth paper machine, or PM5, with a design capacity of 500,000 tonnes of kraftlinerboard. See "— Acquisition".

In April 2005, the Group's eighth paper machine, or PM8, with a design capacity of 450,000 tonnes per annum, commenced production. This paper machine is able to produce both high performance corrugating medium and testlinerboard, allowing the Group to vary production volumes of either type of product depending on their respective market demand.

The finished products from the Group's operations in Taicang are sold primarily to customers located in the Yangtze River Delta region that further process the Group's products for sale in the domestic market in China and for export to overseas customers.

To provide a more stable and economical source of power for its paper manufacturing operations, the Group constructed in two phases two coal-fired cogeneration units with an installed capacity of 240 MW in Taicang between November 2003 and August 2005. See "Business — Property, Plant and Equipment — Power Plants".

In anticipation of increased transportation requirements for raw materials and finished products as a result of the Group's expansion, the Group has constructed a shipping pier capable of accommodating oceangoing vessels of up to 50,000 tonnes in Taicang. See "Business — Supporting Facilities".

The Group's Operations in Inner Mongolia

On 16 February 2004, as part of the Group's strategy to secure its future raw material supply of unbleached kraft pulp, the Group established ND Xing An in Zhalantun, Inner Mongolia. The Group holds a 55% interest in ND Xing An while the remaining equity interests is held by China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司). As of 30 September 2005, ND Xing An had a capacity to produce 100,000 tonnes of long-fibred unbleached kraft pulp annually. ND Xing An obtains its raw materials, which are wood logs and wood chips, from the extensive softwood forests in Inner Mongolia owned and managed by the Group's joint venture partner. Although ND Xing An currently sells a majority of its output to third parties, the Group has a right to purchase in priority to other customers of ND Xing An at the same price level, up to its entire output, providing the Group with a secure supply of unbleached kraft pulp when needed.

ACQUISITION

In order to increase operational efficiencies and geographical coverage, Zhang's Enterprise Company Limited acquired the entire share capital of each of the following Acquired Subsidiaries effective on 1 January 2005.

NDP Industries

NDP Industries is a company incorporated in BVI on 6 March 2002 and holds the entire interest in Taicang Nine Dragons. See "Accountants' report on NDP Industries" in Appendix IIA to this prospectus for the financial information of NDP Industries. Before the Acquisition, NDP Industries was wholly owned by Mr. Zhang. Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of NDP Industries from Mr. Zhang for an aggregate consideration of RMB295 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 69,315 shares to Mr. Zhang. The number of consideration shares was determined with reference to the fair value of NDP Industries and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers Appraisal & Consulting Ltd., or Vigers, an independent valuer and the number of shares in issue.

MSL

MSL is a company incorporated in BVI on 21 August 2000 and holds the entire interest in Dongguan Sea Dragon. See "Accountants' report on MSL" in Appendix IIB to this prospectus for the financial information of MSL. Before the Acquisition, MSL was owned as to approximately 71.7% by Mr. Zhang, as to approximately 14.2% by Ms. Cheung and as to approximately 14.1% by Mr. Liu. Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of MSL from Mr. Zhang, Ms. Cheung and Mr. Liu for an aggregate consideration of RMB255 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 37,551 shares to Mr. Zhang, 7,430 shares to Ms. Cheung and 7,400 shares to Mr. Liu. The number of consideration shares was determined with reference to the fair value of MSL and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers, an independent valuer, the transferors' respective shareholding interests held in MSL and the number of shares in issue.

River Dragon Paper Industries Co., Ltd.

River Dragon Paper Industries Co., Ltd. is a company incorporated in BVI on 9 May 2002 and holds the entire interest in Taicang Sea Dragon. Taicang Sea Dragon was established on 9 May 2002 and holds certain of the Group's land use rights and power generation assets in Taicang. However, it currently does not engage in the manufacture of paper. Before the Acquisition, River Dragon Paper Industries Co., Ltd. was wholly owned by Mr. Zhang. Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of River Dragon Paper Industries Co., Ltd. from Mr. Zhang for an aggregate consideration of RMB167 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 39,239 shares to Mr. Zhang. The number of consideration shares was determined with reference to the fair value of River Dragon Paper Industries Co., Ltd. and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers, an independent valuer, and the number of shares in issue.

Emperor Dragon Paper Industries Co., Ltd.

Emperor Dragon Paper Industries Co., Ltd. is a company incorporated in BVI on 6 March 2002 and holds the entire interest in Dongguan Land Dragon. Dongguan Land Dragon was not involved in any business transaction and had no material assets or liabilities as at the date of the Acquisition. Before the Acquisition, Emperor Dragon Paper Industries Co., Ltd. was wholly owned by Mr. Zhang. Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of Emperor Dragon Paper Industries Co., Ltd. from Mr. Zhang for a cash consideration of RMB1.00.

See "Statutory and General Information — A. Further Information About the Company — 4. Acquisitions and disposals" in Appendix VII to this prospectus and Note 27 to the Accountants' Report on the Group included in Appendix I to this prospectus. As a result of the Acquisition, the Group was able to expand its geographical coverage to include the Yangtze River Delta region to capture the increasing demand from the growing manufacturing industries in that region. Subsequent to the Acquisition, the paper machine of Dongguan Sea Dragon became the Group's PM4 and the paper machine of Taicang Nine Dragons became the Group's PM5.

PM4 has an annual design capacity to produce 450,000 tonnes of coated duplex board with grey back. The addition of PM4 to the Group as a result of the Acquisition added coated duplex board with grey back to the Group's product portfolio. As of 30 September 2005, PM4 was the Group's only paper machine capable of producing coated duplex board with grey back.

PM5 has an annual design capacity to produce 500,000 tonnes of kraftlinerboard. The addition of PM5 to the Group as a result of the Acquisition further contributed to the Group's production capacity of kraftlinerboard.

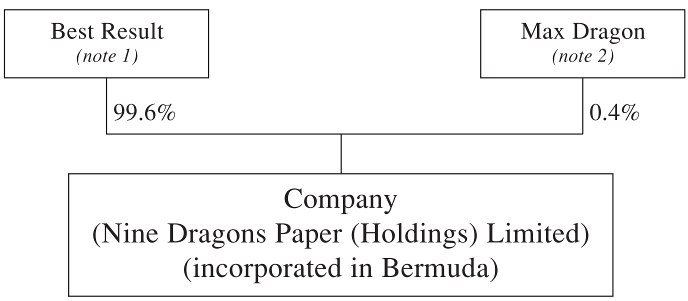
FORMATION OF NDP (BVI) AS AN INVESTMENT HOLDING COMPANY

In November 2005, NDP (BVI) acquired the entire issued share capital of Zhang's Enterprises Company Limited from its then existing shareholders, namely Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang for RMB2,386.7 million (representing the net asset value of Zhang's Enterprises Company Limited as at 30 June 2005) through issuance by NDP (BVI) of 3,690 shares to Ms. Cheung, 3,689 shares to Mr. Liu, 1,935 shares to Mr. Zhang and 685 shares to Ms. Chang. On 10 December 2005, 641 shares of NDP (BVI) were transferred from Ms. Chang to Mr. Zhang at a cash consideration of RMB162.9 million (representing 6.4% of the net asset value of Zhang's Enterprises Company Limited as at 30 June 2005) such that Mr. Zhang's shareholding interest in NDP (BVI) was increased from 19.4% to 25.8%. Ms. Chang transferred these shares of NDP (BVI) to Mr. Zhang in exchange for cash. At all times after such acquisition, NDP (BVI)'s only asset has been its ownership of all the issued shares of Zhang's Enterprises Company Limited.

REORGANISATION

The Company was incorporated in Bermuda on 17 August 2005 as an exempted company with limited liability. The Company and the NDP Group underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. Pursuant to the Reorganisation, on 30 December 2005, the Company acquired the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang for RMB2,386.7 million through issuance by the Company of 2,985,800,000 Shares to Best Result, credited as fully paid, at the direction of Ms. Cheung, Mr. Liu and Mr. Zhang and 13,200,000 Shares to Max Dragon, credited as fully paid, at the direction of Ms. Chang and the crediting as fully paid of the 1,000,000 nil-paid shares then held by Best Result. As a result, the Company became the holding company of the Group. Immediately after the Reorganisation, the issued shares of NDP (BVI) were the only assets of the Company. See Note 1 to the Accountants' Report on the Group included in Appendix I to this prospectus.

The following chart sets out the shareholding structure of the Company immediately after completion of the Reorganisation:

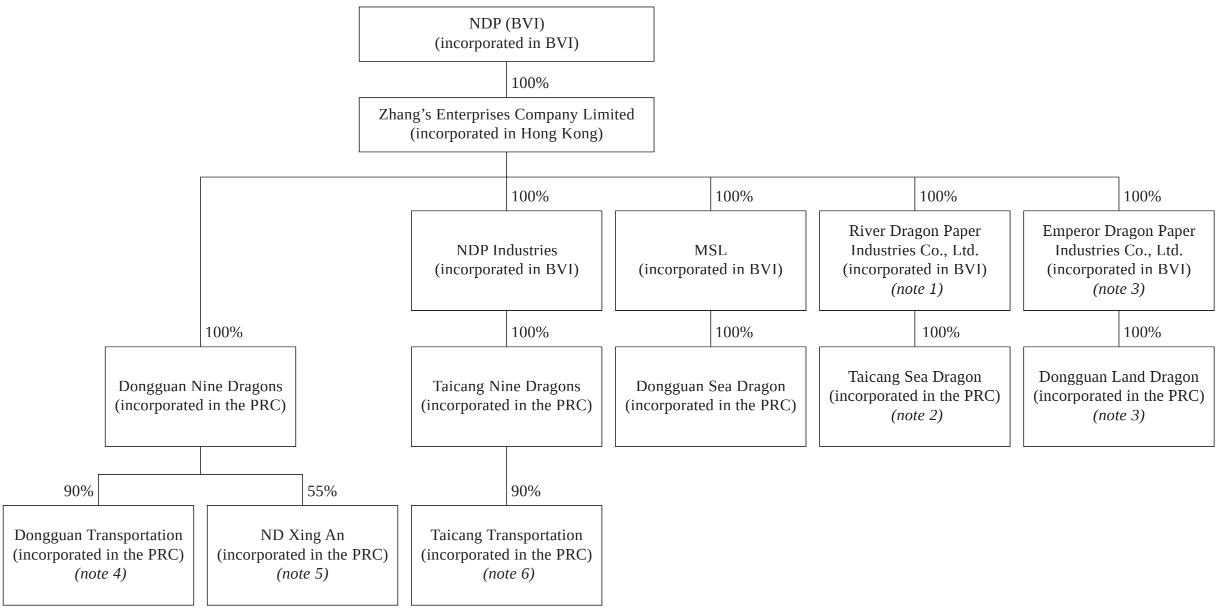


Notes:

1. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 37.1% by Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust, as to approximately 10.0% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and as to approximately 15.8% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

2. The entire issued share capital of Max Dragon is held by Ms. Chang.

NDP (BVI) was formed as an investment holding company holding the entire issued share capital of Zhang's Enterprises Company Limited. The following chart sets out the shareholding structures of NDP (BVI), Zhang's Enterprises Company Limited and its subsidiaries:



(1) No material operations during the Track Record Period and as at 1 January 2005, the effective date of the Acquisition.

(2) Held certain land use rights and power generation assets as at 1 January 2005. Please see property No. I.4. under "Group I — Property Interests Held and Occupied by the Group in the PRC" in Appendix V to this prospectus.

(3) No material operations and no material assets or liabilities during the Track Record Period and as at 1 January 2005, the effective date of the Acquisition.

(4) The remaining 10% is held by an Independent Third Party. Such 10% interest was transferred from Mr. Zhang on 9 September 2005.

(5) The remaining 45% is held by an Independent Third Party.

(6) The remaining 10% is held by an Independent Third Party. Such 10% interest was transferred from Mr. Zhang on 23 September 2005.

OVERVIEW

The Group is the largest producer in China, and one of the largest producers in the world, of containerboard products, in terms of production capacity as of 31 December 2004, based on data from RISI. The Group produces primarily linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board with grey back. The Group also produces unbleached kraft pulp. The Group's operations enable it to serve as a one-stop shop for a broad range of high quality packaging paperboard products.

- 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 67.3%, 39.8%, 46.6% and 65.7%, respectively, from fiscal years 2003 to 2005;

- The Group has technologically advanced and fully automated production equipment, effective quality control systems and a highly skilled and well trained workforce;

- The Group has integrated manufacturing operations supported by its own coal-fired power plants, water treatment systems, shipping pier capable of accommodating oceangoing vessels of up to 50,000 tonnes and other transportation infrastructure; and

- The Group is well positioned to capture future growth opportunities as it has already made substantial capital investment to secure valuable resources, including land use rights and supporting infrastructure next to its current production sites.

As of the Latest Practicable Date, the Group operated ten technologically advanced paper machines imported from Europe, North America and Japan with an aggregate annual design production capacity of 3,300,000 tonnes. The Group's paper machines are located in three factories in China, two of which are located in Dongguan, Guangdong province, in the Pearl River Delta region and one in Taicang, Jiangsu province, in the Yangtze River Delta region. The Group plans to further expand its production capacity to position itself to take advantage of future growth opportunities.

For the fiscal year ended 30 June 2005 and the three months ended 30 September 2005, the Group had sales of RMB4,825.4 million and RMB1,847.8 million, respectively, and profit attributable to equity holders of RMB303.7 million and RMB242.1 million, respectively.

COMPETITIVE STRENGTHS

The Group is the largest containerboard manufacturer in China

The Group is the largest producer in China and one of the largest producers in the world of containerboard products in terms of production capacity as of 31 December 2004, based on data from RISI. The Group is the market leader of containerboard products in China with an annual production capacity of 3,300,000 tonnes as of the Latest Practicable Date, comprising 1,500,000 tonnes of linerboard, 1,350,000 tonnes of high performance corrugating medium and 450,000 tonnes of coated duplex board with grey back. With the Group's existing market leadership position, the Directors believe that the Group is well positioned to take advantage of any continuing strong growth of the market for packaging products in China resulting from China's role as a global manufacturing and export center.

The Group is one of the most efficient packaging paperboard manufacturers in China

The Group is able to increase its operational efficiencies primarily through economies of scale, technologically advanced equipment, integrated production facilities and equipment know-how. The following advantages contribute to its operational efficiencies:

- the Group's multiple production lines provide economies of scale and allow the Group to manufacture a variety of products simultaneously while minimizing 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 from the production of one type of product to another type of product either without stopping the production run or with only a brief shutdown;

- the Group has integrated operations and supporting infrastructure. Its central coal-fired cogeneration plants in Dongguan and Taicang achieve savings of up to approximately one-third as compared to purchasing power from third parties, and its shipping pier in Taicang can receive coal deliveries directly, significantly reducing transportation costs;

- the Group has designed its product mix both to meet market demand and to maximize recycling of water and scrap fiber by-product from the production of one product for use in the production of another product; and

- through equipment know-how, the Group has been able to accommodate the use of an increased variety of recovered paper grades while maintaining product quality and performance characteristics, which provides the Group with increased flexibility in sourcing raw materials at competitive prices.

The Group's operations enable it to serve as a one-stop shop for a broad range of packaging paperboard products

The Group's operations enable it to serve as a one-stop shop for a broad range of high quality packaging paperboard 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 it to configure its product mix flexibly to offer a diversified product portfolio efficiently. The width of its machines also allows the Group to produce products in a large variety of sizes, increasing its flexibility to meet customer demands. Its five principal products are available in 30 different basis weights and over 1,000 different size and type specifications.

The Group believes that there are very few containerboard manufacturers in China with a production scale and ability to consistently fill large orders that are similar to the Group. The Group's production scale, speed and flexibility and inventory management allow it to fill large orders on short notice to accommodate customers' schedules. The Group's quality control system covering every stage of production and other aspects of its business, also ensures consistent product quality that meets required specifications. These characteristics allow the Group to serve as a one-stop shop for repeat customers and to attract new customers.

The Group's plants are strategically located in close proximity to the Group's key customers, transportation links, including the Group's shipping pier, and water sources

The Group's production facilities are strategically located in the Pearl River Delta region and Yangtze River Delta region, which are manufacturing and export centers in China. Its Taicang site is at a straight line distance of only approximately 50 km from Shanghai. A substantial majority of the Group's customers are located within a 150 km radius of its production facilities, allowing the Group to deliver its products to them in a timely and cost-efficient manner.

Both the Dongguan and Taicang production facilities of the Group are well served by extensive road networks by which the Group delivers most of its products. The Group takes advantage of Xinsha Port, located only approximately 200 metres from its production site in Dongguan. The Group has also constructed a shipping pier at Taicang capable of accommodating oceangoing vessels of up to 50,000 tonnes. This not only significantly reduces its transportation costs but also increases its ability to secure transportation capacity. Both the Dongguan and Taicang production facilities are located close to abundant water sources, which allows the Group both to draw water supplies for its manufacturing processes, and to discharge wastewater, after treatment to ensure strict compliance with water discharge standards.

The Group has secure 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. The Group sources the majority of its recovered paper from ACN, a company wholly owned by Ms. Cheung and Mr. Liu, under a long-term contract entered into at arm's length that provides the Group with priority of supply over other ACN customers and which is renewable at the Group's option. See "— Continuing Connected Transactions". ACN is the largest exporter of recovered paper from the United States and Europe to China and is well known for its ability to source large volumes of recovered paper of consistent high quality. The Group's long-term and stable relationship with ACN, enables the Group to obtain better logistical and pricing terms than would otherwise be available.

The Group's 55% interest in ND Xing An allows it to secure a future supply of unbleached kraft pulp, one of the principal raw materials for kraftlinerboard, which is in short supply in China. ND Xing An has access to the extensive softwood forest reserves in Inner Mongolia owned and managed by the Group's domestic joint venture partner. It had a capacity as of 30 September 2005 to produce 100,000 tonnes of long-fibred unbleached kraft pulp annually. It plans to substantially increase its capacity in the future. Although ND Xing An currently sells a majority of its output to third parties, the Group has a right to purchase, in priority to other customers of ND Xing An at the same price level, up to its entire output of unbleached kraft pulp.

The Group has built a large, diversified and stable base of customers

The Group has built a large, diversified and stable base of customers. As at 30 September 2005, the Group had more than 1,000 customers consisting of corrugators as well as coated duplex board packaging and printing companies located in the Pearl River Delta Region and Yangtze River Delta Region. In addition, the majority of the Group's customers remained stable during the Track Record Period. The Directors believe that this is primarily due to the quality and consistency of the Group's products, its ability to serve as a one-stop shop for a broad range of packaging paperboard products to meet customer needs and its superior after-sales service.

The Directors believe that because the Group has an established brand name in the domestic market and is the market leader in terms of quality, production capacity and market share, it is generally able to price its domestic sales at a premium over average domestic prices for most of its products. The Group has also been successful in becoming a qualified supplier to a number of customers that use the Group's packaging paperboard products as raw materials to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally recognized brand names, which use its products rather than imported packaging materials. The Directors believe that these customers place a high priority on quality assurance and consistency and prefer to purchase from established suppliers with a reputation for product quality and consistency, like the Group.

The Group is committed to environmentally responsible practices

The Group is committed to following environmentally responsible practices in all aspects of its operations and obtained ISO14001 certification for its environmental management standards in February 2005. The Group has been in compliance or exceeded the relevant minimum standards under PRC environmental laws and regulations, and believes that its good environmental record has been a factor in assisting it to obtain required regulatory approvals to expand its capacity. To minimize impact on forest resources, the Group, on average, uses approximately 80% to 90% of recovered paper in its production. To minimize impact on water resources, the Group's water recycling and conservation system and wastewater treatment facilities substantially reduce its water consumption. The Group's paper production process consumes, depending on the product, approximately six to 15 tonnes of water, including treated and recycled water, for each tonne of products produced, which is less than half of that set forth in the relevant national standards. See "— Environmental Matters".

The Group is led by an experienced and dedicated management team

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

BUSINESS STRATEGIES

The Group aims to become the world's leading manufacturer of packaging paperboard products. The Group will continue to seek opportunities to realize sustainable growth of its businesses and increase shareholder value. To achieve this, the Group plans to focus on the following strategies.

Continue to expand its market leadership position in China

The Group seeks to expand its market leadership position in China by continuing to expand its production capacity and market share. It plans to increase its annual design capacity to 5,400,000 tonnes from the current design capacity of 3,300,000 tonnes by fiscal year 2008.

The Group believes it is well positioned to capture future growth opportunities as it has already made substantial capital investment to secure valuable resources, including the following:

- its installed coal-fired power plants which are capable of supporting additional annual production capacity of approximately 1,000,000 tonnes at each of its Dongguan and Taicang sites; and

- the total land use rights the Group has obtained or entered into agreements to obtain are sufficient to accommodate expansion of its total annual production capacity to approximately 9,000,000 tonnes in the future.

Continue to enhance operating efficiency

The Group seeks to continue enhancing its operating efficiencies through the following means:

- optimize and upgrade its production process and equipment to eliminate or minimize impediments to increase production volumes and to enhance production efficiency and product quality;

- develop the use of new alternative chemicals with suppliers to improve machine performance and reduce costs;

- install additional paper machines to allow the Group to further minimize equipment shutdowns required for product and basis weight changes;

- reduce new machine start-up time to achieve design capacity and quality within the shortest possible time; and

- complete its enterprise resource planning (ERP) system at its Dongguan and Taicang operations to enhance total operating efficiencies.

Seek to expand geographical coverage and products offerings

The Group actively seeks opportunities to expand its geographical coverage beyond the Yangtze River Delta and Pearl River Delta regions. The Group

- plans to establish a presence in inland regions such as western China and northeastern China as the manufacturing industries in these regions become more active; and

- seeks to increase its exports to tap selected international markets.

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

Seek to attract high caliber employees and continue to emphasize and reward performance excellence

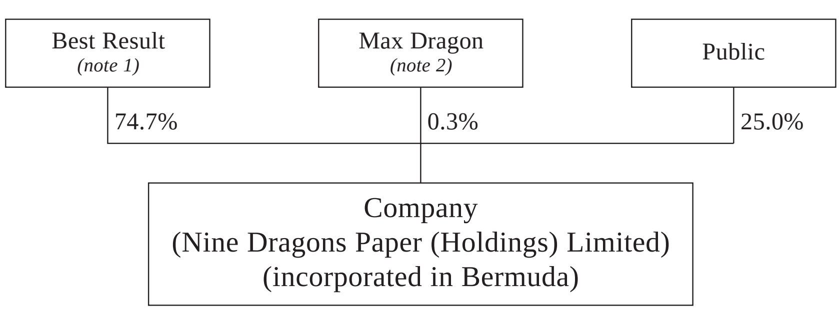
The Directors believe that the quality of the Group's human resources, particularly its management and professional engineers, are critical to its ability to compete effectively. The Group

- aims to achieve and exceed international standards of performance excellence by following international best practices for management processes and corporate governance; and

- seeks to continue to attract and retain domestic and international management and engineering talents by continued implementation and refinement of its incentive bonus program and through staff development programs such as periodic in-house and overseas training.

CORPORATE STRUCTURE

The following chart sets out the shareholding structure of the Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be taken up under the Pre-IPO Share Option Scheme and the Share Option Scheme):

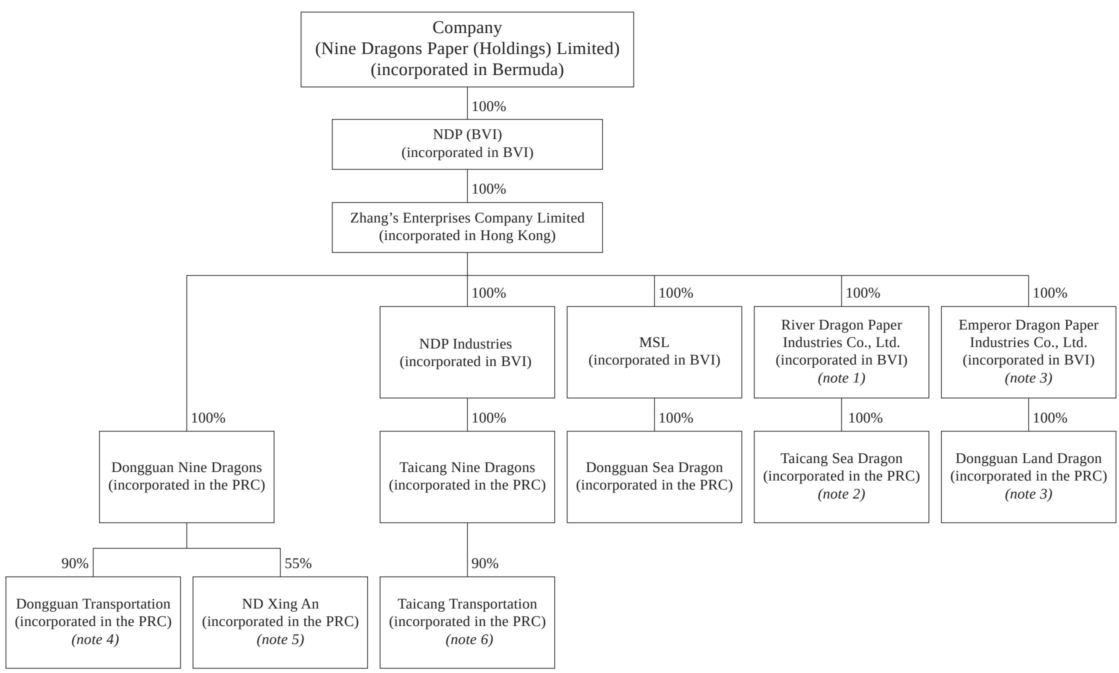


Notes:

1. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 37.1% by Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust, as to approximately 10.0% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and as to approximately 15.8% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

2. The entire issued share capital of Max Dragon is held by Ms. Chang.

The following chart sets forth the Group's corporate structure immediately upon completion of the Global Offering:



(1) No material operations during the Track Record Period and as at 1 January 2005, the effective date of the Acquisition.

(2) Held certain land use rights and properties as at 1 January 2005. Please see property No. I.4. under "Group I — Property Interests Held and Occupied by the Group in the PRC" in Appendix V to this prospectus.

(3) No material operations and had no material assets or liabilities during the Track Record Period and as at 1 January 2005, the effective date of the Acquisition.

(4) The remaining 10% is held by an Independent Third Party. Such 10% interest was transferred from Mr. Zhang on 9 September 2005.

(5) The remaining 45% is held by an Independent Third Party.

(6) The remaining 10% is held by an Independent Third Party. Such 10% interest was transferred from Mr. Zhang on 23 September 2005.

PRODUCTS

The Group's primary products are linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board with grey back.

The following is a brief description of the Group's primary products:

- **Linerboard.** The Group produces kraftlinerboard, testlinerboard and white top linerboard.

  — Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. Higher kraft pulp content increases the consistency of appearance and strength of the linerboard. The Group markets its high strength kraftlinerboard under its "Nine Dragons" brand and its standard kraftlinerboard under its "Sea Dragon" brand.

  — 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 under the "Nine Dragons" and "Sea Dragon" brands.

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

- **High performance corrugating medium.** 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 under the "Nine Dragons" brand.

- **Coated duplex board with grey back.** Coated duplex board with grey back is a type of boxboard with a glossy coated surface on one side for superior printability. Coated duplex board is typically used as packaging material for small boxes that require high quality printability, such as for consumer electronics 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.

ND Xing An, a subsidiary of the Group, also produces unbleached kraft pulp. See "— Raw Materials — Kraft Pulp".

The Group manufactures its products in a broad range of varying specifications customized for different industrial and customer packaging requirements. The following table sets out certain specifications of its primary products.

Product	Grades[1]	Average burst index (KPa m^2/g)	Average stacking strength (Nm/g)	Basis weight (g/m^2)	Recovered paper content
Linerboard					
Kraftlinerboard	1, 2, 3	2.5–3.9	7.5–11.5	120–300	80%–90%
Testlinerboard	1, 2, 3	2.3–2.7	7.3–8.5	120–175	100%
White top linerboard	1, 2, 3	2.6–2.7	8.0–8.5	140–175	70%–75%
High performance corrugating medium	1, 2, 3	—	6.0–9.2	95–145	100%
Coated duplex board with grey back	A, B, E, F	—	—	230–450	78%–86%

(1) The grading system for the Group's products is in line with industry practice, i.e., Grade 1 and A products are of the highest quality and the remaining grades are of secondary quality. For the fiscal year ended 30 June 2005, approximately 96.5% of the Group's linerboard output was Grade 1 and the remaining 3.5% of its linerboard was Grade 2 or 3; approximately 98.0% of its high performance corrugating medium output was Grade 1 and the remaining 2.0% was Grade 2; approximately 95.5% of its coated duplex board with grey back output was Grade A and the remaining 4.5% was Grade B, E or F.

The following table sets forth the Group's sales volume for its primary products for the periods indicated.

	Fiscal years ended 30 June						Three months ended 30 September			
	2003		2004		2005		2004		2005	
	Sales volume	%	Sales volume	%	Sales volume	%	Sales volume	%	Sales volume	%
	(in tonnes, except for percentages)									
The Group										
Kraftlinerboard[1]	697,570	83.9	779,344	85.4	985,754	62.5	226,025	83.6	277,655	44.1
Testlinerboard	54,196	6.5	65,208	7.2	128,369	8.1	25,404	9.4	58,535	9.3
White top linerboard	29,748	3.6	62,035	6.8	67,733	4.3	18,786	7.0	21,097	3.4
Total linerboard	781,514	94.0	906,587	99.4	1,181,856	74.9	270,215	100.0	357,287	56.8
High performance corrugating medium	50,252	6.0	5,862	0.6	197,411	12.5	—	—	180,457	28.7
Coated duplex board with grey back	—	—	—	—	198,947	12.6	—	—	91,027	14.5
Total packaging paperboard	831,766	100.0	912,449	100.0	1,578,214	100.0	270,215	100.0	628,771	100.0
Unbleached kraft pulp	—		25,660		47,267		11,964		15,223	

(1) Includes a small proportion of kraft packaging paper products produced by ND Xing An from February 2004.

INTEGRATED OPERATIONS

The Group has two production sites, with two factories in Dongguan and one factory in Taicang. As of the Latest Practicable Date, the Group operated ten paper machines, as well as other supporting facilities that provide the Group with power, steam, water supplies and logistical support which form an integral part of its operation.

Production Facilities

The Group's ten technologically advanced paper machines imported from Europe, North America and Japan have an annual aggregate design capacity of 3,300,000 tonnes as of the Latest Practicable Date. All of the Group's paper machines have advanced DCSs and quality control systems to monitor and control the Group's equipment.

The following table sets forth information relating to the Group's paper machines as of the Latest Practicable Date.

Paper Machine	Primary Product(s)	Design Capacity (tonnes/year)	Company	Commencement of Production
PM1. . . .	kraftlinerboard	200,000	Dongguan Nine Dragons	July 1998
PM2. . . .	kraftlinerboard, white top linerboard	400,000	Dongguan Nine Dragons	June 2000
PM3. . . .	kraftlinerboard, testlinerboard, white top linerboard, high performance corrugating medium	400,000	Dongguan Nine Dragons	May 2002
PM4(1) . .	coated duplex board with grey back	450,000	Dongguan Sea Dragon	October 2003
PM5(1)(2) .	kraftlinerboard	500,000	Taicang Nine Dragons	November 2003
PM6. . . .	high performance corrugating medium	200,000	Dongguan Nine Dragons	October 2004
PM7. . . .	high performance corrugating medium	200,000	Dongguan Nine Dragons	October 2004
PM8. . . .	high performance corrugating medium, testlinerboard	450,000	Taicang Nine Dragons	April 2005
PM9. . . .	high performance corrugating medium	250,000	Dongguan Nine Dragons	December 2005
PM10 . . .	high performance corrugating medium	250,000	Dongguan Nine Dragons	December 2005

(1) PM4 and PM5 were acquired effective on 1 January 2005.

(2) PM5 is also capable of producing testlinerboard and high performance corrugating medium, and had produced testlinerboard before PM8 commenced production and high performance corrugating medium before the Acquisition.

PM2, PM3, PM5 and PM8 have the flexibility to produce more than one type of products due to the advanced design incorporated into these machines. These machines can shift from the production of one type of product to another type of product either without stopping the production run or with only a brief shutdown, which is ordinarily scheduled to coincide with monthly routine maintenance.

With the exception of periodic repair and maintenance typically scheduled during the Group's low seasons and scheduled maintenance, the Group seeks to maintain uninterrupted operation of its paper machines. See "— Maintenance of Production Equipment". The following table sets forth information on the utilization rates and actual and planned hours of operation for the Group's paper machines for the periods indicated.

	Years ended 30 June									Three months ended 30 September 2005		
	2003			2004			2005					
Paper Machine	Equipment Utilization(1)	Actual Hours of Operation	Planned Hours of Operation(2)	Equipment Utilization(1)	Actual Hours of Operation	Planned Hours of Operation(2)	Equipment Utilization(1)	Actual Hours of Operation	Planned Hours of Operation(2)	Equipment Utilization(1)	Actual Hours of Operation	Planned Hours of Operation(2)
	(%)		(%)		(%)		(%)					
PM1 . . .	99.20	8,282	8,349	97.95	8,178	8,349	94.01	7,849	8,349	96.18	2,065	2,147
PM2 . . .	93.58	7,813	8,349	95.80	7,998	8,349	94.11	7,857	8,349	97.16	2,086	2,147
PM3 . . .	94.55	7,894	8,349	95.83	8,001	8,349	96.13	8,026	8,349	96.18	2,065	2,147
PM4(3) . .	—	—	—	90.59	4,053	4,474	93.45	7,459	7,982	92.22	1,920	2,082(7)
PM5(4) . .	—	—	—	83.24	3,823	4,594	94.60	7,596	8,030	94.83	1,961	2,068
PM6(5) . .	—	—	—	—	—	—	85.57	3,784	4,422	93.59	1,986	2,122
PM7(5) . .	—	—	—	—	—	—	87.20	3,864	4,431	92.17	1,966	2,133
PM8(6) . .	—	—	—	—	—	—	84.44	1,096	1,298	90.11	1,759	1,952

(1) Equipment utilization rates represent the actual hours of operation as a percentage of the planned hours of operation. The utilization rates are lower during the trial period which is typically within six months from commencement of operation.

(2) Planned hours of operation takes into account, among others, planned maintenance shutdowns and shutdowns in connection with equipment optimization.

(3) PM4 commenced production in October 2003.

(4) PM5 commenced production in November 2003.

(5) PM6 and PM7 commenced production in October 2004.

(6) PM8 commenced production in April 2005.

(7) Planned hours of operation during the three months ended 30 September 2005 do not include unplanned shutdowns as a result of replacement of parts covered by warranties given by the equipment supplier.

Supporting Facilities

As of the Latest Practicable Date, major facilities supporting the Group's production included:

- coal-fired cogeneration plants in Dongguan with an aggregate installed capacity of 351 MW, and in Taicang with an installed capacity of 240 MW. The Group has designed its power generation systems at its Dongguan site and its Taicang site as central cogeneration plants providing both electric power and steam to all of its paper machines. Because of their high thermal efficiency and low coal consumption, the Group's cogeneration plants achieve savings of up to approximately one-third as compared to purchasing power from third parties, while at the same time providing it with reserve generating capacity to support further expansion of an additional approximately 1,000,000 tonnes of annual production capacity at each of its Dongguan and Taicang sites. In the meantime, the Group sells excess power to the regional power grid. See "— Property, Plant and Equipment — Power Plants" and "— Environmental Matters";

- at Taicang the Group has constructed a shipping pier capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group plans to utilize one berth for deliveries of coal used for power generation at its Taicang facility. The Group intends to construct a second berth to receive direct deliveries of recovered paper and kraft pulp, and to ship its finished products to customers throughout the Yangtze River Delta area and upriver to other potential inland markets. To utilize excess capacity, the Group plans to offer loading and unloading services to third parties in the future. See "— Transportation and Delivery System — Ocean Freight and Inland Waterway Transportation";

- raw material yards with an aggregate storage capacity of up to 500,000 tonnes, warehouses for finished products with an aggregate storage capacity of up to 80,000 tonnes, and an automated intermediate warehouse with a 10,000 tonne capacity for storing coated duplex board with grey back that has been partially completed up to before the sheeting and rewinding process, each of which provides the Group with the flexibility to manage or increase its inventory at times when market conditions make it prudent to do so or in accordance with operational requirements and to respond quickly to customer orders. See "— Property, Plant and Equipment — Warehouses and Raw Material Yards";

- back-up water supply facilities for the Group's Dongguan plants, consisting of two upstream reservoirs with an aggregate storage capacity of 250,000 tonnes of water and a low salinity water desalination plant with a planned capacity of 100,000 tonnes of water per day (currently under construction in two phases, with the first phase with capacity of 50,000 tonnes per day expected to be completed by March 2006), which increases the stability of the Group's water supplies. As a further back-up measure, both the Dongguan and Taicang facilities are connected to the municipal water system. See "— Utilities — Water";

- wastewater treatment plants in Dongguan and Taicang and a water treatment and recycling system for each of the production lines that reduces the Group's water consumption. See "— Environmental Matters"; and

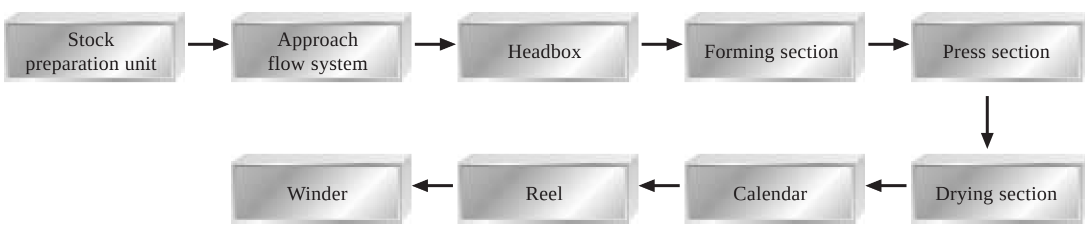
- a fleet of over 350 large trucks that the Group uses to provide full-year uninterrupted delivery services to customers and for transportation of raw materials from the piers to the Group's production facilities.

The integration of these facilities provides cost savings, increases the Group's flexibility and control over its business and enables it to reliably and efficiently serve its customers.

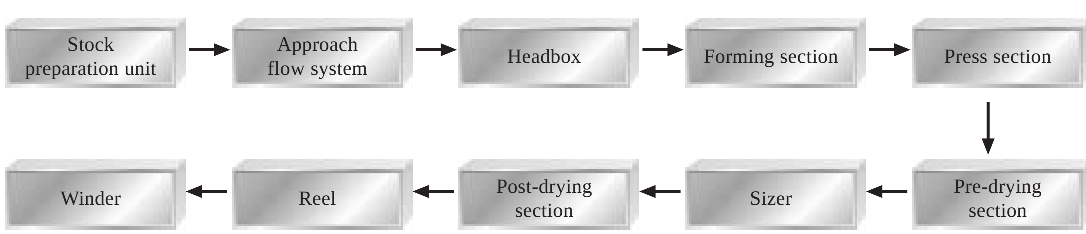
Production Process

The following flow charts provide an overview of the major steps involved in the production process for the Group's principal products:

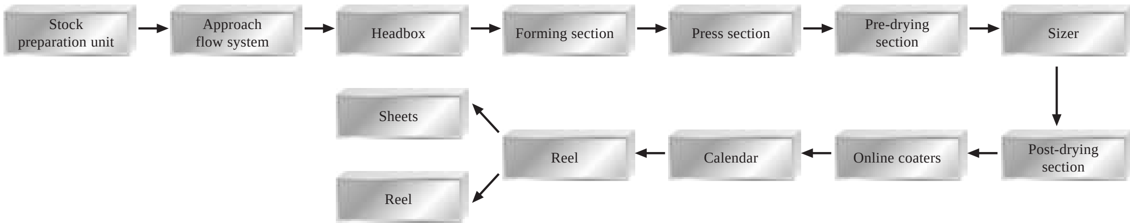
Linerboard



High performance corrugating medium



Coated duplex board with grey back



Stock preparation unit

The primary function of the stock preparation unit is to convert raw materials, primarily recovered paper and kraft pulp, into stock which is readily usable by paper machines. The stock preparation process involves a mechanical pulping process comprising cleaning, screening and refining to dissolve and mix the fibers from recovered paper and kraft pulp, together with water, into stock, the removal of contaminants, the refinement and expansion of the fibers and the addition of certain chemicals to improve the quality of the stock. Water acts as a suspension medium and conveyor for the fibers enabling its homogenous distribution.

PM2, PM3 and PM4, used for the production of white top linerboard and coated duplex board with grey back, are equipped with de-inking and flotation devices to enhance the whiteness of such products.

Approach flow system

The approach flow system, consisting mainly of screen and fan pump, connects the stock preparation system with the paper machine. The screen and fan pump sort the stock from the stock preparation system. After adding chemicals to enhance the quality of finished paper, the approach flow system further feeds stock into the headbox in the paper machine.

Headbox and forming section

The headbox distributes the stock into the wire section where fibers are formed into thin wet continuous sheets, or webs. The basic functions of the headbox are to achieve uniform fiber distribution and intersection. The forming section removes part of the moisture from the stock. The headbox and forming section determine several structural properties of the paper including basis weight variation, fiber orientation and distribution and visual uniformity.

Press section

The press section's function is to compress and remove as much water from the sheets as possible through absorption of water by the felt, while still retaining the desired characteristics, in order to achieve a sufficient strength to allow the sheets to be transferred to the dryer section without breaking. The pressing process affects paper smoothness and symmetry, moisture profile, porosity and bulk. PM2, PM3, PM4, PM5 and PM8 are equipped with high-speed shoe presses to fully utilize the advantages provided by the Group's large-scale paper machines. Installation of shoe presses not only increases the speed at which the Group's production lines can operate, but also increases the percentage of moisture removed in the press section and the resulting dryness of the paper. This allows the Group to reduce the amount of energy, in the form of steam, required in the dryer section.

Dryer section and sizer

The sheets after the press section are further fed into the dryer section where they are rolled through a series of rotating steam heated cylinders to remove the remaining moisture. The purpose of the dryer section is to remove remaining moisture content from the sheets through evaporation. The drying process affects surface and strength properties.

The sizer is interposed between the pre-drying section and post-drying section in the production of high performance corrugating medium and coated duplex board with grey back to increase strength, water repellency and enhance printability. PM4, PM5, PM6, PM7, PM8, PM9 and PM10 are equipped with such surface sizing technology.

Online coater

The production of coated duplex board with grey back involves an additional step of online coating to give the finished product a glossy finished look and to enhance printability. PM4 is equipped with an online coating technology.

Calendar, reel and winder

The calendar compresses and smoothes the sheets to enhance printability. The reel rolls large sheets of finished products into rolls. The winder cuts large sized rolled paper into smaller sized paper products according to the required specification for delivery or for storage at the Group's warehouses.

QUALITY CONTROL

The Group has implemented a comprehensive and effective quality control system covering every stage of production and other aspects of its business. Each of the Group's facilities is ISO9001:2000 certified.

The Group examines recovered paper upon the arrival of each shipment before it is unloaded from the container for storage in the Group's yards. The Group visually inspects the recovered paper and separates unsuitable material that does not meet its quality control standards. Samples are also taken for laboratory testing for moisture and fiber content to ensure the quality of the recovered paper. Recovered paper is tested again immediately before being fed into the production line.

Once recovered paper and/or kraft pulp are fed into the stock preparation equipment, the production process is controlled and monitored through a computerized DCS. All of the paper machines have fully automated quality control systems that monitor moisture, basis weight, coating weight and caliper of the sheets, which allows the Group to maintain consistent quality, increase production efficiency and minimize disruption of the production process.

Before the products leave the production facility, the Group takes samples from every roll of paper for testing of various physical properties, including strength, thickness, moisture, appearance basis weight and printability, as applicable, to meet required specifications. The finished packaging paperboard products are graded as Grade 1, 2, 3, A, B, E or F, in accordance with their quality.

RAW MATERIALS

Recovered paper and kraft pulp are the principal raw materials for the production of the Group's products. Raw materials comprised 85.3%, 82.3%, 78.9% and 79.9% of total cost of goods sold for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, respectively. During the corresponding periods, recovered paper accounted for RMB1,102.2 million, RMB1,160.2 million, RMB2,125.9 million and RMB817.8 million, or 56.4%, 55.1%, 52.3% and 55.7% of total cost of goods sold, respectively. During the corresponding periods, unbleached kraft pulp accounted for RMB369.4 million, RMB324.3 million, RMB548.8 million and RMB154.2 million, or 18.9%, 15.4%, 13.5% and 10.5% of total cost of goods sold, respectively. During the corresponding periods, chemicals accounted for RMB111.4 million, RMB111.6 million, RMB317.1 million and RMB135.1 million, or 5.7%, 5.3%, 7.8% and 9.2% of total cost of goods sold, respectively.

Recovered Paper

Recovered paper is the Group's largest raw materials component. Like most large-scale packaging paperboard manufacturers, the Group's ability to source large volumes of consistently high-quality recovered paper under stable, long-term arrangements is critical to its success. Because of the Group's policy of maximizing 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 source from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. To select additional suppliers, the Group's sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy its volume and delivery requirements. Currently, the majority of the Group's recovered paper comes from North America and Europe, as the Group has found the quality of such recovered paper to be relatively more consistent compared to other sources. The Group purchases a substantial majority of its recovered paper requirements from ACN, which is wholly owned by Ms. Cheung and Mr. Liu, as well as from a number of other trading companies. For the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the Group's purchases of recovered paper from ACN amounted to RMB999.2 million, RMB1,210.7 million, RMB1,888.1 million and RMB551.0 million, representing 83.2%, 91.1%, 86.0% and 80.5% of the Group's total purchases of recovered paper, respectively, during these periods. During the same periods, the Group purchased approximately 780,000 tonnes, 1,090,000 tonnes, 1,550,000 tonnes and 471,000 tonnes, respectively, of recovered paper from ACN and the remaining 134,000 tonnes, 50,000 tonnes, 196,000 tonnes and 82,000 tonnes, respectively, of recovered paper from suppliers other than ACN.

The Group began purchasing from ACN in 1998. Pricing of purchases from ACN is based on normal commercial terms in the ordinary course of business. Due to the Group's recurring purchases of recovered paper in large quantities, the Group has been able to secure from ACN supplies at a lower average purchase cost of approximately US$1.00 per tonne during the Track Record Period as compared with ACN's sales of the same types of recovered paper to its other customers for the same period. See "Continuing Connected Transactions". According to China Paper Association, China's average price of imported recovered paper per tonne in 2003 and 2004 was US$131.2 and US$140.3, respectively. See "Industry Overview — The Containerboard Industry in China — Raw Materials". The Group also has a policy to diversify its sources of supply and to maintain at least a small proportion of supplies from suppliers other than ACN. The Group's supply contracts typically provide for the delivery of the recovered paper either to the Group's production facilities or nearby ports.

ACN is the largest exporter of recovered paper from the United States and Europe to China. ACN is a well known international supplier of recovered paper and procures recovered paper from major suppliers globally pursuant to long-term supply contracts to ensure a continuous and stable supply of recovered paper. In addition, due to the volume of its shipments to China, ACN has been able to obtain favorable ocean freight rates for shipment of recovered paper to the Group. Moreover, the Group is able to obtain volume discounts on its purchases from ACN. These benefits enable the Group to source recovered paper from ACN at more competitive prices than those available from other suppliers for the same types of recovered paper.

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

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 consistently high quality kraft pulp is critical to the Group's success. The Group's sourcing strategy is to seek to maintain a diversified source of kraft pulp, to ensure stable supply and cost competitiveness while meeting its quality requirement. The Group currently imports most of its kraft pulp and sources only a small proportion from China. Since 1999, China's import tariffs for kraft pulp have been eliminated. To take advantage of ACN's volume of shipments to China and favourable ocean freight rates, the Group has entered into a long-term service agreement with ACN at arm's length commencing on the Listing Date and expiring on 30 June 2008 for import services in connection with the import of kraft pulp. See "— Continuing Connected Transactions".

To secure a future supply of unbleached kraft pulp, on 16 February 2004, the Group established an equity joint venture 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). The Group holds a 55% interest in ND Xing An while its joint venture partner holds the remaining 45%. As of 30 September 2005, ND Xing An had a capacity to produce 100,000 tonnes of long-fibred unbleached kraft pulp annually. The Group plans to increase ND Xing An's annual production capacity to 300,000 tonnes in the future. ND Xing An obtains its raw materials, which are wood logs and wood chips, from the extensive softwood forests in Inner Mongolia owned and managed by its joint venture partner under an agreement commencing on the Listing Date and expiring on 30 June 2008. See "— Continuing Connected Transactions". Under the terms of the joint venture, the Group has the right to purchase, in priority to other customers of ND Xing An at the same price, up to its entire output, providing the Group with a secure supply of unbleached kraft pulp. During fiscal years 2004 and 2005, the Group purchased approximately 5% of its unbleached kraft pulp from ND Xing An with the balance sold to third parties. The ND Xing An joint venture enables the Group to secure a future supply of unbleached kraft pulp, although the Group continues to import most of its supply of unbleached kraft pulp as the costs of transporting unbleached kraft pulp from Inner Mongolia to its production facilities in Dongguan and Taicang currently exceed that of importing it from abroad.

Chemicals

The Group uses various kinds of chemicals in its production process including primarily starch, retention agent and sizing agent. Starch is used to enhance the strength of its products, retention agent is used to increase the retention rate of stock and sizing agent is used to increase water repellency of the paper product. The Group purchases chemicals from third party suppliers in China and abroad. The Group's sourcing strategy is to source from reliable and reputable suppliers that can provide the most cost-effective chemicals with the requisite quality. It also seeks to develop the use of new alternative chemicals with suppliers to improve machine performance and reduce costs.

For the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the Group's five largest raw material suppliers in aggregate accounted for approximately 79.3%, 81.5%, 68.9% and 66.6%, respectively, of its total raw material costs. Purchases from the single largest raw material supplier for the same periods accounted for 68.5%, 68.8%, 60.0% and 49.7%, respectively, of its total raw material costs. See "— Continuing Connected Transactions". Except as disclosed in this prospectus, none of the Directors, their respective associates or shareholders holding more than 5% of the issued share capital of the Company holds any interest in any of the Group's five largest raw material suppliers for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005.

TRANSPORTATION AND DELIVERY SYSTEM

The Group relies on road and water transportation for delivery of products to its customers and raw material supplies to its production sites. The Group has its own vehicle fleet to meet a majority of such transportation needs in a timely and cost-efficient manner.

Vehicle Fleet

The Group established its own internal transportation and delivery infrastructure and system at its production sites in Dongguan and Taicang to satisfy its transportation requirements of finished products and raw materials with no interruption throughout the year. The internalization of such transportation and delivery infrastructure provides the Group with more control to ensure timely delivery of its products and raw materials to satisfy its customers' needs and production requirements. The Group's fleet at Dongguan is equipped with GPS satellite computerized navigation systems to allow the Group to monitor and allocate its internal resources and plan its delivery schedules so as to be timely and cost-efficient. The Group believes that its transportation and delivery system enables it to achieve cost savings and to provide reliable and efficient services to its customers.

Ocean Freight and Inland Waterway Transportation

The Group takes advantage of its geographical proximity to the independent Xinsha Port, which is only approximately 200 metres from its production site in Dongguan. The Group owns a shipping pier at Taicang capable of accommodating oceangoing vessels of up to 50,000 tonnes. See "— Property, Plant and Equipment — Taicang Pier".

SALES AND MARKETING

Sales Channels and Sales Force

The Group operates its sales network from its production sites in Dongguan and Taicang. The sales network in Dongguan is focused on the Pearl River Delta region while the sales network in Taicang is focused on the Yangtze River Delta region.

The Group sells most of its products directly to corrugators and coated duplex board packaging and printing companies through its sales teams. This enables the Group not only to reduce costs payable to the intermediaries but also to obtain direct market information and provide better after-sales service to its customers. The Group sells some of its products through distributors in cases where the customers are geographically more distant. In such cases, the Group is able to use the local presence or network of such distributors to provide better service and reduce its collection risk.

As of 30 September 2005, the Group had a sales force of approximately 90 personnel, approximately 60 of whom were based in Dongguan and the rest in Taicang. Most of its sales members are university graduates and on average have been part of its sales force for more than two years. The Group believes that it has a well-educated, well-trained and experienced sales force. As a result of the Acquisition, the Group's sales and marketing team in Dongguan and Taicang are able to market and cross sell the full range of the Group's products, and therefore does not expect a need for significant increases in sales employees in the near future.

The Group has introduced an incentive bonus program to award its sales force compensation commensurate with their sales performance. The Group reviews sales performance on a monthly basis according to a variety of factors, including sales price and sales volume achieved, sales revenue collection and quality of service.

Pricing

The Group sets its prices based on a number of factors, including manufacturing costs, operating expenses and domestic and international market conditions. The Group typically sets its prices on a monthly basis and such intervals may be shortened or prolonged depending on the overall market condition.

The Group believes that because it has an established brand name in the domestic market and is the market leader in terms of quality, production capacity and market share, it is generally able to price its domestic sales at a premium over average domestic prices for most of its products. The Group also sets its prices based on sales volume. Other than volume discounts, it typically does not provide other types of discounts to its customers.

Customers

The Group has built a large, diversified and stable customer base in China. The Group believes that this is primarily due to the Group's high quality products, its ability to provide a broad range of specifications to meet customer needs and its superior after-sales service. The Group has been successful in becoming the preferred supplier to a number of customers that use the Group's packaging paperboard products as raw materials to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally recognized brand names, as well as reputable domestic companies.

The Group's customers are primarily corrugators who use the Group's containerboard products to manufacture corrugated containers for their end user customers, as well as coated duplex board packaging and printing companies that manufacture printed packaging boxes according to the specifications of their end user customers. The Group sells substantially all of its products to customers in China. A significant portion of such domestic sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency, while other domestic sales are denominated in RMB. See "Financial Information — Description of Components of Results of Operations — Sales". The raw materials used in products manufactured for export sales by these foreign invested processing enterprises in China are exempt from customs duties and value-added taxes. As a result, the products that the Group sells as raw materials to these foreign invested processing enterprise customers for their further processing and export are also exempt from customs duties and value-added taxes. For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises, constituted 47.4%, 41.9%, 51.0% and 44.9% of the Group's total sales, respectively.

For the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the Group's five largest customers in aggregate accounted for approximately 16.6%, 10.5%, 10.6% and 8.6%, respectively, of the Group's sales. Sales to the single largest customer for the same periods accounted for approximately 4.6%, 3.7%, 2.8% and 2.6%, respectively, of the Group's sales. None of the Directors, their respective associates or shareholders holding more than 5% of the Group's issued share capital hold any interest in any of the Group's five largest customers in those periods.

The Group's customers are spread throughout China with a majority concentrated in the Pearl River Delta region and the Yangtze River Delta region where its production sites are located. A substantial majority of the Group's customers are located within a 150 km radius of its production facilities. The Group's proximity to most of its customers allows it to provide cost-effective and timely deliveries and services to its customers.

A majority of Group's sales during the Track Record Period were made to customers in the Pearl River Delta region, with the remainder to customers in the Yangtze River Delta region and other provinces. As a result of the Acquisition, contribution from sales to customers in the Yangtze River Delta region as a proportion of total sales has increased.

Terms of Sales and Credit Policy

The Group makes most of its sales pursuant to monthly or short term contracts. It has also entered into several long-term cooperation agreements with a number of its major customers with terms of five to six years expiring between 2010 and 2011, pursuant to which the prices are quoted by the Group monthly. Certain of these agreements also provide for monthly minimum orders up to 5,000 tonnes per month. The Group also enters into memoranda of understanding or letters of intent with some of its long-term customers at the end of each year with respect to sales for the following year.

The Group's sale and credit terms depend on volume of purchases, stability of purchases, creditworthiness and trading history with the customer. Pursuant to the Group's credit policy, the Group categorizes its customers as Type A, Type B, Type C and Type D. Type A customers are major customers who enjoy guaranteed supply of the Group's products. Type B and Type C customers are smaller customers who enjoy guaranteed supply of the Group's products for orders within the quota assigned to them by the Group during high seasons when supply of the Group's products may be tight. Type D customers are typically new customers or those without a proven credit history. The Group reviews its customer categorization on a quarterly basis.

With respect to linerboard and high performance corrugating medium, the Group typically grants a credit period of approximately 30 days for Type A and Type B customers. Payment upon delivery is required for Type C customers and payment in advance of delivery is required for Type D customers. With respect to coated duplex board with grey back, the Group typically grants a credit period of approximately 30 to 60 days for customers to whom it extends credit. The Group typically requires prepayment for unbleached kraft pulp.

In addition to credit periods, customers are subject to credit limits, and are required to settle their accounts before further delivery of the Group's products can be made if they have reached the credit limit before expiration of the credit period. The credit limit is determined by a formula linked to monthly average order amounts. As of 30 September 2005, a total of RMB835.4 million of credit has been granted to the Group's customers, of which RMB748.7 million was outstanding.

The Group has not had any significant bad debt or doubtful accounts or provided for the same during the Track Record Period. The Group periodically reviews the payment status of its accounts receivables and takes appropriate measures to collect overdue accounts. The Group typically makes provisions for bad debt if it remains overdue for more than 180 days.

COMPETITION

The Group competes primarily in the China market. The Group's packaging paperboard products compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price. Due to the capital intensity, environmental sensitivity and constraints in raw material supplies in the paper manufacturing industry, there are significant entry barriers to large-scale paper making operations. Consequently, the paper manufacturing industry in China, including the containerboard manufacturing industry, is characterized by a limited number of large manufacturers. As of 31 December 2004, although there were a large number of containerboard manufacturers in China, only a couple, including the Group, had an annual production capacity of more than one million tonnes, based on data from RISI. See "Industry Overview".

Under China's foreign investment rules, foreign investment in paper manufacturing is permitted. A number of foreign companies have established packaging paperboard manufacturing operations in China, and other foreign packaging paperboard manufacturers may do so in the future, in which case the Group may face increasing competition from such enterprises.

The Group also faces competition posed by imported packaging paperboard products. It positions the Nine Dragons brand to compete with high quality packaging paperboard imported from overseas manufacturers, and the Sea Dragon brand to compete with standard quality kraftlinerboard and testlinerboard.

RESEARCH AND DEVELOPMENT

As of 30 September 2005, the Group had approximately 30 employees in its central laboratory department who serve dual functions of testing raw materials and existing and new products as well as engaging in research and development.

The Group's research and development activities primarily focus on improvement of efficiencies of its production equipment and process, research and development of new products, improvement of quality of its existing products, and market and industry research including demand of products, potential market growth, investment opportunities, returns from the development of new projects and its competitors' products, prices and sales.

INVENTORY MANAGEMENT

The Group monitors and controls the inventory levels of its raw materials and finished products to optimize its operations. The Group has an inventory management system that monitors the planning and allocation of warehouse space and stock of raw materials and finished products to coordinate with delivery requirements and schedules.

The Group's inventory of raw materials comprises primarily recovered paper and kraft pulp. Its policy is to store at least 20 to 45 days' supply in its raw material yards. In addition, in order to maintain a stable amount of raw materials inventory as it is depleted by ongoing production, the Group also has a policy to have another approximately 20 days' supply en route from its suppliers. The Group has raw material yards with an aggregate storage capacity of up to 500,000 tonnes.

The Group's inventory of finished products comprises primarily products awaiting delivery to customers. The Group has warehouses at the Dongguan and Taicang sites with an aggregate storage capacity of up to 80,000 tonnes for finished products.

The Group has not made any provisions for inventory obsolescence during the Track Record Period. Recovered paper and kraft pulp, the Group's primary raw materials, are not generally susceptible to obsolescence by passage of time. In addition, the Group typically manufactures its products according to customers' specifications only after it has received an order, due to the wide range of the Group's products with varying specifications.

UTILITIES

Water

The Group requires large amounts of water in its production process. Operating at full capacity as of the Latest Practicable Date, the Dongguan production facilities consume approximately 65,000 tonnes of water a day, while the Taicang production facilities consume approximately 20,000 tonnes of water a day.

The Group faces occasional water supply problems in Dongguan. The East River is the main source of water supply for the Group's production needs in Dongguan. During dry seasons from October to March, inflow of ocean water results in increased salinity in East River during those months. The Group has taken a number of measures to ensure an adequate year-round supply of water of suitable quality for production in Dongguan. These include the construction of two upstream fresh water reservoirs with an aggregate storage capacity of 250,000 tonnes, and the construction of a low salinity water desalination plant with a planned capacity of 100,000 tonnes per day to support the Group's further planned capacity expansion (currently under construction in two phases, with the first phase with capacity of 50,000 tonnes per day expected to be completed by March 2006).

The Group's production site in Taicang draws its water requirements from the Yangtze River. As a further back-up measure, both the Dongguan and Taicang facilities are connected to the municipal water system.

To conserve water, the Group has implemented a water recycling and conservation system and wastewater treatment facilities in Dongguan and Taicang which substantially reduce its water consumption. See "— Environmental Matters".

Energy Supply

As a large-scale packaging paperboard manufacturer, the Group requires a significant amount of electricity and steam for its operations. The Group has designed its power generation systems in Dongguan and Taicang as central coal-fired cogeneration plants, providing both electric power and steam to all of its paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, the Group's cogeneration plants achieve savings of up to approximately one-third compared to the cost of purchasing power from third parties. The Group's sourcing strategy for coal is to source 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 requirements directly from coal distributors and arranged its own shipping. The Group receives the coal by ship at its shipping pier in Taicang and at Xinsha Port.

The Group has six coal-fired cogeneration units with an aggregate installed capacity of 351 MW in two power plants in Dongguan, which were constructed in four phases. The Group also has a coal-fired cogeneration plant in Taicang with an installed capacity of 240 MW, which was constructed in two phases. In addition to electricity, the power plants also produce steam for use in the drying process in its production process. The Group's current installed generating capacity in Dongguan and Taicang is sufficient to support annual production capacity expansions of up to an additional approximately 1,000,000 tonnes at each of its two locations. See "— Power Plants".

All of the Group's power plants are connected with the regional power grid. This connection allows the Group to sell its power generation in excess of its own production needs to the grid. In addition, the connection to the grid provides the Group a back-up power source in case of need.

PROPERTY, PLANT AND EQUIPMENT

The Group has made substantial investments in acquiring land use rights in Dongguan and Taicang for its existing operations as well as to allow for future development and expansion. As of the Latest Practicable Date, the Group had obtained land use certificates for approximately 900,000 sq.m. of land in Dongguan and is in the process of applying for land use certificates for an additional 20,000 sq.m. of land in Dongguan. As of the Latest Practicable Date, the Group has obtained approximately 2.6 million sq.m. of land in Taicang, which is at a straight line distance of approximately 50 km from Shanghai. The Group's land use rights are for terms of 40 to 50 years.

In addition, in anticipation of future expansion plans, the Group has entered into compensation agreements with existing users of additional land of approximately 0.8 million sq.m. in Dongguan. These land use rights are intended for use by additional manufacturing and infrastructural facilities as the Group further expands its capacity.

The Group plans to enter into land use rights agreements with the government for such additional land and apply for land use rights certificates for such land after execution of the land use rights agreement with the government. The land use rights obtained by the Group, together with the land for which the Group has entered into compensation agreements with existing users, are sufficient to accommodate expansion of its total annual production capacity to approximately 9,000,000 tonnes in the future.

The Group's other material property, plant and equipment includes the following:

- two paper production factories in Dongguan with an aggregate gross floor area of approximately 354,224 sq.m. for which the Group has obtained building certificates, and one paper production factory in Taicang with a gross floor area of approximately 187,123 sq.m. for which the Group has obtained building certificates;

- coal-fired power plants in Dongguan with an aggregate installed capacity of 351 MW and in Taicang with an installed capacity of 240 MW. See "— Power Plants";

- a circulating fluidized bed waste-to-energy boiler at Dongguan that burns solid waste to produce energy that is capable of generating 315,000 tonnes of steam per year. See "— Environmental Matters";

- wastewater treatment plants in Dongguan and Taicang. See "— Environmental Matters";

- two reservoirs that are able to supply the Dongguan facilities with an aggregate storage capacity of 250,000 tonnes of water and a low salinity water desalination plant with a planned capacity of 100,000 tonnes of water per day (currently under construction in two phases, with the first phase with capacity of 50,000 tonnes per day expected to be completed by March 2006), which increases the stability of the Group's water supply. See "— Raw Materials — Water";

- the Group's own shipping pier in Taicang, capable of accommodating oceangoing vessels of up to 50,000 tonnes, for shipment and delivery of raw materials and finished products. See "— Transportation and Delivery System — Ocean Freight and Inland Waterway Transportation";
- raw material yards with an aggregate storage capacity of up to 500,000 tonnes;
- warehouses with an aggregate storage capacity of up to 80,000 tonnes for finished products and an automated intermediate warehouse with an aggregate storage capacity of 10,000 tonnes for partially completed coated duplex board with grey back;
- the Group's office buildings;
- staff apartments and recreational centers; and
- a fleet of over 350 large trucks that the Group uses to provide full-year uninterrupted shipping services to customers, and for transportation of raw materials from the piers to the Group's production facilities. See "— Transportation and Delivery System — Vehicle Fleet".

Production Equipment

The Group has technologically advanced production equipment imported from Europe, North America and Japan. See "— Integrated Operations — Production Facilities" for information relating to the primary products, design capacity, location and commencement dates of production with respect to its paper machines. The following table sets forth certain additional information on the Group's paper machines.

Paper Machine	Equipment/ Supplier Origin	Maximum Design Speed (metres/min)	Maximum Paper Width (metres)	Features
PM1	USA, Italy	550	5.49	— Triple fourdrinier forming technology improves formation of paper. — Dryer section employs hot calendar technology to ensure uniform sheet caliper and smoothness. — The entire paper manufacturing process is managed by a fully automated control system.

Paper Machine	Equipment/ Supplier Origin	Maximum Design Speed (metres/min)	Maximum Paper Width (metres)	Features
PM2	Finland	1,000	5.49	— An advanced hot dispersion system is applied to improve surface profile of recycled fibers. — Equipped with three-fourdrinier forming section, single shoe press section, dryer section, soft calendar and winder with advanced automated control systems from Valmet (now Metso), ABB and Siemens.
PM3	USA, Finland	1,100	5.49	— State-of-the-art machinery and control system to ensure maximum automation and intelligence. — The stock preparation system is equipped with a de-inking device. — Press section employs a double shoe press.

Paper Machine	Equipment/ Supplier Origin	Maximum Design Speed (metres/min)	Maximum Paper Width (metres)	Features
PM4	USA, Japan, Finland, Spain, Germany, Austria	700	5.65	— Fully automated manufacturing and quality control process. — The stock preparation facility has advanced de-inking and hot/cold wax removal systems. — Four layer forming technology with a top MB former section, with one headbox equipped with dilution control. — Press section employs a double shoe press and surface calendar technologies to improve water removal from paper web and improve paper gloss. — Includes soft calendar, single winder and multi winder equipment. — Employs surface sizing technology. — Equipped with automated network management system and a fully automated warehouse. — Equipped with fully automated dry calcium carbonate make down and coating supply system.
PM5	USA, Japan	1,000	6.65	— Except for the de-inking device, the stock preparation system is similar to that of PM3. — The press section employs a double shoe press. — Employs surface sizing technology.
PM6 and PM7	Canada, Sweden	800	5.49	— Employs surface sizing technology.

Paper Machine	Equipment/ Supplier Origin	Maximum Design Speed (metres/min)	Maximum Paper Width (metres)	Features
PM8	USA, Japan	1,150	6.65	— State-of-the-art forming section and double shoe press section. — Employs surface sizing technology.
PM9 and PM10. . . .	Canada, Japan	1,000	5.49	— Employs surface sizing technology.

Maintenance of Production Equipment

The Group had over 400 maintenance personnel as of 30 September 2005 who have undergone training provided by the original equipment vendors and are responsible for periodic repair and maintenance of its paper machines. The paper machines are regularly inspected and maintained by the Group's maintenance teams to ensure that they are in proper working order. The paper machines are also subject to scheduled inspections and maintenance twice a month and are shut down for approximately 20 hours during this monthly maintenance. The Group also schedules an annual maintenance program for each paper machine during which the paper machine is shut down for approximately three to five days, and major maintenance program for each paper machine once every three years, during which the paper machine is shut down for approximately ten 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 the efficiency of its production equipment.

Power Plants

The following table sets out the commencement dates and the installed capacities of the Group's power and steam cogeneration units.

Power Plant Units	Commencement Date	Installed Capacity (MW)
Dongguan		
Unit 1/Unit 2	June 1998	21
Unit 3/Unit 4	May 2000	60
Unit 5	October 2003	60
Unit 6	May 2005	210
Subtotal		351
Taicang		
Unit 1	November 2003	120
Unit 2	August 2005[1]	120
Subtotal		240
Total		591

(1) One of the two generators and a boiler commenced operations in August 2005. The second generator is expected to commence operations in March 2006.

All of the principal components of the Group's cogeneration units, including boilers, turbines and generators are manufactured domestically. The installed power plants are capable of supporting additional annual production capacity of approximately one million tonnes at each of its Dongguan and Taicang sites without being required to draw electricity from the regional power grid.

Warehouses and Raw Material Yards

The Group has warehouses in Dongguan and Taicang with an aggregate storage capacity of up to 80,000 tonnes for storage of finished products. In addition, the Group has a 10,000 tonne capacity automated intermediate warehouse at its PM4 facility for storing partially completed coated duplex board with grey back that has been partially completed up to before the sheeting and rewinding process, and a 20,000 sq.m. general purpose warehouse at its Dongguan and Taicang sites.

The Group also has raw material yards with an aggregate storage capacity of up to 500,000 tonnes.

Taicang Pier

In order to reduce port loading and unloading charges, to avoid transportation bottlenecks and to take advantage of ocean and inland waterway transportation, the Group has constructed a shipping pier at Taicang which can accommodate two berths in the near future. The Group completed construction of one berth in the first quarter of fiscal year 2006 and plans to construct the other berth. The shipping pier is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the shipping pier for its own use and to offer loading and unloading services to third parties.

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

The expanded pier, with a total annual loading and unloading capacity of approximately 6.0 million tonnes after completion of the second berth, is expected to allow the Group to take advantage of inexpensive river transportation to satisfy its current and future transportation requirements for finished products, raw materials and coal in line with the Group's strategy to reduce costs and further expand its production capacity and coverage of inland markets. As at the Latest Practicable Date, the Group's production capacity in Taicang was approximately 950,000 tonnes, which is expected to be increased to 1,350,000 tonnes as the Group plans to bring online PM13 to produce high performance corrugating medium in Taicang in fiscal year 2007. See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditure". In addition, the Group has obtained land use rights certificates for land in Taicang capable of accommodating up to 4,500,000 tonnes of annual production capacity. The expansion of the shipping pier in Taicang is intended to satisfy the Group's long-term growth needs.

ENVIRONMENTAL MATTERS

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

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

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

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

- To minimize 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 optimize its use, in Dongguan, the Group collects solid waste from its wastewater for incineration. The circulating fluidized bed waste-to-energy boiler provides efficient combustion, low atmospheric emissions and the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. The Group believes that its waste-to-energy boiler is the only one of its kind used by paper manufacturers in China. In Taicang, the Group disposes of solid waste by using it to produce recycled pallets.

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

The Group is subject to various environmental laws and regulations administered by the central and local environmental protection bureaus. See "Regulation".

The Group's manufacturing processes generate solid and liquid wastes, including wastewater and sludge, and gaseous emissions. In compliance with applicable laws and regulations, the Group has obtained all required permits for wastewater discharge, airborne emissions and solid waste disposal. The Group has never been found to be in material violation of any environmental laws or regulations, or subject to any fine in respect thereof. The Directors believe that the Group's record of environmental compliance has been a positive factor in obtaining regulatory approvals for its expansion projects.

INFORMATION TECHNOLOGY

The Group is in the process of implementing an enterprise resource planning (ERP) system for its Dongguan and Taicang operations to 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. It expects to implement the system in calendar year 2006. All of its paper machines have DCSs that monitor and control all aspects of production and automated quality control systems manufactured by Honeywell and ABB are designed to be linked, and provide data input, to its enterprise resource system. Such enterprise resource planning system is expected to provide the Group with up-to-date information to determine optimal resource allocation in terms of financial planning and operations management. In order to enhance work place safety, the Group installed additional protection device in the DCSs of the paper machines for the operating staff to confirm activation of the paper machines. Its fleet of trucks at Dongguan is also equipped with GPS.

INTELLECTUAL PROPERTY RIGHTS

The Group uses a number of trademarks, trade names and service marks in connection with its business, namely, "Nine Dragons", "Sea Dragon" and "Xiulin" which the Group has registered as trade marks in China. See "Statutory and General Information" in Appendix VII to this prospectus.

INSURANCE

The Group's significant insurance policies for ongoing operations include all risks, machinery breakdown, insurance of its raw materials in transit from overseas against risk of loss and insurance of its products in delivery against risk of loss. Consistent with customary practice in China, the Group does not carry any business interruption insurance, third party liability insurance for personal injury or environmental damage arising from accidents at its production facilities or relating to its operations or product liability insurance against claims or liabilities that may arise from products sold by it.

Most of the Group's operations-related insurance policies are subject to deductibles and are renewed annually. Some of its insurance coverage does not extend to war or acts of terrorism. The Directors believe that the Group's insurance coverage is in line with industry practice in China.

LEGAL PROCEEDINGS

The Group is not currently involved in any material litigation or legal proceedings which could be expected to have a material adverse effect on its business or operations.

The Group satisfied its obligations to compensate as required by applicable PRC labour protection laws in connection with the industry accident occurred in January 2006. See "Risk Factors — Risks Relating to the Group — The Group may be subject to liability in connection with industrial accidents at its production sites". The families of the deceased employees released any additional claims which may potentially be stated in the future. The Directors believe that the accident will not materially adversely affect the Group's business, financial condition and results of operations.

CONTINUING CONNECTED TRANSACTIONS

(A) The following continuing connected transactions are exempted under Rule 14A.34 of the Listing Rules from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements

(i) *Purchase agreement with Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業公司)* ("**Dongguan Longteng**")

Dongguan Longteng was established in May 2003 by Mr. Zhang Cheng Ming, the brother of Ms. Chang, Mr. Zhang and Ms. Cheung, and his spouse. None of the Directors and the Controlling Shareholders have provided the funding for the establishment of Dongguan Longteng. Dongguan Longteng is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. It has been purchasing the Group's packaging paperboard products from time to time for trading and production purposes.

Zhang's Enterprises Company Limited, a wholly owned subsidiary of the Company, and Dongguan Longteng entered into an agreement dated 12 February 2006 (the "**Longteng Purchase Agreement**"). The Longteng Purchase Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Longteng Purchase Agreement, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from time to time. The terms of the Longteng Purchase Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The sale prices of the products will be determined with reference to the prevailing market prices and will be no more favourable than those offered to other purchasers of the Group's products.

Dongguan Longteng is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung, who are the Directors and substantial shareholders of the Company. Therefore, the transactions under the Longteng Purchase Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

Dongguan Longteng was established in May 2003. For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate purchases of the products by Dongguan Longteng from the Group amounted to RMB0, approximately RMB6.9 million, RMB29.1 million and RMB13.2 million, respectively.

For the two fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, the aggregate purchases of products by Dongguan Longteng from the Acquired Subsidiaries amounted to RMB0, approximately RMB10.4 million and RMB20.4 million, respectively. The Group includes the results of the Acquired Subsidiaries from the effective date of the Acquisition which was 1 January 2005.

(ii) *Supply agreement with Dongguan Longteng*

Zhang's Enterprises Company Limited, a wholly owned subsidiary of the Company, and Dongguan Longteng entered into an agreement dated 12 February 2006 (the "**Longteng Supply Agreement**"). The Longteng Supply Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Longteng Supply Agreement, Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group as requested by them from time to time. The terms of the Longteng Supply Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The sale prices of the materials will be determined with reference to the prevailing market prices and will be comparable to those offered by independent suppliers.

Dongguan Longteng was established in May 2003 and commenced production of packaging materials and chemicals only in mid-2004 and mid-2005 respectively. For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate sales of the packaging materials supplied by Dongguan Longteng to the Group amounted to RMB0, RMB0, approximately RMB6.2 million and RMB6.4 million, respectively. Before the Acquisition on 1 January 2005, Dongguan Longteng did not sell any packaging materials to the Acquired Subsidiaries. The Group has been and will be purchasing packaging materials and chemicals from Dongguan Longteng as the quality of the materials supplied by Dongguan Longteng are able to meet with the Group's standard at a competitive price.

(iii) *Supply agreement with China Inner Mongolia Forestry Industry Co., Ltd.*

China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) is a state-owned company established in December 1994 and is directly operated under the supervision of State-owned Assets Supervision and Administration Commission of Inner Mongolia Autonomous Region People's Government (the "**Commission**"). The Commission is an asset management and administration body established by, and operated under the control and supervision of, Inner Mongolia Autonomous Region People's Government. China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) owns and manages an extensive softwood forests in Inner Mongolia and the Group has been purchasing wood logs and wood chips from China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) as raw materials for its production of unbleached kraft pulp.

ND Xing An, a 55% owned subsidiary of the Company, and China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) entered into an agreement dated 12 February 2006 (the "**Forestry Supply Agreement**") on normal commercial terms in their respective ordinary course of business. The Forestry Supply Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Forestry Supply Agreement, China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group as requested by them from time to time. The terms of the Forestry Supply Agreement were negotiated on an arm's length basis and the sale prices of the materials will be determined with reference to prevailing market prices.

China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) is a substantial shareholder of ND Xing An which is the Group's non-wholly owned subsidiary. Therefore, the transactions under the Forestry Supply Arrangement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

ND Xing An was incorporated in February 2004 and the Group started to purchase wood logs and wood chips from China Inner Mongolia Forestry Industry Co. Ltd. (中國內蒙古森林工業集團有限責任公司) and its wholly owned subsidiaries in the same year. For the two fiscal years ended 30th June 2004 and 2005 and the three months ended 30 September 2005, the aggregate sales of the wood logs and wood chips supplied by China Inner Mongolia Forestry Industry Co., Ltd.

(中國內蒙古森林工業集團有限責任公司) and its wholly owned subsidiaries to the Group amounted to approximately RMB33.2 million, RMB91.8 million and RMB22.4 million, respectively.

The respective aggregate annual amounts under each of the Longteng Purchase Agreement, the Longteng Supply Agreement and Forestry Supply Agreement is expected to exceed HK$1,000,000 and each of the percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of these continuing connected transactions is, on an annual basis, expected to be less than 2.5%. The transactions under each of the Longteng Purchase Agreement, the Longteng Supply Agreement and the Forestry Supply Agreement will constitute the Group's continuing connected transactions and fall under Rule 14A.34(1) of the Listing Rules. They will be exempted from the independent shareholders' approval requirement but will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

(B) The following continuing connected transactions are subject to the reporting, announcement and independent shareholders' approval requirements as required under Rule 14A.35 of the Listing Rules

(i) *Purchase agreement with Taicang Packaging*

Taicang Packaging was established in April 2002 by Mr. Zhang. Taicang Packaging is principally engaged in the production of paper packaging containers and processed containerboard products. It will purchase the Group's products from time to time for production purposes.

Zhang's Enterprises Company Limited, a wholly owned subsidiary of the Company, and Taicang Packaging entered into an agreement dated 12 February 2006 (the "**Taicang Purchase Agreement**") on normal commercial terms and in their respective ordinary course of business. The Taicang Purchase Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Taicang Purchase Agreement, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time. The terms of the Taicang Purchase Agreement were negotiated on an arm's length basis and the sale prices of the products will be determined with reference to the prevailing market prices and will be no more favourable than those offered to other purchasers of the Group's products.

Taicang Packaging is held as to 100% by Mr. Zhang, a Director and substantial shareholder of the Company. Therefore, the transactions under the Taicang Purchase Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate purchases of the products by Taicang Packaging from the Group amounted to approximately RMB16.0 million, RMB14.4 million, RMB36.0 million and RMB21.4 million, respectively.

For the two fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, the aggregate purchases of the products by Taicang Packaging from the Acquired Subsidiaries amounted to RMB0, approximately RMB18.0 million and RMB26.5 million, respectively. The Group includes the results of the Acquired Subsidiaries from the effective date of the Acquisition which was 1 January 2005.

(ii) *Supply agreement with ACN*

ACN was founded by Ms. Cheung in 1990. ACN has been the Group's main source of supply of recovered paper. For details of the Group's relationship and transactions with ACN, see "— Relationship with the Controlling Shareholders — (B) Sourcing of raw materials from the Controlling Shareholders and/or their associates".

The Company and ACN entered into an agreement dated 12 February 2006 (the "**ACN Supply Agreement**") on normal commercial terms and in their respective ordinary course of business. The ACN Supply Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the ACN Supply Agreement, ACN agreed to supply recovered paper to members of the Group as requested by them from time to time. The terms of the ACN Supply Agreement were negotiated on an arm's length basis and the sale prices of the recovered paper will be determined with reference to the prevailing prices in the recovered paper market in the PRC and the quantity of the Group's purchases and will be no less favourable than those offered to ACN's other customers.

In addition, pursuant to the ACN Supply Agreement, the Company has 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.

ACN is indirectly wholly owned by Ms. Cheung and Mr. Liu, the Directors and substantial shareholders of the Company. Therefore, the transactions under the ACN Supply Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate sales of recovered paper supplied by ACN to the Group amounted to approximately RMB999.2 million, RMB1,210.7 million, RMB1,888.1 million, and RMB551.0 million, respectively.

For the two fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, the aggregate sales of recovered paper supplied by ACN to the Acquired Subsidiaries amounted to RMB0, approximately RMB486.5 million and RMB363.1 million, respectively. The Group includes the results of the Acquired Subsidiaries from the effective date of the Acquisition which was 1 January 2005.

The transactions under the Taicang Purchase Agreement and the ACN Supply Agreement will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and will 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.

(C) Waivers from the Stock Exchange in respect of the continuing connected transactions

The transactions under the Longteng Purchase Agreement, the Longteng Supply Agreement and the Forestry Supply Agreement (the "**Exempt Transactions**") constitute continuing connected transactions for the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirements set out in Rule 14A.35(3) of the Listing Rules following the Proposed Listing.

The transactions under the Taicang Purchase Agreement and the ACN Supply Agreement (the "**Non-Exempt Transactions**") constitute continuing connected transactions for the Company and are subject to the reporting and announcement requirements and the independent shareholders' approval requirement set out in Rule 14A.35(3) and (4) of the Listing Rules following the Proposed Listing.

The Exempt Transactions and the Non-Exempt Transactions will be entered into and conducted in the ordinary and usual course of business of the Group on normal commercial terms and on arm's length basis in accordance with the pricing bases as set out in the relevant written agreements between the connected parties as mentioned above.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied for, and the Stock Exchange has agreed to grant (i) a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules in respect of the Exempt Transactions; and (ii) a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules in respect of the Non-Exempt Transactions.

The aggregate annual amounts of the Exempt Transactions and the Non-Exempt Transactions for the three fiscal years ending 30 June 2006, 2007 and 2008 shall not exceed the following annual caps:

Type of transaction	Annual cap for the fiscal year ending 30 June		
	2006	2007	2008
	(in millions of RMB)		
Exempt Transactions			
— Longteng Purchase Agreement *(Note 1)*	65.4	77.1	88.7
— Longteng Supply Agreement *(Note 2)*	29.6	21.7	25.3
— Forestry Supply Agreement *(Note 3)*	98.8	98.8	98.8
Non-Exempt Transactions			
— Taicang Purchase Agreement *(Note 4)*	88.2	114.3	133.3
— ACN Supply Agreement *(Note 5)*	3,099	4,024	5,092

Notes:

(1) The proposed caps for transactions under the Longteng Purchase Agreement are based on (a) the historical amounts of the relevant transactions between Dongguan Longteng and the Group during the Track Record Period, as well as the Acquired Subsidiaries before 1 January 2005; (b) Dongguan Longteng's projected growth in its purchases of packaging paperboard products from the Group; and (c) the historical sale prices.

(2) The proposed caps for transactions under the Longteng Supply Agreement are based on the (a) the historical amounts of the relevant transactions between Dongguan Longteng and the Group; and (b) the Group's plan to start sourcing chemicals for production in addition to packaging materials from Dongguan Longteng in early 2006.

(3) The proposed caps for transactions under the Forestry Supply Agreement are based on (a) the historical amounts of the relevant transactions between China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) and the Group during the Track Record Period; (b) the existing production volume of the Group's unbleached kraft pulp; and (c) the historical purchase prices.

(4) The proposed caps for transactions under the Taicang Purchase Agreement are based on the (a) the historical amounts of the relevant transactions between Taicang Packaging and the Group during the Track Record Period, as well as the Acquired Subsidiaries before 1 January 2005; (b) Taicang Packaging's projected growth in its purchases of packaging paperboard products from the Group; and (c) the historical sales prices.

(5) The proposed caps for transactions under the ACN Supply Agreement are based on (a) the historical amounts of the relevant transactions between ACN and the Group during the Track Record Period, as well as the Acquired Subsidiaries before 1 January 2005; (b) the anticipated

growth in production volume of the Group's packaging paperboard products; and (c) the historical purchase prices. Please refer to the section headed "Financial Information — Capital Expenditure" on the Group's anticipated growth in production volume.

The Company will comply with the provisions in Chapter 14A of the Listing rules governing continuing connected transactions from time to time.

The Directors (including the independent non-executive Directors) confirm that all of the above-mentioned continuing connected transactions were entered into on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable to the Group and are in the interests of the shareholders as a whole.

The Joint Sponsors have reviewed relevant documentation, information and historical data provided by the Company and have participated in due diligence and discussions among the advisers of the Company and the Company to satisfy themselves on the reliability of the information provided in relation to the connected transactions described above. The Joint Sponsors are of the view that (i) the continuing connected transactions described above for which waivers are sought have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and are fair and reasonable and in the interests of the shareholders as a whole and (ii) that the proposed annual caps for these continuing connected transactions referred to above are fair and reasonable.

(D) Exempt Continuing Connected Transactions

The following transactions are exempted under Rule 14A.33(3)(b) of the Listing Rules from the reporting, announcement and independent shareholders' approval requirements.

(i) *Supply agreement with Taicang Packaging*

Taicang Nine Dragons, a wholly owned subsidiary of the Company, and Taicang Packaging entered into an agreement dated 12 February 2006 (the "**Taicang Supply Agreement**") on normal commercial terms and in their respective ordinary course of business. The Taicang Supply Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Taicang Supply Agreement, Taicang Packaging agreed to supply paper scrap materials generated during its production of paper packaging containers to members of the Group as requested by them from time to time. Such paper scrap materials would serve as the Group's raw materials for its production of packaging paperboard. The terms of the Taicang Supply Agreement were negotiated on an arm's length basis and the sale prices of the materials will be determined with reference to the prevailing prices in the scrap materials market in the PRC and will be comparable to those offered by independent suppliers.

Taicang Packaging is held as to 100% by Mr. Zhang, a Director and a substantial shareholder of the Company. Therefore, the transactions under the Taicang Supply Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate sales of the scrap materials supplied by Taicang Packaging to the Group amounted to RMB0, RMB0, approximately RMB1.6 million and RMB1.1 million, respectively.

(ii) *Sale agreement with Taicang Packaging*

Taicang Nine Dragons, a wholly owned subsidiary of the Company, and Taicang Packaging entered into an agreement dated 12 February 2006 (the "**Taicang Sale Agreement**") on normal commercial terms and in their respective ordinary course of business. The Taicang Sale Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the Taicang Sale Agreement, Taicang Nine Dragons agreed to sell to Taicang Packaging electricity, steam and water from time to time. The terms of the Taicang Sale Agreement were negotiated on an arm's length basis and the sale prices will be determined with reference to demand from local markets in China.

Taicang Packaging is held as to 100% by Mr. Zhang, a Director. Therefore, the transactions under the Taicang Sale Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

For the three fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the aggregate sales of the electricity, steam and water purchased by Taicang Packaging from the Group amounted to RMB0, RMB0, approximately RMB867,000 and RMB0, respectively.

(iii) *Service agreement with ACN*

To take advantage of ACN's volume shipments to China and favourable ocean freight rates, the Company, and ACN entered into an agreement dated 12 February 2006 (the "**ACN Service Agreement**") on normal commercial terms and in their respective ordinary course of business. The ACN Service Agreement is for a term commencing on the Listing Date until 30 June 2008. Pursuant to the ACN Service Agreement, ACN agreed to provide import services relating to kraft pulp for the Group's production. The terms of the ACN Service Agreement were negotiated on an arm's length basis. The fees to be charged by ACN in relation to the kraft pulp imported are charged at the rate of US$5 per tonne, which have been included in the total amounts billed by ACN to the Group and presented as purchases of kraft pulp from ACN in Note 28 of the Accountants' Report on the Group for the three years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005. The Directors believe that the rate of such service fees charged by ACN is comparable to those charged by independent third parties.

ACN is indirectly wholly owned by Ms. Cheung and Mr. Liu, the Directors and substantial shareholders of the Company. Therefore, the transactions under the ACN Service Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange.

Each of the percentage ratios (other than profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of the continuing connected transactions to be conducted under the Taicang Supply Agreement, the Taicang Sale Agreement and the ACN Service Agreement respectively is expected to be less than 0.1% on an annual basis. The transactions under the Taicang Supply Agreement, the Taicang Sale Agreement and the ACN Service Agreement will constitute continuing connected transactions for the Company and fall under Rule 14A. 33(3)(b) of the Listing Rules. They will be exempted from the reporting, announcement and independent shareholders' approval requirements set out in Rule 14A.45 to 14A.48 of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Taicang Supply Agreement, the Taicang Sale Agreement and the ACN Service Agreement are in the ordinary and usual course of the Group's business, on normal commercial terms, and are fair, reasonable and in the interests of the Shareholders as a whole.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

(A) Background of ACN

In 1985, Ms. Cheung started her recovered paper business in Hong Kong. The business has grown quickly during the period from 1985 to 1990 and was principally engaged in the export of recovered paper to the PRC and other Asian countries. Capitalising the growing demand for recovered paper in the PRC market, Ms. Cheung founded ACN in 1990 in the U.S. where there was abundant supply of waste paper as the raw materials for recovered paper. ACN quickly developed into a major collector of waste paper and the largest exporter of recovered paper from the United States and Europe to China. ACN was ranked from 2001 to 2004 by the Journal of Commerce as the top US exporter in terms of volume for exports of recovered paper from the United States to China with the volume of approximately 153,900 TEUs (twenty footer equivalent units) in 2001 and increased to approximately 201,000 TEUs in 2004.

ACN sources its supplies of waste paper globally including the United States and Europe and has its own recycled paper packing plants. The Directors understand that ACN has also entered into long-term supply agreements with major supply sources such as supermarkets and chain stores which ensures stable and consistent supply of raw materials. ACN's customers include various sizes of paper manufacturers in the PRC and overseas using recovered paper as primary raw materials. For the fiscal year ended 30 June 2005, approximately 94.3% and 5.7% of ACN's customers were manufacturers in PRC and places other than the PRC including the United States and Korea, respectively.

ACN's board of directors and management team are independent of the Company. Ms. Cheung and Mr. Liu resigned from their office as directors of ACN in January 2006. Day-to-day management of ACN is carried out by a team of independent senior management of 10 members. Such team includes, among others, all the directors of ACN. As directors of the Company, Ms. Cheung and Mr. Liu, together with the Group's senior management teams, are responsible for the operation and management of the Group. However, the Company has delegated the management of the transactions between the Group and ACN to certain members of the Group's senior management other than Ms. Cheung and Mr. Liu. In addition, Ms. Cheung and Mr. Liu will, together with their associates, Mr. Zhang and Mr. Lau Chun Shun who are the Directors, abstain from voting at the board meetings of the Company in respect of the supply arrangement between ACN and the Group.

(B) Sourcing of raw materials from the Controlling Shareholders and/or their associates

ACN is a major exporter and supplier of recovered paper to China, and is indirectly wholly owned by Ms. Cheung and Mr. Liu. The Group's purchases of recovered paper from ACN in the fiscal years ended 30 June 2003, 2004, 2005 and the three months ended 30 September 2005 constituted approximately 83.2%, 91.1%, 86.0% and 80.5%, respectively, of the Group's total purchases of recovered paper. The Group has been sourcing recovered paper from ACN due to its reliable supply, consistent quality and reasonable price, which are beneficial to the operations of the Group and provide the Group with a competitive edge. ACN procures its supplies from major sources globally and has long-term supply agreements with major supply sources. The Group believes that reliability of supply of recovered paper is essential for its production planning, inventory control, pricing and delivery schedules. As the Group is ACN's largest customer, ACN also gives priority to the Group's purchase orders over those from its other customers. In addition, ACN's strict control on the quality of recovered paper that it supplies helps ensure that the recovered paper that the Group purchases from ACN and hence its products are of consistent quality.

The mutually beneficial relationship between the Group and ACN has grown from the application of commercial considerations by both parties as two independent business entities. The Group is a significant player in the container board manufacturing sector in its own right commanding considerable bargaining power vis-a-vis its customers and suppliers. Due to the Group's recurring purchases of recovered paper in large quantities, the Group has been able to secure from ACN supplies at a lower average purchase cost of approximately US$1.00 per tonne during the Track Record Period as compared with ACN's sales of the same types of recovered paper to its other customers for the same period. As the ability of the Group to enjoy the lower costs benefit arising from its arrangement with ACN is due to its recurring bulk purchases, the Directors consider that the Group's purchases from ACN have been conducted on an arm's length basis and were on normal commercial terms.

The Directors are of the view that if ACN ceases to supply or reduces its supplies of recovered paper to the Group, the Group will be able to source from other suppliers although they may not be able to offer to the Group the same commercial benefits in terms of reliable supply, pricing benefits and consistent quality provided by ACN as set out above. For details of the Group's continuing business transactions with ACN, please refer to the section "Continuing Connected Transactions".

(C) The Group's ability to operate independently from the Controlling Shareholders' other business interests

Despite its continuing business transactions with ACN, the Group operates as an independent business unit from other business interests of the Controlling Shareholders and their associates for the following reasons:

Financial independence

The Group has an independent financial system and makes financial decisions according to its own business needs. In the ordinary course of its supply relationship with ACN, the Group purchases and will continue to purchase recovered paper from ACN on substantially the same credit terms as offered by ACN to its other customers in China in respect of the same types of recovered paper. As at 30 September 2005, trade payables in the aggregate amount of approximately RMB652.6 million were due from the Group to ACN and except the non-trade balance in the amount of approximately RMB18.8 million due from the Group to Mr. Zhang, there was no non-trade balance due from the Group to the Controlling Shareholders and their associates. The non-trade balance will be fully repaid and settled before the listing of the Shares on the Stock Exchange.

Operational independence

The Group has an independent production team and operates two integrated production facilities in Dongguan and Taicang respectively. The Group has been operating independently during the Track Record Period and thereafter and has not shared its production team, production facilities and equipment, marketing, sales and general administration resources with the Controlling Shareholders and/or their associates. Other than certain import services relating to kraft pulp to be provided by ACN to the Group as set out in the section "D. Exempt Continuing Connected

Transactions", no services and facilities will be provided by the Controlling Shareholders and/or their associates to the Group for its production and operation activities and there is no outsourcing arrangement with the Controlling Shareholders and/or their associates. Thus, the Group is independent from the Controlling Shareholders in terms of its production and operation.

The Group is ACN's single largest customer accounting for approximately 58.33% of its sales of recovered paper to PRC in terms of value for the fiscal year ended 30 June 2005. ACN's second and third largest customers in the PRC for the same types of recovered paper sold to the Group accounted for approximately 4.71% and 2.51%, respectively, of ACN's sales to the PRC in terms of value for the same period. ACN's sales to the PRC and places other than the PRC accounted for approximately 94.3% and 5.7%, respectively, of its total sales in terms of value for the fiscal year ended 30 June 2005, and ACN's sales to the Group accounted for approximately 55% of its total sales for the same period.

Independent access to customers

The Group operates its own sales network in Dongguan and Taicang with an independent sales team and sells directly to its customers. The Group has a large, diversified and stable base of customers that are unrelated to the Controlling Shareholders and/or their associates. Thus, the Group is independent from the Controlling Shareholders in terms of sales function.

Independence of management

The senior management of the Group consists of 17 members including Ms. Cheung and Mr. Liu. All of them are full-time employees of the Group. Ms. Cheung and Mr. Liu resigned from their office as directors of ACN in January 2006. The day-to-day management of ACN is carried out by a separate professional management team of 10 members which operates independently from the management of the Group and is not involved in the operations of the Group. Ms. Cheung and Mr. Liu have confirmed that they will spend a substantial amount of their time on the business of the Group.

Independent access to sources of supplies/raw materials for production

In the fiscal year ended 30 June 2005, the Group sourced approximately 86.0% of its recovered paper in terms of value from ACN. Apart from ACN, the Group also sources recovered paper from other suppliers, with the second largest supplier accounting for approximately 2.6% of the Group's purchases of recovered paper in terms of value in the fiscal year ended 30 June 2005.

The Group believes it would be able to source its recovered paper from other independent suppliers. According to China Paper Association, imports accounted for approximately 53.4% of the consumption of recovered paper in China in 2004. Import from ACN accounted for less than 30% of such imports in 2004. As the

Group's purchases accounted for about half of ACN's sales of recovered paper to the PRC, the Group's purchases from ACN therefore represent about 15% of China's total import. Based on the above, supplies from non-ACN importers, representing more than 70% of the imports, would be able to provide more than 4.5 times of the recovered paper required by the Group if the Group ceases to purchase recovered paper from ACN. The Group has currently identified more than ten suppliers of recovered paper of varying sizes in North America, China, Japan and Australia. Most of such potential suppliers can offer recovered paper of comparable quality to that offered by ACN for the same product grades. If ACN terminates or reduces its supplies of recovered paper to the Group, the Group believes it would be able to source from other existing and potential suppliers of recovered paper at comparable prices. However, as most of the suppliers of recovered paper have their own established sales network and it may take time for the Group to replace ACN with new suppliers, the Group may experience difficulty to replace the quantities of recovered paper supplied by ACN immediately in the event that ACN's supplies were interrupted. See "Risk Factors — The Group purchases from ACN, a company wholly owned by Ms. Cheung and Mr. Liu, a substantial majority of its supplies of recovered paper and may have difficulty obtaining required quantities of recovered paper if ACN were unable to provide adequate supply of recovered paper for any reason".

The Group's sourcing strategy is to source from suppliers that can offer reliable and high volume supply 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. Given the Group's position as the leading containerboard manufacturer in China with considerable bargaining power, and that the Group has sufficient manpower, resources and expertise to develop suppliers, the Directors believe the Group would be able to source raw materials directly from alternative sources without any reliance on the Controlling Shareholders and/or their associates if the need arose. Going forward, the Group will source not less than 20% of its recovered paper in terms of aggregate value of its purchases of recovered paper from suppliers other than ACN annually. In addition, ACN has agreed that prices and terms offered to the Group will be no less favourable than those offered to its other customers in respect of the same period and the same product type. In this regard, ACN will provide the Group access to its books and records for the purpose of examining ACN's supply terms with its other customers. The examination will be carried out by the general managers of members of the Group and/or the Group's external auditors on a quarterly basis.

The Directors believe that under normal market conditions, the Group would be able to replace ACN's supply of recovered paper completely within 3 to 6 months without any material and adverse effect on the Group's operation for the following reasons:

(i) the Group's inventory policy is to store at least 20 to 45 days' supply of its materials. In addition, in order to maintain a stable amount of materials inventory as it is depleted by ongoing production, the Group also has a policy to have another approximately 20 days' supply en route from its suppliers. Given such inventory policy, the Group would have sufficient recovered paper to satisfy its immediate production needs should it terminate its purchase arrangement with ACN; and

(ii) the Group currently sources about 20% of its recovered paper in terms of value from other suppliers. The Directors believe that the Group would be able to immediately increase its percentage of recovered paper sourced from other suppliers to about 22% to 23% with the remaining to be satisfied gradually by additional suppliers in replacement of ACN within the next three to six months transition period.

Recovered paper is not a manufactured product but a product processed from waste paper, the supply of which is relatively inelastic. Due to the limited supply of waste paper, suppliers of recovered paper compete in securing waste paper for processing into recovered paper. If a customer switches to a new supplier, the supplier originally engaged by such customer would have to reduce its own sourcing of waste paper and/or identify new customers. In the former case, there will be an increase in the amount of waste paper available to the other suppliers. In the latter case, the other suppliers whose customers have been solicited by the new supplier would react and have to go through the same process to identify new customers. Given the dynamics in the supply and demand in the recovered paper market, the Directors believe that the Group would be able to source sufficient quantity of recovered paper from the other suppliers in the event that it ceases to source from ACN.

(D) Non-inclusion of ACN in the Group

The Group and ACN were established at different times with different business goals and different geographical operations. Despite sharing the same controlling shareholders, the Group and ACN have been engaged in distinctively different businesses, with the former in the manufacturing of containerboard products while the latter in the recovery of recycled paper, and have been independent of each other since their respective inceptions in many respects, for example, the Group is financially and operationally independent from ACN with independent management teams, geographical focus, sales and marketing channels, and has independent access to sources of recovered paper as described above.

ACN operates a stand-alone recovered paper business offering customers over 100 varieties of recovered paper, and the Group has purchased only approximately 10 types of recovered paper from ACN. Apart from the Group, ACN has a large number of other customers. For the fiscal year ended 30 June 2005, ACN had more than 200 customers. The respective businesses of the Group and ACN are not interdependent as their businesses have evolved into making them significant players in their respective industries. Due to its distinctive business focus, product lines and independent operation, ACN has not been included in the Group.

(E) Protection of minority shareholders' interests

The Company is of the view that the interests of its independent shareholders will be adequately protected for the following reasons:

(i) Ms. Cheung and Mr. Liu are not directors of ACN and are not involved in the day-to-day management of ACN;

(ii) ACN has an independent professional management team responsible for the daily operation of ACN including negotiating and reviewing the sales terms in respect of the supply arrangement with its customers, including the Group;

(iii) the Company has delegated the management of the transactions between the Group and ACN to its separate teams of senior management. Such teams of management are headed by the general managers of Dongguan Nine Dragons, Dongguan Sea Dragon and Taicang Nine Dragons, and are responsible for all matters relating to the purchases of recovered paper from ACN, including the determination of volume of recovered paper to be purchased and the negotiation of price and other purchase terms with ACN;

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

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

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

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

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

The Directors 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.

(v) Ms. Cheung and Mr. Liu will declare their respective interests and will, together with their associates, Mr. Zhang and Mr. Lau Chun Shun being the Directors, abstain from voting at the board meetings of the Company in respect of the supply arrangement between ACN and the Group;

(vi) the supply arrangement between the Group and ACN will be subject to compliance with Chapter 14A of the Listing Rules and in particular, the approval of the independent shareholders of the Company pursuant to Rule 14A.35 of the Listing Rules. The material terms of the arrangement and the purchasing policy adopted by the Group for such arrangement has been disclosed in the section "Continuing Connected Transactions";

(vii) the terms of the supply arrangement between ACN and the Group will be reviewed by the independent non-executive Directors on a quarterly basis and their view in respect of these transactions will be disclosed to the Shareholders in compliance with the Listing Rules;

(viii) the independent non-executive Directors will be provided with a report by the auditors of the Company on all the transactions conducted between the Group and ACN on a quarterly basis, and the content of such report will be in compliance with the requirements under Rule 14A.38 of the Listing Rules; and

(ix) Company's annual reports will contain summaries of the mechanisms in place in the relevant financial year and appropriate disclosure on how these mechanisms have operated during the same period.

(F) Interest discloseable under Rule 8.10 of the Listing Rules by the Directors

Upon the listing of the Shares, the Controlling Shareholders will hold in aggregate 75% interest in the Company, assuming that the Over-allotment Option is not exercised.

Save as their interests in the Company (and indirectly its subsidiaries through their shareholding in the Company), the Controlling Shareholders and their respective associates do not have any business which compete or is likely to compete, either directly or indirectly, with the business of the Group as discloseable under Rule 8.10 of the Listing Rules. Each of the Controlling Shareholders has undertaken with the Company (for itself and the Group) that he or she or it:

(1) shall not, and shall procure his or her or its associates not to, either on his or her or it own account or for or in conjunction with any other person, firm or company, or as principal, partner, director, employee, consultant or agent through any body corporate, partnership, joint venture or other contractual arrangement, directly or indirectly, solicit, entice away interfere with or attempt to solicit, entice away from or interfere with any member of the

Group any person, firm, company or organisation who to his or her or its knowledge is or has been a customer, identified prospective customer, representative, agent, correspondent, supplier or employee of any member in the Group or in the habit of dealing with any member of the Group; and

(2) shall not, and shall procure his or her or its associates not to, either alone or jointly with any other person or entity, or for any person, firm or company or as principal, partner, director, employee, consultant or agent through any body corporate, partnership, joint venture or other contractual arrangement, be engaged, invested, or be interested or otherwise involved, whether as shareholder, director, employee, partner, agent or otherwise, directly or indirectly, in any business in any form or manner anywhere in the world that is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the business from time to time carried out by any members of the Group.

The restrictions mentioned above shall take effect from the Listing Date and the undertaking shall cease to be of any force and effect if:

(a) the Controlling Shareholders together cease to be controlling shareholders (as defined in the Listing Rules) of the Company; or

(b) the securities of the Company subsequently cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason).

For the avoidance of doubt, the following shall not be considered as restrictions as mentioned above:

(a) holding or being interested in any security in any company which engages or involves in a business which is in competition with or is likely to be in direct or indirect competition with the key business of any of the members of the Group provided such securities are listed on a recognised stock exchange and the amount of such holding does not exceed 1% of the entire share capital of such company; and

(b) holding any security in any member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Directors

The Board has the ultimate responsibility for the administration of the Company's affairs. The Company's memorandum of association and the Bye-laws as currently in effect, provide for a Board comprised of not less than two Directors. If the Director was appointed by the Board, such Director holds office until the next following annual meeting of shareholders at which time such Director is eligible for re-election. The Board currently consists of nine Directors, four of whom are independent non-executive Directors.

Under Bermuda law, the Directors have a duty of loyalty and must act honestly, in good faith and in the Company's best interests. The Directors also have a duty of exercising care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to the Company, the Directors must ensure compliance with the Company's memorandum of association and the Bye-laws. A shareholder may in certain circumstances have the right to seek damages on behalf of the Company if a duty owed by the Directors is breached.

The following table sets forth certain information concerning the Directors.

Name	Age	Position
Ms. Cheung	49	Chairman
Mr. Liu	43	Deputy Chairman and Chief Executive Officer
Mr. Zhang	38	Executive Director and Deputy Chief Executive Officer
Mr. WANG Hai Ying	33	Executive Director and Head of Import Purchasing Department
Mr. LAU Chun Shun	24	Non-Executive Director
Ms. TAM Wai Chu, Maria	60	Independent Non-Executive Director
Mr. CHUNG Shui Ming, Timpson	54	Independent Non-Executive Director
Dr. CHENG Chi Pang	48	Independent Non-Executive Director
Mr. WANG Hong Bo	51	Independent Non-Executive Director

Executive Directors

Ms. Cheung, 49, the Chairman and a founder of the Group, is in charge of overall corporate development and strategic planning of the Group. Ms. Cheung has nearly eight years of experience in industrial accounting, ten years of experience in paper manufacturing and nearly 20 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference and the vice chairman of the Women's Federation of Commerce of the All-China Federation of Industry and Commerce. Ms.

Cheung is also an honorary citizen of the City of Dongguan, Guangdong Province, China. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu, 43, the Deputy Chairman and Chief Executive Officer and a founder of the Group, is responsible for the Group's overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment as well as human resources management. Mr. Liu also assists the Chairman in government relations. Mr. Liu has over 15 years of experience in international trade and over seven 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, 38, Executive Director and Deputy Chief Executive Officer and a founder of the Group, is responsible for the daily management of the operations and business of the Group. Mr. Zhang is also responsible for the management of the Group's marketing and distribution, finance, procurement, sales and IT departments. Mr. Zhang has over 12 years of experience in procurement, marketing and distribution. Mr. Zhang is the younger brother of Ms. Cheung, Mr. Liu's brother-in-law and the uncle of Mr. Lau Chun Shun.

Mr. WANG Hai Ying, 33, an Executive Director and the Head of Import Purchasing Department of the Group, is in charge of the Group's import of recovered paper, pulp, chemicals, paper machines and their parts and components. Mr. Wang has approximately nine years of experience in international import and export trading. Mr. Wang joined Dongguan Nine Dragons as a procurement officer in June 1999 and was promoted to the Head of the Group's Import Purchasing Department in January 2003. Prior to joining Dongguan Nine Dragons, Mr. Wang worked for an American transportation company in Dalian for more than two years and was responsible for import of materials. Mr. Wang graduated in 1995 from Jilin University with a bachelor's degree in English.

Non-executive Director

Mr. LAU Chun Shun, 24, Non-executive Director. Mr. Lau is currently a student at the University of California, Davis, pursuing a bachelor's degree in Economics. 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. In addition, Mr. Lau has attended an induction training program for directors organized by the Company's legal counsel and is fully aware of his duties as a director of a listed issuer under the Listing Rules. Based on Mr. Lau's previous working experience with the Company and that none of the Directors is aware of any matter which would suggest or imply the non-suitability of Mr. Lau to act as a non-executive Director, the Directors believe that Mr. Lau has the character, experience and integrity to act as a

Director and will be able to demonstrate a standard of competence commensurate with his position as a director of a listed issuer as required under Rule 3.09 of the Listing Rules. Mr. Lau is the son of Ms. Cheung and Mr. Liu and the nephew of Mr. Zhang.

Independent non-executive Directors

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

Mr. CHUNG Shui Ming, Timpson, GBS, *JP*, 54, 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 Hantec Investment Holdings Limited and an Independent Non-Executive Director of Glorious Sun Enterprises Limited and Miramar Hotel and Investment Company, Ltd. In addition, Mr. Chung is a member of the National Committee of the 10th Chinese People's Political Consultative Conference, Deputy Chairman of the council of the City University of Hong Kong and member of the Hong Kong Housing Authority. Mr. Chung was previously an Executive Director and CEO of Shimao International Holdings Limited, an Independent Non-Executive Director of Stockmartnet Holdings Limited, Extrawell Pharmaceutical Holdings Limited, the Chairman of the Hong Kong Housing Society and the Director of China Rich Holdings Limited. Mr. Chung obtained a bachelor's degree in science from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He was appointed as the Independent Non-Executive Director of the Company on 6 February 2006.

Dr. CHENG Chi Pang, 48, holds a bachelor's degree in business, a master's degree in business administration and a doctorate degree of philosophy in business management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has approximately 25 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited ("NWSH"), the shares of which are listed on the Main Board of the Stock Exchange. He is now an advisor to NWSH and the chairman of the Supervisory Board of The Macao Water Supply Company Limited. Prior to joining the New World Group, he was a senior manager of Price Waterhouse, now PricewaterhouseCoopers. Dr. Cheng is currently the senior partner of Leslie Cheng & Co. Certified Public Accountants, the Chief Executive Officer of L & E Consultants Limited, a non-executive director of Wai Kee Holdings Limited and Build King Holdings Limited and an Independent Non-Executive Director and Chairman of the audit committee of China Ting Group Limited which is listed on the Main Board of the Stock Exchange. All these companies are listed on the Main Board of the Stock Exchange. He was appointed as the Independent Non-Executive Director of the Company on 6 February 2006.

Mr. WANG Hong Bo, 51, is an Independent Non-Executive Director of the Company. 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. He was appointed as the Independent Non-Executive Director of the Company on 6 February 2006. Mr. Wang did not hold any other position in any company as at the Latest Practicable Date.

Board Committee

The Company has established the following three committees of the Board: an audit committee, a remuneration committee and an executive committee. The committees operate in accordance with terms of reference established by the Board.

Audit committee. The Company has established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the Company's financial reporting process. All members of the audit committee are appointed by the Board. The audit committee currently consists of four independent non-executive Directors.

The responsibilities of the audit committee after the completion of the Global Offering will include, among others the following:

- to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

- to develop and implement policy on the engagement of an external auditor to supply non-audit services;

- to monitor the integrity of the Company's financial statements and the annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgements contained in them before submission to the Board;

- to liaise with the Board, the senior management and the qualified accountant and to meet with the auditors and to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the qualified accountant of the Group, compliance officer or auditors;

- to review the Company's financial controls, internal control and risk management systems;

- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management response; findings of internal investigations and management's response;

- to review the Group's financial and accounting policies and practices; and

- to review and monitor the Group's procurement of recovered paper in view of the best interest of the Group.

The Directors believe that the composition and functioning of the audit committee following completion of the Global Offering will comply with the applicable requirements of the Stock Exchange. The Company intends to comply with future requirements to the extent they are applicable.

Remuneration committee. The Company has established a remuneration committee in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to formulate the training and compensation policies and to determine and manage the compensation of the senior management of the Group. The remuneration committee currently consists of three independent non-executive Directors and two executive Directors. The responsibilities of the remuneration committee include, among others, the following:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors; and

- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive to the Company.

Executive committee. The Company has established an executive committee responsible for the management and administration of matters that are within the ordinary course of the Company's business. The powers of the executive committee are set out in the Bye-laws and summarised in Appendix VI to this prospectus. The executive committee members consist of Ms. Cheung, Mr. Liu and Mr. Zhang. The Chairman of the executive committee is Ms. Cheung.

Senior Management

The following table sets forth certain information concerning the Group's senior management.

Name	Age	Position
The Group's senior management		
Mr. LAW Wang Chak, Waltery	42	Chief Financial Officer, Qualified Accountant
Senior management of Dongguan operations		
Mr. LIU Wen Wen.	47	General Manager
Mr. LEE Gil Ro	55	General Manager
Mr. ZHANG Du Ling	35	Deputy General Manager
Mr. HUANG Tie Min	42	Deputy General Manager
Mr. ZHOU Guo Wei.	37	Chief Engineer
Mr. ZENG Yun	38	Deputy General Manager
Mr. WANG Xiang Ge	54	Deputy General Manager
Senior management of Taicang operations		
Mr. XIA You Liang	41	General Manager
Mr. CHU Xin Qi	48	Chief Deputy General Manager
Mr. ZHONG Hong Xiang	37	Deputy General Manager
Mr. CHENG Jun	43	Deputy General Manager
Mr. XIA Ying Hua.	45	Deputy General Manager

Mr. LIU Wen Wen, 47, had served as the Deputy General Manager of Dongguan Nine Dragons in charge of production since March 1998 and became the General Manager of Dongguan Nine Dragons in September 2005. Mr. Liu is a senior engineer and has approximately 8 years of operational experience in the paper manufacturing industry in China. He graduated in 1985 from School of Chemical Engineering, Liaoyang University with a diploma in automatic instruments.

Mr. XIA You Liang, 41, has served as the General Manager of Taicang Nine Dragons in charge of operation and management since May 2005. Prior to joining the Group in May 2005, Mr. Xia acted as Chairman and General Manager of Wuhan Chenming Hanyang Paper Manufacturing Co., Ltd. and General Manager of Yanbian Shiyan Bailu Paper Manufacturing Co., Ltd. He has more than 20 years of management experience in paper manufacturing industry. Mr. Xia is a senior engineer and has been certified as "National Senior Professional Manager". He graduated in 1985 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, 55, a Korean citizen, had served as the Deputy General Manager of 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 in 1970 from Cheong Ju University in Korea with a diploma in chemical engineering.

Mr. LAW Wang Chak, Waltery, 42, has served as the Group's Chief Financial Officer in charge of supervision and management of financial matters since June 2004. Prior to joining the Group, Mr. Law had worked in the audit division of an international accounting firm for more than five years and served in different key roles such as Chief Financial Officer and Vice President in various Hong Kong listed companies for more than thirteen years. He has more than 18 years of experience in auditing, accounting and corporate finance. Mr. Law is a fellow member of both the Association of Chartered Certified Accountants and of Hong Kong Institute of Certified Public Accountants. He graduated from the London School of Economics and Political Science, the University of London with a bachelor's degree in Economics and a master's degree in Financial Economics. He is also the Qualified Accountant of the Group.

Mr. CHU Xin Qi, 48, has served as the Chief Deputy General Manager of Taicang Nine Dragons in charge of finance and resource management since 2001. Before joining the Group, Mr. Chu acted as Deputy General Manager of Shandong Huazhong Paper Manufacturing Co., Ltd. He has approximately 25 years of related working experience. Mr. Chu is a senior economist and he graduated in 1990 from Shandong College of Economics with a bachelor's diploma in finance.

Mr. ZHANG Du Ling, 35, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of sales and marketing since July 1998. Prior to joining the Group, he was the Sales Manager of Dongguan Chung Nam Paper Manufacturing Co., Ltd. Mr. Zhang has approximately 10 years of sales and marketing experience in the paper manufacturing industry in China. He graduated in 1994 from School of Management of Chinese Academy of Sciences with a higher diploma in business administration.

Mr. HUANG Tie Min, 42, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering since November 1999. Mr. Huang has approximately 20 years of construction projects and management experience in the paper manufacturing industry in China. He graduated in 1985 from School of Architecture and Engineering, Shenyang University with a bachelor's degree in science.

Mr. ZHONG Hong Xiang, 37, has served as the Deputy General Manager of Taicang Nine Dragons in charge of project installment and technical engineering. Mr. Zhong joined the Group since 1996 and was seconded to Taicang in 2002. Mr. Zhong has over 15 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining the Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated in 1989 from Fujian College of Forestry with a diploma in stock preparation and paper manufacturing technology.

Mr. CHENG Jun, 43, 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 in 2002. Mr. Cheng has over 20 years' experience in production technology, sales and marketing and distribution and transportation in the paper manufacturing industry. Prior to joining the Group, he served as a Deputy Head of a paper manufacturing factory in Zhangyi District, Gansu province. He graduated in 1982 from Northwest Light Industry College with a diploma in engineering.

Mr. ZHOU Guo Wei, 37, 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 four years. Mr. Zhou has approximately 13 years of stock preparation and paper manufacturing experience in China. He graduated in 1992 from Tianjin Institute of Light Industry with a bachelor's degree in stock preparation and paper manufacturing.

Mr. ZENG Yun, 38, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of production since 2004. Previously, he served as the Deputy Chief of Jianxi Fuzhou Paper Manufacturing Plant. Mr. Zeng has approximately 18 years of stock preparation and paper manufacturing experience in China. He graduated in 1987 from Nanjing Forestry University with a diploma in stock preparation and paper manufacturing.

Mr. XIA Ying Hua, 45, has served as the Deputy General Manager of Taicang Nine Dragons in charge of administration since 2003. Prior to joining the Group, Mr. Xia has served as a government official and therefore has the experience in liaison and communication with relevant governmental authorities. He graduated in 1984 from Zhengzhou Industry College with a bachelor's degree in engineering.

Mr. WANG Xiang Ge, 54, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering and projects management since 2004. Prior to joining the Group, he served as the Chairman of Yanbian Shiyan Bailu Paper Manufacturing Co., Ltd. Mr. Wang is a senior engineer and has approximately 30 years of projects management experience in the paper manufacturing industry in China. He graduated in April 2003 from School of Business, Jilin University with a master's degree in business administration.

COMPANY SECRETARY

Ms. CHENG Wai Chu, Judy, 37, has served as the Company Secretary in charge of company secretarial matters since August 2005. Prior to joining the Group, Ms. Cheng had worked in two accounting firms, PricewaterhouseCoopers and C K Yau & Co., CPA, for an aggregate of more than three years and Hanny Holdings Limited, a Hong Kong listed company, for more than seven years. She is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Cheng holds a bachelor of laws degree from the Peking University.

EMPLOYEES

As of 30 June 2003, 2004 and 2005 and 30 September 2005, the Group had 716, 3,752, 5,196 and 5,389 full-time employees, respectively. The significant increase in fiscal year 2004 was primarily due to the addition of the employees from ND Xing An, which was established in February 2004. The increase in fiscal year 2005 was primarily due to the Acquisition. The table below sets forth the number of the Group's full time employees as of 30 September 2005:

The Group Function	Numbers of employees as of 30 September 2005
Management and administration	170
Production (including research and development)	1,558
Sales and marketing	88
Finance and accounting	64
Quality control	68
Sourcing of raw materials and equipment	57
Warehousing, transport and others	1,904
ND Xing An	1,480
Total	5,389

The Group's employee hiring and retention policies considers a number of factors, including primarily current market conditions, business demands, and future capacity expansion, and the Group's employees are selected through a competitive process. The Group hires certain employees up to one year ahead of the commencement of production of new paper machines to train and prepare them.

The Group has implemented a number of initiatives in recent years to enhance the productivity of its employees. The Group conducts periodic performance reviews for all its employees, and salaries and bonuses of employees are performance-based. In addition, the Group has implemented training programs for different job requirements. The Directors believe that these initiatives have contributed to increased employee productivity.

The Group has not experienced any strikes or other labor disturbances that have interfered with its operations, and the Directors believe that the relationship among the management and employees is good.

The remuneration package for the Group's employees generally includes salary and bonuses. Employees also receive welfare benefits including medical care, unemployment, occupational injury insurance and other miscellaneous items. As required by applicable regulations, the Group participates in various retirement plans organised by municipal and provincial governments for its employees. A member of the plan is entitled to the basic retirement pension. The Group has no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above.

In order to incentivize its sales force and to tie compensation closely to performance, the Group has adopted a system of compensation consisting of basic salary plus commissions. Commissions are not subject to any ceiling and are based on pricing, sales income received and sales quantity. The Group also implemented a performance-based assessment system in early 2005 for heads and deputy heads of the Group's sales departments. The Group implements performance-based incentive program to motivate employees meeting their performance targets.

COMPENSATION OF DIRECTORS

The Company was incorporated on 17 August 2005. Prior to that, the Group's operations were conducted by other members of the Group. The compensation information set forth below for the Directors and senior management, insofar as it relates to periods prior to the Company's incorporation, is stated at historical amounts as if the Group's current structure had been in existence throughout the relevant periods.

The Directors receive compensation in the form of salaries, housing allowances and other benefits-in-kind, including the Group's contribution to the pension plan on their behalf. As required by PRC regulations, the Group participates in various defined contribution retirement plans organised by provincial and municipal governments for the employees, to which the Group contributed approximately RMB0.9 million, RMB3.1 million, RMB6.9 million and RMB2.2 million for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, respectively. The aggregate fees or compensation the Group paid to the Directors (excluding independent non-executive Directors) for the fiscal years ended 30 June 2003, 2004 and

2005 and the three months ended 30 September 2005 were approximately RMB50,000, RMB67,000, RMB86,000 and RMB42,000, respectively. The aggregate amount of compensation the Group paid to its five highest paid individuals for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005 were approximately RMB0.5 million, RMB0.7 million, RMB1.7 million and RMB0.6 million, respectively. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind received by the Directors (excluding independent non-executive Directors) in respect of the fiscal year ending 30 June 2006 are estimated to be approximately RMB9.0 million.

SHARE OPTION SCHEMES

Certain employees and Directors of the Group have been granted options under the Pre-IPO Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme are summarised in "Pre-IPO Share Option Scheme" in Appendix VII to this prospectus.

Employees (both full time and part time) and Directors of the Group are entitled to participate in the Share Option Scheme at the discretion of the Board. The principal terms of the Share Option Scheme are summarized in "Share Option Scheme" in Appendix VII to this prospectus.

COMPLIANCE ADVISER

The Company is expected to appoint Merrill Lynch Far East Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchase;

(3) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment will commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Global Offering or pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the following person will be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Company:

Name	Approximate number of Shares held immediately after the Global Offering	Approximate percentage of shareholding immediately after the Global Offering
Best Result *(Note)*	2,986,800,000	74.7%

Note: The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 37.1% by Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust, as to approximately 10.0% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and as to approximately 15.8% by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed herein, the Directors are not aware of any other person who will, immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Global Offering or pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Company.

THE CORPORATE PLACINGS

As part of the International Placing, the Joint Global Coordinators and the Company have entered into corporate placing agreements with the Corporate Investors for them to purchase at the Offer Price such number of Offer Shares that may be purchased with an aggregate of US$60 million. Assuming the mid-point Offer Price of HK$3.125, and using the exchange rate of HK$7.76 to US$1.00, the total number of Shares subscribed by them would be 148,992,000 Shares, which represent 3.72% of the issued and outstanding share capital of the Company after the Global Offering or 14.90% of the Offer Shares, assuming the Over-allotment Option is not exercised.

The details of the purchases by the Corporate Investors are as follows:

(1) Ample Glory Limited has agreed to purchase such number of Offer Shares that may be purchased with US$20 million, rounded to the nearest board lot of shares. Assuming the mid-point Offer Price of HK$3.125, Ample Glory Limited will purchase 49,664,000 Shares.

    Ample Glory Limited is a company incorporated in Hong Kong and is a member of the Kuok Group, being the group of companies owned or controlled by Mr. Kuok Hock Nien and/or interests associated with him. The Kuok Group of companies includes Kerry Properties Limited, Shangri-La Asia Limited and SCMP Group Limited.

(2) Chow Tai Fook Nominee Ltd. has agreed to purchase such number of Offer Shares that may be purchased with US$20 million, rounded to the nearest board lot of shares. Assuming the mid-point Offer Price of HK$3.125, Chow Tai Fook Nominee Ltd. will purchase 49,664,000 Shares.

    Chow Tai Fook Nominee Ltd. is a company incorporated in Hong Kong and is wholly and beneficially owned by Dato Dr. Cheng Yu-Tung and family.

(3) Bestfull Limited has agreed to purchase such number of Offer Shares that may be purchased with US$20 million, rounded to the nearest board lot of shares. Assuming the mid-point Offer Price of HK$3.125, Bestfull Limited will purchase 49,664,000 Shares.

    Bestfull Limited is a private company incorporated in the British Virgin Islands and is indirectly wholly owned by Shau Kee Financial Enterprises Limited which in turn is wholly owned by Lee Financial (Cayman) Limited of which Dr. Lee Shau Kee is a substantial shareholder.

    The Company does not have any business relationship with any of the Corporate Investors.

Conditions Precedent

The purchase obligation of each of the Corporate Investors is conditional upon the Public Offer Underwriting Agreement and the International Underwriting Agreement having been entered into and become unconditional.

Restrictions on Disposals

Each of the Corporate Investors has agreed that, without the prior written consent from the Company and the Joint Global Coordinators or unless otherwise provided in the relevant corporate placing agreement, it will not, whether directly or indirectly, for a period of six months following the Listing Date, dispose of any of the Shares acquired under its respective corporate placing agreement, or any direct or indirect interest in any company or entity holding any of such Shares.

For the above purpose, "dispose of" means, in respect of any Shares (and any other securities derived from the Shares pursuant to any rights issue, capitalization issue, capital reorganization or otherwise), offering, pledging, charging, selling, mortgaging, lending, creating, transferring or otherwise disposing of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the Shares or any securities convertible into or exercisable or exchangeable for such Shares, or contracting to do so, whether directly or indirectly, or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such Shares or securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, cash or otherwise.

SHARE CAPITAL

The following is a description of the share capital of the Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering:

		HK$
Authorised share capital:		
8,000,000,000	Shares	800,000,000
Issued and to be issued, fully paid or credited as fully paid:		
3,000,000,000	Shares in issue as at the date of this prospectus	300,000,000
1,000,000,000	Shares to be issued pursuant to the Global Offering	100,000,000
Total:		
4,000,000,000	Shares	400,000,000

Assumptions

The above table assumes that the Global Offering will become unconditional. It also assumes that the Over-allotment Option has not been exercised.

It takes no account of any Shares which may be issued upon the exercise of any options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or of any Shares which may be allotted, issued or repurchased by the Company pursuant to the general mandates granted to the Directors for the allotment and issue of Shares and the repurchase of Shares as referred to below.

Ranking

The Offer Shares will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify for all dividends or other distributions declared, made or paid on, or any other rights and benefits attaching to or accruing from, the Shares after the date of this prospectus.

Share Option Scheme

The Company has adopted the Pre-IPO Share Option and has conditionally granted options thereunder to subscribe for a total of 100,000,000 Shares to a total of 207 grantees. A summary of the principal terms of the Pre-IPO Share Option Scheme is set out in "D. Other Information — 2. Pre-IPO Share Option Scheme" in Appendix VII to this prospectus.

The Company has conditionally adopted the Share Option Scheme whereby certain selected classes of participants (including, without limitation, directors, employees, advisers, consultants, suppliers, customers and agents of the Company or its subsidiaries) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in "D. Other Information — 1. Share Option Scheme" in Appendix VII to this prospectus.

General mandate to issue Shares

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued (as set out in the table above) (excluding any Shares which may fall to be issued upon exercise of the Over-allotment Option); and

(b) the aggregate nominal value of share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

The Directors may, in addition to Shares which they are authorised to issue under the mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme or the Pre-IPO Share Option Scheme.

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting; or

(b) the expiration of the period within which the Company is required by law or the Bye-laws to hold its next annual general meeting; or

(c) the date on which such mandate is varied or revoked by an ordinary resolution of its shareholders in general meeting.

For further details of this general mandate, see "A. Further Information About The Company — 3. Resolutions of the shareholder(s) of the Company" in Appendix VII to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued (as set out in the table above) (excluding any Shares which may fall to be issued upon exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Statutory and General Information — Repurchase by the Company of Shares" in Appendix VII to this prospectus.

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting; or

(b) the expiration of the period within which the Company is required by law or the Bye-laws to hold its next annual general meeting; or

(c) the date on which such mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting.

SELECTED FINANCIAL INFORMATION

The following tables present selected financial information of the Group, NDP Industries Group and MSL Group for the periods indicated. The selected audited combined income statements and combined cash flow statements of the Group for the fiscal years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2005, the selected unaudited, reviewed combined income statements and combined cash flow statements of the Group for the three months ended 30 September 2004, and the selected audited combined balance sheet information of the Group as of 30 June 2003, 2004 and 2005 and 30 September 2005 have been derived from the Accountants' Report on the Group included in Appendix I to this prospectus. For the basis of presentation of the Group's selected financial information, see "— Management's Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation".

The selected audited consolidated income statements and consolidated cash flow statements of each of NDP Industries Group and MSL Group for the fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004 and the selected audited consolidated balance sheet information of each of NDP Industries Group and MSL Group as of 30 June 2003 and 2004 and 31 December 2004, have been derived from the Accountants' Reports on NDP Industries and MSL included in Appendices IIA and IIB, respectively, to this prospectus.

The selected financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

The Group

As a result of the Acquisition, which was effective on 1 January 2005, the Group's financial condition and the results of operations for each of the two fiscal years ended 30 June 2003 and 2004, the first six months for the fiscal year ended 30 June 2005 and the three months ended 30 September 2004 included the results of the Initial Subsidiaries alone, while the Group's financial condition and results of operations for the last six months for the fiscal year ended 30 June 2005 and the three months ended 30 September 2005 included the results of the Acquired Subsidiaries in addition to the Initial Subsidiaries. As a result, the financial information as of and for the fiscal year ended 30 June 2005 is not necessarily comparable with that as of and for the fiscal years ended 30 June 2003 and 2004, and the financial information as of and for the three months ended 30 September 2005 is not necessarily comparable with that as of and for the three months ended 30 September 2004.

	Years ended 30 June						Three months ended 30 September			
	2003		2004		2005		2004		2005	
	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	% of sales
							(unaudited, reviewed)			
	(in millions of RMB, except for percentages)									
Combined income statements of the Group										
Sales	2,244.8	100.0	2,653.5	100.0	4,825.4	100.0	836.7	100.0	1,847.8	100.0
Cost of goods sold	(1,954.3)	(87.1)	(2,105.7)	(79.4)	(4,064.9)	(84.2)	(702.2)	(83.9)	(1,468.2)	(79.5)
Gross profit	290.5	12.9	547.8	20.6	760.5	15.8	134.5	16.1	379.6	20.5
Other gains — net	3.1	0.1	5.3	0.2	24.1	0.5	2.1	0.3	48.5	2.6
Selling and marketing costs	(51.0)	(2.3)	(60.2)	(2.3)	(91.5)	(1.9)	(17.2)	(2.1)	(32.4)	(1.8)
Administrative expenses	(39.1)	(1.6)	(67.3)	(2.5)	(135.0)	(2.8)	(24.7)	(3.0)	(42.4)	(2.3)
Operating profit	203.5	9.1	425.6	16.0	558.1	11.6	94.7	11.3	353.3	19.0
Finance costs	(62.1)	(2.8)	(85.1)	(3.2)	(179.8)	(3.7)	(29.8)	(3.6)	(71.3)	(3.8)
Profit before income tax	141.4	6.3	340.5	12.8	378.3	7.9	64.9	7.7	282.0	15.2
Income tax expense	(30.9)	(1.4)	(52.7)	(2.0)	(60.4)	(1.3)	(8.2)	(1.0)	(32.6)	(1.8)
Profit for the year/period	110.5	4.9	287.8	10.8	317.9	6.6	56.7	6.7	249.4	13.4
Profit attributable to:										
Equity holders	110.6	4.9	281.4	10.6	303.7	6.3	52.8	6.2	242.1	13.1
Minority interests	(0.1)	—	6.4	0.2	14.2	0.3	3.9	0.5	7.3	0.3

	As of 30 June			As of 30 September
	2003	2004	2005	2005
	(in millions of RMB)			
Combined balance sheet data of the Group				
Total assets	3,869.8	5,499.5	11,700.3	11,779.9
Inventories	311.8	566.1	998.2	856.3
Trade and bills receivable	472.0	447.3	763.3	871.4
Prepayments and other receivables	567.6	715.3	233.7	297.3
Bank and cash balances[(1)]	252.2	746.9	1,310.9	1,165.7
Total current assets	1,603.6	2,475.6	3,306.1	3,190.7
Property, plant and equipment	2,115.7	2,864.9	7,640.0	7,788.2
Land use rights	150.5	159.0	607.5	654.3
Intangible asset	—	—	146.7	146.7
Total non-current assets	2,266.2	3,023.9	8,394.2	8,589.2
Total liabilities	3,102.2	4,370.2	9,292.8	9,099.5
Trade and bills payable	341.5	593.6	2,167.7	2,175.9
Other payables	459.0	671.2	646.7	627.8
Current income tax payables	4.0	30.1	44.5	57.6
Short-term borrowings	1,124.3	1,236.8	2,431.6	930.9
Total current liabilities	1,928.8	2,531.7	5,290.5	3,792.2
Long-term borrowings	1,080.9	1,725.5	3,817.3	5,073.1
Deferred income tax liabilities	77.3	103.7	169.8	183.3
Other payables	15.2	9.3	15.2	50.9
Total non-current liabilities	1,173.4	1,838.5	4,002.3	5,307.3
Net current liabilities	325.2	56.1	1,984.4	601.5
Total assets less current liabilities	1,941.0	2,967.8	6,409.8	7,987.7
Capital and reserves attributable to equity holders	767.4	1,049.0	2,321.9	2,587.4
Minority interests	0.2	80.3	85.6	93.0

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
				(unaudited, reviewed)	
	(in millions of RMB)				
Summary combined cash flows of the Group					
Net cash generated from operating activities	35.3	341.3	1,063.0	320.0	273.3
Net cash used in investing activities	(692.7)	(827.2)	(1,537.3)	(422.0)	(411.1)
Net cash generated from/(used in) financing activities	490.9	795.4	681.4	140.1	(177.7)
Net (decrease)/increase in bank and cash balances	(166.5)	309.5	207.1	38.1	(315.5)

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
Other financial information of the Group					
EBITDA(2) (in millions of RMB)	286.7	513.9	721.2	126.0	428.9
EBITDA margin(2) (%)	12.8%	19.4%	14.9%	15.1%	23.2%

(1) The balances included restricted cash.

(2) The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable HKFRS measure, profit for the fiscal year, and the calculation of EBITDA margin. EBITDA is not a calculation based on HKFRS. The amounts included in the EBITDA calculation, however, are derived from amounts included in the combined income statement data, of which the data for the three months ended 30 September 2004 were reviewed but unaudited. In addition, EBITDA should not be considered as an alternative to profit attributable to equity holders as an indicator of the Group's operating performance, or as an alternative to operating cash flows as a measure of liquidity. You should be aware that the EBITDA measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	(in millions of RMB, except EBITDA margin)				
Profit for the year/period	110.5	287.8	317.9	56.7	249.4
Interest income	(1.6)	(3.3)	(9.0)	(1.2)	(3.0)
Finance costs	62.1	85.1	179.8	29.8	71.3
Income tax expense	30.9	52.7	60.4	8.2	32.6
Depreciation	83.0	89.8	167.4	32.1	75.8
Amortisation	1.8	1.8	4.7	0.4	2.8
EBITDA	286.7	513.9	721.2	126.0	428.9
Sales	2,244.8	2,653.5	4,825.4	836.7	1,847.8
EBITDA margin	12.8%	19.4%	14.9%	15.1%	23.2%

The following table sets forth certain financial ratios of the Group as of the dates or for the periods indicated.

	As of or for the years ended 30 June			As of or for the three months ended 30 September
	2003	2004	2005	2005
Financial ratios of the Group				
Profitability ratios				
Gross profit margin[1] (%)	12.9	20.6	15.8	20.5
Operating profit margin[2] (%)	9.1	16.0	11.6	19.0
Net profit margin[3] (%)	4.9	10.6	6.3	13.1
Return on equity[4] (%)	14.4	26.8	13.1	37.4
Return on capital employed[5] (%)	5.3	8.8	5.4	14.4
Liquidity ratios				
Current ratio[6] (times)	0.8	1.0	0.6	0.8
Quick ratio[7] (times)	0.7	0.8	0.4	0.6
Inventory turnover ratio[8] (days)	58	98	73[9]	53
Debtors' turnover ratio[10] (days)	77	62	48[11]	43
Creditors' turnover ratio[12] (days)	64	103	158[13]	135
Capital adequacy ratios				
Gearing ratio[14] (%)	57.0	53.9	53.4	51.0
Net borrowings to equity ratio[15] (%)	254.5	211.2	212.7	187.0
Interest coverage ratio[16] (times)	4.2	5.8	3.5	5.8

(1) Gross profit margin is gross profit divided by sales and multiplied by 100%.

(2) Operating profit margin is operating profit divided by sales and multiplied by 100%.

(3) Net profit margin is profit attributable to equity holders divided by sales and multiplied by 100%.

(4) Return on equity is profit attributable to equity holders divided by capital and reserves attributable to equity holders and multiplied by 100%. For purposes of the calculation of return on equity for the three months ended 30 September 2005, profit attributable to equity holders for the three months ended 30 September 2005 of RMB242.1 million has been annualized to RMB968.4 million, and return of equity has been adjusted from 9.4% to 37.4%.

(5) Return on capital employed is operating profit for the year, after subtraction 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 interest) and multiplied by 100%. For purposes of the calculation of return on capital employed for the three months ended 30 September 2005, operating profit for the three months ended 30 September 2005 of RMB353.3 million has been annualized to RMB1,413.2 million, and return on capital employed has been adjusted from 3.6% to 14.4%.

(6) Current ratio is current assets divided by current liabilities.

(7) Quick ratio is current assets after subtraction of inventories and divided by current liabilities.

(8) Inventory turnover ratio equals inventories divided by cost of goods sold over 365. For purposes of the calculation of inventory turnover ratio for the three months ended 30 September 2005, the cost of goods sold for the three months ended 30 September 2005 of RMB1,468.2 million has been annualized to RMB5,872.8 million, and inventory turnover ratio has been adjusted from 213 days to 53 days.

(9) As the Group's cost of goods sold between 1 July 2004 to 31 December 2004 does not reflect costs of goods sold of the Acquired Subsidiaries, but the Group's inventories as of 30 June 2005 reflects the Group's inventories including inventories of the Acquired Subsidiaries combined after the Acquisition, the Group's inventory turnover ratio for fiscal year 2005 has been adjusted for the Acquisition. The total cost of goods sold of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB516.3 million and RMB455.3 million respectively. The inter-company transactions between NDP Industries Group and MSL Group and between these entities and the Group between 1 July 2004 and 31 December 2004 amounted to RMB28.4 million. The inventory turnover ratio for fiscal year 2005 was adjusted from 90 days to 73 days, after adjusting to include such cost of goods sold less such inter-company transactions.

(10) Debtors' turnover ratio equals trade and bills receivable divided by sales over 365. For purposes of the calculation of debtors' turnover ratio for the three months ended 30 September 2005, sales for the three months ended 30 September 2005 of RMB1,847.8 million has been annualized to RMB7,391.2 million, and debtors turnover ratio has been adjusted from 172 days to 43 days.

(11) As the Group's sales between 1 July 2004 to 31 December 2004 does not reflect sales of the Acquired Subsidiaries, but the Group's trade and bills receivable as of 30 June 2005 reflect the Group's trade and bills receivable including trade and bills receivable of the Acquired Subsidiaries combined after the Acquisition, the Group's debtor turnover ratio for fiscal year 2005 has been adjusted for the Acquisition. The sales of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB588.8 million and RMB462.6 million, respectively. The inter-company transactions between NDP Industries Group and MSL Group and between these entities and the Group between 1 July 2004 and 31 December 2004 amounted to RMB28.4 million. The debtors' turnover ratio for fiscal year 2005 was adjusted from 58 days to 48 days, after adjusting to include such sales less such inter-company transactions.

(12) Creditors' turnover ratio equals trade and bills payable divided by cost of goods sold over 365. For purposes of the calculation of creditors' turnover ratio for the three months ended 30 September 2005, the cost of goods sold for the three months ended 30 September 2005 of RMB1,468.2 million has been annualized to RMB5,872.8 million, and creditors turnover ratio has been adjusted from 541 days to 135 days.

(13) As the Group's cost of goods sold between 1 July 2004 to 31 December 2004 does not reflect costs of goods sold of the Acquired Subsidiaries, but the Group's trade and bills payable as of 30 June 2005 reflect the Group's trade and bills payable including trade and bills payable of the Acquired Subsidiaries combined after the Acquisition, the Group's creditor turnover ratio for fiscal year 2005 has been adjusted for the Acquisition. The total cost of goods sold of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB516.3 million and RMB455.3 million, respectively. The inter-company transactions between NDP Industries Group and MSL Group and between these entities and the Group between 1 July 2004 and 31 December 2004 amount to RMB28.4 million. The creditors' turnover ratio for fiscal year 2005 was adjusted from 195 days to 158 days, after adjusting to include such cost of goods sold less such inter-company transactions.

(14) Gearing ratio equals total borrowings divided by total assets and multiplied by 100%.

(15) Net borrowings to equity ratio equals the sum of short-term borrowings, current portion of long-term borrowings and long-term borrowings after subtraction of bank and cash balances and restricted cash divided by shareholder's equity and multiplied by 100%.

(16) Interest coverage ratio equals EBITDA divided by interest on bank borrowings, net of interest income.

The Acquired Subsidiaries

The Acquired Subsidiaries comprise NDP Industries, MSL, River Dragon Paper Industries Co., Ltd. and Emperor Dragon Paper Industries Co., Ltd. The Group includes the results of the Acquired Subsidiaries from the effective date of the Acquisition, which was 1 January 2005. Prior to 1 January 2005, Emperor Dragon Paper Industries Co., Ltd. had no material operations or assets. River Dragon Paper Industries Co., Ltd. holds Taicang Sea Dragon, which holds certain of the Group's land use rights and power plant assets. Prior to 1 January 2005, Taicang Sea Dragon did not (and does not currently) engage in the manufacture of paper. The following tables therefore set forth selected financial information of the Acquired Subsidiaries relating to NDP Industries Group and MSL Group only.

The selected financial information of NDP Industries Group and MSL Group have been presented without any elimination of inter-company transactions between NDP Industries Group and MSL Group or between these entities and the Group, as such financial information is for periods prior to the Acquisition and the Acquired Subsidiaries were not yet part of the Group in such periods. During the fiscal years ended 30 June 2003 and 2004 and six months ended 31 December 2004, sales of kraftlinerboard by NDP Industries Group to MSL Group amounted to RMB0, RMB0 and RMB0.3 million, respectively. During the same periods, purchases of recovered paper by NDP Industries Group from MSL Group amounted to RMB0, RMB0 and RMB2.8 million, respectively. During the fiscal years ended 30 June 2003 and 2004 and six months ended 31 December 2003 and 2004, purchases of containerboard products by NDP Industries Group from companies then comprising the Group amounted to RMB16.0 million, RMB55.2 million, RMB15.6 million and RMB24.7 million, respectively. During the corresponding periods, purchases of containerboard products by MSL Group from companies then comprising the Group amounted to RMB0.1 million, RMB2.0 million, RMB0 and RMB0.6 million, respectively. Please see Note 28 of the Accountants' Report included in Appendix I to the prospectus for further details of related party transactions. The Directors are of the view that related party transactions were conducted at arm's length on normal commercial terms in the ordinary course of business.

The following tables set forth selected financial information of NDP Industries Group.

	Years ended 30 June				Six months ended 31 December			
	2003		2004		2003		2004	
	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	% of sales
	(in millions of RMB, except for percentages)							
Consolidated income statements of NDP Industries Group								
Sales	2.4	100.0	380.0	100.0	23.8	100.0	588.8	100.0
Cost of goods sold	(3.3)	(137.5)	(333.8)	(87.8)	(27.5)	(115.5)	(516.3)	(87.7)
Gross (loss)/profit	(0.9)	(37.5)	46.2	12.2	(3.7)	(15.5)	72.5	12.3
Other gains — net	0.3	12.5	4.8	1.3	1.5	6.3	1.4	0.2
Selling and marketing costs	(0.2)	(8.3)	(12.0)	(3.2)	(1.2)	(5.0)	(15.6)	(2.6)
Administrative expenses	(1.3)	(54.2)	(21.9)	(5.8)	(10.7)	(45.0)	(13.1)	(2.2)
Operating (loss)/profit	(2.1)	(87.5)	17.1	4.5	(14.1)	(59.2)	45.2	7.7
Finance costs	(0.5)	(20.8)	(36.4)	(9.6)	(1.3)	(5.5)	(39.2)	(6.7)
(Loss)/profit before income tax	(2.6)	(108.3)	(19.3)	(5.1)	(15.4)	(64.7)	6.0	1.0
Income tax expense	—	—	(0.4)	(0.1)	—	—	(1.1)	(0.2)
(Loss)/profit for the year/period	(2.6)	(108.3)	(19.7)	(5.2)	(15.4)	(64.7)	4.9	0.8

	As of 30 June		As of 31 December
	2003	2004	2004
	(in millions of RMB)		
Consolidated balance sheet data of NDP Industries Group			
Total assets	568.1	2,441.0	2,489.4
Inventories	8.8	294.2	179.6
Trade and bills receivable	3.7	151.8	229.6
Prepayments and other receivables	11.9	354.7	287.0
Bank and cash balances[1]	122.1	178.8	90.2
Total current assets	146.5	979.5	786.4
Property, plant and equipment	347.1	1,388.4	1,635.2
Land use rights	74.5	73.1	67.8
Total non-current assets	421.6	1,461.5	1,703.0
Total liabilities	570.7	2,463.0	2,185.1
Trade and bills payable	7.4	289.5	300.8
Other payables	139.4	495.9	182.3
Short-term borrowings	57.0	367.7	397.0
Total current liabilities	203.8	1,153.1	880.1
Long-term borrowings	366.9	1,309.5	1,303.6
Deferred income tax liabilities	—	0.4	1.4
Total non-current liabilities	366.9	1,309.9	1,305.0
Net current liabilities	57.3	173.6	93.7
Total assets less current liabilities	364.3	1,287.9	1,609.3
Capital and reserves attributable to equity holders	(2.6)	(22.2)	304.1
Minority interests	—	0.2	0.2

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	(in millions of RMB)			
Consolidated cash flows of NDP Industries Group				
Net cash (used in)/generated from operating activities	(30.4)	(234.5)	(197.6)	72.9
Net cash used in investing activities	(416.6)	(1,272.4)	(867.1)	(240.4)
Net cash from financing activities	540.8	1,557.9	979.2	78.9
Net increase/(decrease) in bank and cash balances	93.8	51.0	(85.5)	(88.6)

(1) The balances included restricted cash.

The following table sets forth certain financial ratios of NDP Industries Group as of the dates or for the periods indicated.

	As of or for the years ended 30 June		As of or for the six months ended 31 December
	2003	2004	2004
Financial ratios of NDP Industries Group			
Profitability ratios			
Gross (loss)/profit margin(1) (%)	(37.5)	12.2	12.3
Operating (loss)/profit margin(2) (%)	(87.5)	4.5	7.7
Net (loss)/profit margin(3) (%)	(108.3)	(5.2)	0.8
Return on equity(4) (%)	N.A.	N.A.	1.6
Return on capital employed(5) (%)	(0.5)	1.1	1.8
Liquidity ratios			
Current ratio(6) (times)	0.7	0.8	0.9
Quick ratio(7) (times)	0.7	0.6	0.7
Inventory turnover ratio(8) (days)	973	322	63
Debtors' turnover ratio(9) (days)	563	146	71
Creditors' turnover ratio(10) (days)	819	317	106
Capital adequacy ratios			
Gearing ratio(11) (%)	74.6	68.7	68.3
Net borrowings to equity ratio(12) (%)	N.A.	N.A.	5.3
Interest coverage ratio(13) (times)	N.A.	0.7	1.9

(1) Gross (loss)/profit margin is gross (loss)/profit divided by sales and multiplied by 100%.

(2) Operating (loss)/profit margin is operating (loss)/profit divided by sales and multiplied by 100%.

(3) Net (loss)/profit margin is (loss)/profit attributable to equity holders divided by sales and multiplied by 100%.

(4) Return on equity is (loss)/profit attributable to equity holders divided by capital and reserves attributable to equity holders and multiplied by 100%. This ratio is not applicable where there is negative capital and reserves attributable to equity holders.

(5) Return on capital employed is operating (loss)/profit for the year/period, after subtraction of operating (loss)/profit for the year/period times effective tax rate, divided by the sum of short-term borrowings, long-term borrowings and total equity and multiplied by 100%.

(6) Current ratio is current assets divided by current liabilities.

(7) Quick ratio is current assets after subtraction of inventories and divided by current liabilities.

(8) Inventory turnover ratio equals inventories divided by cost of goods sold over 365.

(9) Debtors' turnover ratio equals trade and bills receivable divided by sales over 365.

(10) Creditors' turnover ratio equals trade and bills payable divided by cost of goods sold over 365.

(11) Gearing ratio equals total borrowings divided by total assets and multiplied by 100%.

(12) Net borrowings to equity ratio equals the sum of short-term borrowings, current portion of long-term borrowings and long-term borrowings after subtraction of bank and cash balances and restricted cash divided by capital and reserves attributable to equity holders and multiplied by 100%. This ratio is not applicable where there is negative capital and reserves attributable to equity holders.

(13) Interest coverage ratio equals EBITDA divided by interest on bank borrowings, net of interest income. This ratio is not applicable where EBITDA is negative.

The following tables set forth selected financial information of MSL Group.

	Years ended 30 June			Six months ended 31 December			
	2003	2004		2003		2004	
	Amount	Amount	% of sales	Amount	% of sales	Amount	% of sales
	(in millions of RMB, except for percentages)						
Consolidated income statements of MSL Group							
Sales	—	369.4	100.0	36.1	100.0	462.6	100.0
Cost of goods sold	—	(363.7)	(98.5)	(47.2)	(130.7)	(455.3)	(98.4)
Gross profit/(loss)	—	5.7	1.5	(11.1)	(30.7)	7.3	1.6
Interest income	<0.1	0.1	—	—	—	0.9	0.2
Selling and marketing costs	—	(2.7)	(0.7)	—	—	(3.3)	(0.7)
Administrative expenses	(<0.1)	(14.4)	(3.9)	(7.9)	(21.9)	(5.5)	(1.2)
Operating profit/(loss)	<0.1	(11.3)	(3.1)	(19.0)	(52.6)	(0.6)	(0.1)
Finance costs	—	(35.3)	(9.6)	(9.2)	(25.5)	(29.2)	(6.3)
Profit/(loss) before income tax	<0.1	(46.6)	(12.7)	(28.2)	(78.1)	(29.8)	(6.4)
Income tax expense	—	(4.9)	(1.3)	—	—	(6.3)	(1.4)
Profit/(loss) for the year/period	<0.1	(51.5)	(14.0)	(28.2)	(78.1)	(36.1)	(7.8)

	As of 30 June		As of 31 December
	2003	2004	2004
	(in millions of RMB)		
Consolidated balance sheet data of MSL Group			
Total assets	573.6	1,972.6	2,089.3
Inventories	10.7	323.0	285.1
Trade and bills receivable	—	82.2	118.7
Prepayments and other receivables	0.2	73.1	95.1
Bank and cash balances[(1)]	219.1	150.3	248.2
Total current assets	230.0	628.6	747.1
Property, plant and equipment	328.2	1,221.0	1,220.3
Land use rights	15.4	123.0	121.9
Total non-current assets	343.6	1,344.0	1,342.2
Total liabilities	573.5	1,941.1	1,989.7
Trade and bills payable	—	345.4	404.8
Other payables	400.1	421.1	585.7
Short-term borrowings	168.8	363.1	248.6
Total current liabilities	568.9	1,129.6	1,239.1
Long-term borrowings	—	794.2	725.7
Deferred income tax liabilities	—	4.9	11.2
Other payables	4.6	12.4	13.7
Total non-current liabilities	4.6	811.5	750.6
Net current liabilities	338.9	501.0	492.0
Total assets less current liabilities	4.7	843.0	850.2
Capital and reserves attributable to equity holders	0.1	31.5	99.6

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	(in millions of RMB)			
Consolidated cash flows of MSL Group				
Net cash used in operating activities	(55.6)	(154.5)	(27.4)	(102.7)
Net cash used in investing activities	(326.7)	(916.4)	(778.5)	(45.1)
Net cash from financing activities	553.0	992.6	736.3	98.8
Net increase/(decrease) in bank and cash balances	170.7	(78.3)	(69.6)	(49.0)

(1) The balances included restricted cash.

The following table sets forth certain financial ratios of MSL Group as of the dates or for the periods indicated.

	As of or for the years ended 30 June		As of or for the six months ended 31 December
	2003	2004	2004
Financial ratios of MSL Group			
Profitability ratios			
Gross profit margin[1] (%)	—	1.5	1.6
Operating loss margin[2] (%)	—	(3.1)	(0.1)
Net loss margin[3] (%)	—	(14.0)	(7.8)
Return on equity[4] (%)	27.8	(163.5)	(36.2)
Return on capital employed[5] (%)	—	(1.1)	(0.1)
Liquidity ratios			
Current ratio[6] (times)	0.4	0.6	0.6
Quick ratio[7] (times)	0.4	0.3	0.4
Inventory turnover ratio[8] (days)	—	324	114
Debtors' turnover ratio[9] (days)	—	81	47
Creditors' turnover ratio[10] (days)	—	347	162
Capital adequacy ratios			
Gearing ratio[11] (%)	29.4	58.7	46.6
Net borrowings/(cash) to equity ratio[12] (%)	(557.8)	32.0	7.3
Interest coverage ratio[13] (times)	N.A.	0.2	0.9

(1) Gross profit margin is gross profit divided by sales and multiplied by 100%.

(2) Operating loss margin is operating loss divided by sale and multiplied by 100%.

(3) Net loss margin is loss attributable to equity holders divided by sales and multiplied by 100%.

(4) Return on equity is profit/(loss) attributable to equity holders divided by capital and reserves attributable to equity holders and multiplied by 100%.

(5) Return on capital employed is operating loss for the year/period, after subtraction of operating loss for the year/period times effective tax rate, divided by the sum of short-term borrowings, long-term borrowings and total equity and multiplied by 100%.

(6) Current ratio is current assets divided by current liabilities.

(7) Quick ratio is current assets after subtraction of inventories and divided by current liabilities.

(8) Inventory turnover ratio equals inventories divided by cost of goods sold over 365.

(9) Debtors' turnover ratio equals trade and bills receivable divided by sales over 365.

(10) Creditors' turnover ratio equals trade and bills payable divided by cost of goods sold over 365.

(11) Gearing ratio equals total borrowings divided by total assets and multiplied by 100%.

(12) Net borrowings/(cash) to equity ratio equals the sum of short-term borrowings, current portion of long-term borrowings and long-term borrowings after subtraction of bank and cash balances and restricted cash divided by capital and reserves attributable to equity holders and multiplied by 100%.

(13) Interest coverage ratio equals EBITDA divided by interest on bank borrowings, net of interest income. This ratio is not applicable where EBITDA is negative.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the combined financial information included in the Accountants' Report on the Group and the notes thereto included in Appendix I to this prospectus and the Accountants' Report on NDP Industries and Accountants' Report on MSL and the notes thereto included in Appendices IIA and IIB, respectively, to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

The Group implemented a reorganisation in connection with the initial listing of its Shares on the Stock Exchange, the details of which are set forth in Note 1 to the Accountants' Report on the Group included in Appendix I to this prospectus. The Group also acquired the entire share capital of the Acquired Subsidiaries with effect from 1 January 2005, the details of which are set forth in Note 27 to the Accountants' Report on the Group included in Appendix I to this prospectus. As a result of the basis of presentation of the Group's financial statements as described under "— Basis of Presentation", the financial information as of and for the fiscal year ended 30 June 2005 is not necessarily comparable with that as of and for the fiscal years ended 30 June 2003 and 2004, and the financial information for the three months ended 30 September 2005 is not necessarily comparable with that for the three months ended 30 September 2004.

Overview

The Group is the largest producer in China, and one of the largest producers in the world, of containerboard products in terms of production capacity as of 31 December 2004, based on data from RISI. The Group produces primarily linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium, coated duplex board with grey back. The Group also produces unbleached kraft pulp.

The Group has grown rapidly since the commencement of its operations in 1995. The Group's sales and profit attributable to equity holders have grown from RMB2,244.8 million and RMB110.6 million, respectively, in the fiscal year ended 30 June 2003 to RMB4,825.4 million and RMB303.7 million, respectively, in the fiscal year ended 30 June 2005, and reached RMB1,847.8 million and RMB242.1 million, respectively, for the three months ended 30 September 2005. The Group's annual design production capacity for packaging paperboard products increased from 1,000,000 tonnes as of 30 June 2003 to 3,300,000 tonnes as of the Latest Practicable Date. In fiscal year 2005, the Group commenced production of PM6, PM7 and PM8 with an aggregate annual design production capacity of 850,000 tonnes of high performance corrugating medium, while in fiscal year 2004, the Acquired Subsidiaries commenced production of PM4 with an annual design production capacity of 450,000 tonnes of coated duplex board with grey back and PM5 with an annual design production capacity of 500,000 tonnes of kraftlinerboard. See "Business — Integrated Operations — Production Facilities". The Group commenced production of PM9 and PM10 with an annual aggregate production capacity of 500,000 tonnes of high performance corrugating medium in December 2005.

Basis of Presentation

The following are the key steps of the Acquisition and Reorganisation relevant to the presentation of financial information.

Acquisition

Effective as of 1 January 2005, Zhang's Enterprises Company Limited acquired the entire share capital of:

(a) NDP Industries, an investment company holding the entire share capital of Taicang Nine Dragons, through an exchange of shares;

(b) MSL, an investment company holding the entire share capital of the equity of Dongguan Sea Dragon, through an exchange of shares;

(c) River Dragon Paper Industries Co., Ltd., an investment company holding the entire share capital of Taicang Sea Dragon, through an exchange of shares; and

(d) Emperor Dragon Paper Industries Co., Ltd., an investment company, for a nominal consideration of RMB1.

The Group accounted for the Acquisition under the purchase method, and therefore included the results of the Acquired Subsidiaries from the effective date of the Acquisition, which was 1 January 2005.

As a result, the Group's financial condition and the results of operation for each of the two fiscal years ended 30 June 2003 and 2004, the first six months of the fiscal year ended 30 June 2005 and the three months ended 30 September 2004 included the results of the Initial Subsidiaries alone, while the Group's financial condition and results of operations for the last six months of the fiscal year ended 30 June 2005 and the three months ended 30 September 2005 included the results of the Acquired Subsidiaries in addition to the Initial Subsidiaries. Therefore, the financial information as of and for the fiscal year ended 30 June 2005 is not necessarily comparable with that as of and for the fiscal years ended 30 June 2003 and 2004, and the financial information for the three months ended 30 September 2005 is not necessarily comparable with that for the three months ended 30 September 2004.

Reorganisation

The Company and the NDP Group underwent a reorganisation as detailed under "Statutory and General Information — A. Further Information About the Company — 5. Formation of NDP (BVI) as an investment holding company" and "Statutory and General Information — A. Further Information About the Company — 6. Reorganisation", each included in Appendix VII to this prospectus in preparation for the listing of the Shares on the Stock Exchange. The reorganisation involved the following:

(a) On 4 November 2005, NDP (BVI), an investment holding company, acquired the entire issued share capital of Zhang's Enterprises Company Limited from its existing shareholders, including Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang, through an exchange of shares. Zhang's Enterprises Company Limited is an investment company which, immediately before the Acquisition, directly or indirectly held 100% of the equity interest in Dongguan Nine Dragons, 55% of the equity interest in ND Xing An and 90% of the equity interest in Dongguan Transportation; and

(b) On 30 December 2005, the Company acquired the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang through an exchange of shares.

The combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Track Record Period include the financial information of the Company, NDP (BVI) and Zhang's Enterprises Company Limited as a result of the Reorganisation as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or the effective date of the Acquisition, whichever is the shorter period. The combined balance sheets of the Group as of 30 June 2003, 2004 and 2005 and 30 September 2005 have been prepared to present the assets and liabilities of the Group as of these dates as if the current group structure had been in existence at these dates. As of 30 September 2005, the Reorganisation had not been undertaken yet. Accordingly, the Group's capital and reserves attributable to equity holders as of 30 June 2003, 2004 and 2005 and 30 September 2005 represents only the issued share capital of Zhang's Enterprises Company Limited, which, upon the completion of the Reorganisation, is the Company's wholly owned subsidiary.

See Notes 1, 2.1 and 27 to the Accountants' Report on the Group included in Appendix I to this prospectus for a further discussion of the basis of presentation of the Group's combined financial statements.

Factors Affecting Results of Operations

The major factors affecting the Group's results of operations and financial condition include the following.

Business Environment

The demand for the Group's products is generally influenced by economic conditions represented by consumer spending, industrial output and export sales. Demand for the Group's products in China has been strong, driven by growth in domestic consumption of consumer and manufactured goods, which has increased along with the growth in GDP in China, as well as by growth in exports from China resulting from China's role as a global manufacturing and export center. The supply of packaging paperboard products is principally affected by addition of new capacity and the level of imports and exports.

In recent years, China has had to import packaging paperboard products from overseas due to a shortfall in the domestic supply. In response to increasing demand in China, the Group has expanded its capacity significantly in recent years. See "— Capacity Expansion".

Geographic Coverage

The geographic spread and location of the Group's customers affect its transportation costs and resources. The proximity of the Group's customers to its operations also affects order turnaround times, which can be an important factor for customers in the selection of a packaging paperboard supplier. The Pearl River Delta and Yangtze River Delta regions in China have become manufacturing and export centers in China with a high concentration of manufacturing and export industries. The Group's Dongguan site is located in the Pearl River Delta region. The addition of its Taicang base in the Yangtze River Delta region as a result of the Acquisition as well as the commencement of production of PM8 in Taicang in April 2005 enabled the Group to achieve synergies and increase efficiencies relating to transportation and deliveries and increase its order turnaround times by operating from its two bases, in Dongguan and Taicang. As a result, a substantial majority of the Group's customers are currently located within a 150 km radius of either of its two bases. However, the Group's strategy to seek to expand its geographical markets outside of the Pearl River Delta and Yangtze River Delta regions may result in increased transportation costs and order turnaround times with respect to those customers in other regions.

Capacity Expansion

The Group's production capacity has increased rapidly in recent years. The following table sets forth the increase in the Group's and the Acquired Subsidiaries' annual design production capacity as of the dates indicated.

	As of 30 June			As of 30 September	As of Latest
	2003	2004	2005	2005	Practicable Date[(1)]
	(in tonnes)				
The Group and/ including Acquired Subsidiaries					
PM1, PM2, PM3 . . .	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
PM4 (Dongguan Sea Dragon)	—	450,000[(2)]	450,000[(2)]	450,000[(2)]	450,000[(2)]
PM5 (Taicang Nine Dragons).	—	500,000[(2)]	500,000[(2)]	500,000[(2)]	500,000[(2)]
PM6, PM7, PM8 . . .	—	—	850,000	850,000	850,000
PM9, PM10	—	—	—	—	500,000
Total for packaging paperboard products.	1,000,000	1,950,000	2,800,000	2,800,000	3,300,000
Unbleached kraft pulp	—	75,000	100,000	100,000	100,000

(1) The Group's production capacity is expected to remain the same through 30 June 2006.

(2) As the Acquired Subsidiaries were combined with the Group with effect from 1 January 2005, the production capacities for PM4 and PM5 as of 30 June 2004 reflect the production capacities of the Acquired Subsidiaries (Dongguan Sea Dragon and Taicang Nine Dragons, respectively) as of 30 June 2004, prior to the Acquisition, and not the Group's production capacities. The production capacities for PM4 and PM5 as of and after 30 June 2005 have been reflected under the Group's capacity.

The Group added 850,000 tonnes of annual capacity of high performance corrugating medium in fiscal year 2005 through the installation of PM6, PM7 and PM8 in response to the shortage of domestic supply of high performance corrugating medium and in order to target the import substitution market for high performance corrugating medium, as well as to achieve a more complementary product mix. The Group also extended its product mix to include coated duplex board with grey back and increased its capacity of linerboard with the Acquisition (which included the acquisition of PM4 and PM5). In addition, the Group commenced production of PM9 and PM10 with an annual aggregate production capacity of 500,000 tonnes of high performance corrugating medium in December 2005.

The Group believes that its increases in production capacity in recent years have contributed to better economies of scale and plans to further expand its capacity in the future. The Group plans to start constructing in fiscal year 2006, and bring online by fiscal year 2007, PM11 in Dongguan with an annual production capacity of 500,000 tonnes of coated duplex board with grey back, PM12 in Dongguan with an annual production capacity of 400,000 tonnes of linerboard and PM13 in Taicang with an annual production capacity of 400,000 tonnes of high performance corrugating medium. This is expected to increase the Group's planned packaging paperboard annual production capacity to 4,600,000 tonnes by the end of fiscal year 2007. See "Future Plans and Use of Proceeds".

Equipment Utilization

Increases or decreases in equipment utilization rates can have a significant effect on unit costs and gross profit margins. The Group generally achieves lower equipment utilization rates and lower yields during the start-up phase of a new paper machine, which is typically around three to six months from commencement of production. The Group therefore seeks to reduce start-up time for new machines to achieve design capacity and quality within the shortest possible time. Changes in equipment utilization for a particular paper machine are primarily a function of shutdown time (i) for unscheduled repair and maintenance, (ii) due to paper tear and (iii) required for making adjustments to the machine for product changes, including changes to product specifications. The Group's vendor-trained in-house maintenance team enables quicker response times, which contribute to minimizing shutdown time.

As a result of the shutdown time required for making adjustments to the machine for product and specification changes, product mix can affect the Group's utilization rate. The Group's multiple production lines allow it to manufacture products with a variety of basis weights and grades simultaneously, thus minimizing equipment shutdowns for product and specification changes while still maintaining a diversified and flexible product mix. The Group's planned installation of an additional paper machine to produce coated duplex board with grey back is also expected to minimize equipment shutdowns for adjustments to facilitate specification changes. In addition, due to the advanced design incorporated into PM2, PM3, PM5 and PM8, these machines can shift from the production of one type of product to another type of product either without stopping the production run or with only a brief shutdown, which is ordinarily scheduled to coincide with monthly routine maintenance.

Product Mix

Product mix affects the Group's margins as a complementary product mix enables the Group to achieve better operating efficiencies. For example, the different water quality requirements for different products allow the Group to treat and recycle water used in the manufacture of coated duplex board with grey back for use in its high performance corrugating medium lines, before it is treated again and released. The Group is also able to recycle scrap fiber by-product from producing linerboard to supplement the raw materials used to produce high performance corrugating medium.

Product mix also affects margins as different products and specifications may provide differing margins depending on the market at a particular point in time. In order to meet market demand at different points of time, the Group may change its product mix, which could have a slight impact on margins.

Sales Volumes and Average Selling Prices

The Group's sales volumes are primarily a function of its production as well as market demand and supply. The tables below set forth the sales volumes of the principal products of the Group, NDP Industries Group (which holds Taicang Nine Dragons) and MSL Group (which holds Dongguan Sea Dragon) for the periods indicated.

	Years ended 30 June						Three months ended 30 September			
	2003		2004		2005		2004		2005	
	Sales volume	%	Sales volume	%	Sales volume	%	Sales volume	%	Sales volume	%
	(in tonnes, except for percentages)									
The Group										
Kraftlinerboard[1]	697,570	83.9	779,344	85.4	985,754	62.5	226,025	83.6	277,655	44.1
Testlinerboard	54,196	6.5	65,208	7.2	128,369	8.1	25,404	9.4	58,535	9.3
White top linerboard	29,748	3.6	62,035	6.8	67,733	4.3	18,786	7.0	21,097	3.4
Total linerboard	781,514	94.0	906,587	99.4	1,181,856	74.9	270,215	100.0	357,287	56.8
High performance corrugating medium	50,252	6.0	5,862	0.6	197,411	12.5	—	—	180,457	28.7
Coated duplex board with grey back	—	—	—	—	198,947	12.6	—	—	91,027	14.5
Total packaging paperboard	831,766	100.0	912,449	100.0	1,578,214	100.0	270,215	100.0	628,771	100.0
Unbleached kraft pulp	—		25,660		47,267		11,964		15,223	

	Year ended 30 June 2004[2]		Six months ended 31 December 2003[2]		2004	
	Sales volume	%	Sales volume	%	Sales volume	%
	(in tonnes, except for percentages)					
NDP Industries Group						
Kraftlinerboard	75,019	63.1	633	20.2	134,764	67.4
Testlinerboard	18,729	15.7	—	—	45,496	22.8
White top linerboard[3]	6,829	5.7	—	—	2,891	1.4
Total linerboard	100,577	84.5	633	20.2	183,151	91.6
High performance corrugating medium	18,493	15.5	2,500	79.8	16,852	8.4
Total	119,070	100.0	3,133	100.0	200,003	100.0

	Year ended 30 June 2004[4]		Six months ended 31 December 2003[4]		2004	
	Sales volume	%	Sales volume	%	Sales volume	%
	(in tonnes, except for percentages)					
MSL Group						
Coated duplex board with grey back	118,779	100.0	13,561	100.0	144,770	100.0

(1) Includes a small proportion of kraft packaging paper products produced by ND Xing An for each period beginning in fiscal year 2004.

(2) PM5 commenced production in November 2003.

(3) White top linerboard sold by NDP Industries Group was not produced by NDP Industries Group but was purchased from other member companies of the Group.

(4) PM4 commenced production in October 2003.

The Group believes that because it has an established brand name in the domestic market and is the market leader in terms of quality, production capacity and market share, it is generally able to price its domestic sales at a premium over average domestic prices for most of its products. With respect to the Group's foreign currency denominated direct and indirect export sales, the Group sets prices by reference to international market prices for comparable products, after taking into account the local supply and demand.

The tables below set forth the weighted average selling prices, net of tax, for the products of the Group, NDP Industries Group (which holds Taicang Nine Dragons) and MSL Group (which holds Dongguan Sea Dragon), for the periods indicated.

	Years ended 30 June					Three months ended 30 September		
	2003	2004		2005		2004	2005	
	RMB/ tonne	RMB/ tonne	Increase (%)	RMB/ tonne	Increase (%)	RMB/ tonne	RMB/ tonne	Increase (%)
The Group								
Kraftlinerboard(1)	2,718	2,780	2.3	2,991	7.6	2,915	3,022	3.7
Testlinerboard	2,575	2,601	1.0	2,704	4.0	2,712	2,645	(2.5)
White top linerboard	3,527	3,617	2.6	3,798	5.0	3,742	3,768	0.7
Weighted average for linerboard	2,739	2,824	3.1	3,007	6.5	2,954	3,004	1.7
High performance corrugating medium	2,072	2,097	1.2	2,382	13.6	—	2,270	—
Coated duplex board with grey back	—	—	—	3,274	—	—	3,433	—
Weighted average for packaging paperboard	2,699	2,819	4.4	2,962	5.1	2,954	2,856	(3.3)
Unbleached kraft pulp	—	3,157	—	3,190	1.0	3,226	3,436	6.5

	Year ended 30 June 2004	Six months ended 31 December		
		2003	2004	
	RMB/tonne	RMB/ tonne	RMB/ tonne	Increase (%)
NDP Industries Group				
Kraftlinerboard	2,865	2,751	2,822	2.6
Testlinerboard	2,774	—	2,522	—
White top linerboard(2)	3,838	—	3,928	—
Weighted average for linerboard	2,914	2,751	2,773	0.8
High performance corrugating medium	2,445	2,336	2,455	5.1

	Year ended 30 June 2004	Six months ended 31 December		
		2003	2004	
	RMB/tonne	RMB/ tonne	RMB/ tonne	Increase (%)
MSL Group				
Coated duplex board with grey back	3,110	2,664	3,195	19.9

(1) Includes a small proportion of kraft packaging paper products produced by ND Xing An from February 2004.

(2) White top linerboard sold by NDP Industries Group was not produced by NDP Industries Group but was purchased from other member companies of the Group.

Cost of Goods Sold

The primary components of the Group's costs of goods sold are raw materials, manufacturing overheads and direct staff costs.

Raw materials. Recovered paper followed by kraft pulp and chemicals are the principal raw materials used in the manufacture of the Group's products and represent the largest component of cost of goods sold. Raw materials comprised 85.3%, 82.3%, 78.9% and 79.9% of cost of goods sold in fiscal years 2003, 2004, 2005 and the three months ended 30 September 2005, respectively. During the Track Record Period, recovered paper accounted for a majority of cost of goods sold. The prices for raw materials can be volatile and have fluctuated in recent years. Domestic and global demand for products manufactured in whole or in part from such raw materials, including the Group's products, may cause prices to continue to fluctuate, and the Group may be unable to transfer future increases in cost of these raw materials to its customers.

Manufacturing overheads. Manufacturing overheads primarily include energy costs and depreciation of fixed assets relating to production.

The Group's energy costs comprise primarily coal purchases, and also include steam, water and third party electricity costs. In fiscal years 2003, 2004, 2005 and the three months ended 30 September 2005, energy costs comprised 8.2%, 9.8%, 11.3% and 11.5% of the Group's costs of goods sold, respectively. The Group uses coal as fuel for its coal-fired cogeneration power plants that supply electricity and steam used in its manufacturing plants in Dongguan and Taicang. The Group's weighted average cost of coal per tonne increased significantly during the Track Record Period. To lower its coal costs, since September 2005, the Group has started to purchase all of its coal requirements directly from coal distributors and arranged its own shipping. The Group also expects that its Taicang pier will decrease its coal transportation costs as the pier allows coal deliveries to be received directly. The Group's coal-fired power plants achieve savings of up to approximately one-third compared to the cost of purchasing electricity from third parties. In May 2005, the Group brought generating Unit 6 of its Dongguan power plant online, and in August 2005, the Group brought generating Unit 2 of its Taicang power plant online, which increased the Group's total installed capacity to 591 MW. The Group sells its excess electricity to the regional power grid and has ceased to purchase electricity from third parties.

The Group depreciates its property, plant and equipment on a straight line basis starting from the year in which the relevant fixed assets are placed into service. In fiscal years 2003, 2004 and 2005 and the three months ended 30 September 2005, depreciation of RMB74.7 million, RMB77.8 million, RMB148.0 million and RMB60.7 million, respectively, has been expensed in cost of goods sold, comprising 3.6%, 3.4%, 3.8% and 4.3%, respectively, of the Group's total cost of goods sold in these years.

Description of Components of Results of Operations

Sales

The Group generates sales from sales of linerboard, high performance corrugating medium, coated duplex board with grey back and unbleached kraft pulp.

The following tables set forth a breakdown of the total sales by product type of the Group, NDP Industries Group (which holds Taicang Nine Dragons) and MSL Group (which holds Dongguan Sea Dragon) for the periods indicated.

	Years ended 30 June						Three months ended 30 September			
	2003		2004		2005		2004		2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in millions of RMB, except for percentages)									
The Group										
Kraftlinerboard[1]	1,896.2	84.5	2,166.2	81.6	2,948.7	61.1	658.9	78.8	839.0	45.4
Testlinerboard	139.6	6.2	169.6	6.4	347.1	7.2	68.9	8.2	154.8	8.4
White top linerboard	104.9	4.7	224.4	8.5	257.3	5.3	70.3	8.4	79.5	4.3
Total linerboard	2,140.7	95.4	2,560.2	96.5	3,553.1	73.6	798.1	95.4	1,073.3	58.1
High performance corrugating medium	104.1	4.6	12.3	0.4	470.2	9.8	—	—	409.7	22.2
Coated duplex board with grey back[2]	—	—	—	—	651.3	13.5	—	—	312.5	16.9
Total packaging paperboard	2,244.8	100.0	2,572.5	96.9	4,674.6	96.9	798.1	95.4	1,795.5	97.2
Unbleached kraft pulp[3]	—	—	81.0	3.1	150.8	3.1	38.6	4.6	52.3	2.8
Total	2,244.8	100.0	2,653.5	100.0	4,825.4	100.0	836.7	100.0	1,847.8	100.0

	Years ended 30 June				Six months ended 31 December			
	2003		2004[2]		2003[4]		2004	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in millions of RMB, except for percentages)							
NDP Industries Group								
Kraftlinerboard	—	—	214.9	56.6	1.7	7.1	380.4	64.6
Testlinerboard	—	—	52.0	13.7	—	—	116.0	19.7
White top linerboard[5]	—	—	26.2	6.8	—	—	11.4	1.9
Total linerboard	—	—	293.1	77.1	1.7	7.1	507.8	86.2
High performance corrugating medium	—	—	45.2	11.9	5.8	24.4	41.4	7.0
Others	2.4	100.0	41.7	11.0	16.3	68.5	39.6	6.8
Total	2.4	100.0	380.0	100.0	23.8	100.0	588.8	100.0

	Years ended 30 June				Six months ended 31 December			
	2003		2004[6]		2003[6]		2004	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in millions of RMB, except for percentages)							
MSL Group								
Coated duplex board with grey back	—	—	369.4	100.0	36.1	100.0	462.6	100.0

(1) Includes a small proportion of kraft packaging paper products produced by ND Xing An for each period beginning in fiscal year 2004, after the establishment of ND Xing An in February 2004.

(2) The Group began producing and selling coated duplex board with grey back after the acquisition of MSL Group, which included PM4, with effect from 1 January 2005.

(3) The Group began producing and selling unbleached kraft pulp in fiscal year 2004, after ND Xing An was formed in February 2004.

(4) PM5 commenced production in November 2003.

(5) White top linerboard sold by NDP Industries Group was not produced by NDP Industries Group but was purchased from other member companies of the Group.

(6) PM4 commenced production in October 2003.

The Group's sales represent the amount net of value-added taxes and discounts after elimination of transactions with companies comprising the Group. Sales of the Group's products are recognized when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the relevant receivables is reasonably assured.

The Group does not have significant direct exports. However, as a result of China's role as a global manufacturing and export center, the Group makes a significant portion of its sales to foreign invested processing enterprises. The raw materials used in products manufactured for export sales by these foreign invested processing enterprises in China are exempted from customs duties and value-added taxes. As a result, the packaging paperboard products that the Group sells to these foreign invested processing enterprise customers for their further processing and export are also exempted from customs duties and value-added taxes.

The following table sets forth a breakdown of the Group's sales by type of currency denomination for the periods indicated.

	Years ended 30 June						Three months ended 30 September	
	2003		2004		2005		2005	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in millions of RMB, except for percentages)							
Sales denominated in:								
RMB	1,181.1	52.6	1,541.4	58.1	2,364.3	49.0	1,018.0	55.1
Foreign currencies[(1)] .	1,063.7	47.4	1,112.1	41.9	2,461.1	51.0	829.8	44.9
Total	2,244.8	100.0	2,653.5	100.0	4,825.4	100.0	1,847.8	100.0

(1) Represents primarily sales made to foreign invested processing enterprises for further export to customers overseas.

Cost of Goods Sold

Cost of goods sold represents the direct costs of production, which includes primarily raw materials costs, manufacturing overheads and direct staff costs, adjusted for changes in finished goods.

Other Gains — Net

Other gains consist of revenues from transportation services, sales of scrap materials, which comprise materials salvaged from recovered paper that cannot be used by the Group such as metals, plastics and certain types of paper, sales of excess electricity generated by the Group's own power plants, and interest income.

Sales from transportation services is recognized when the services are rendered. Interest income is recognized on a time-proportion basis using the effective interest method.

Selling and Marketing Costs

Selling and marketing costs consist primarily of transportation costs for delivery of the Group's products to its customers, sales and marketing staff salaries and benefits, expenses relating to maintenance of transportation vehicles and forklifts and warehousing storage costs.

Administrative Expenses

Administrative expenses consist primarily of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, amortisation of land use rights and pension contributions.

Finance Costs

Finance costs consist primarily of interest on bank borrowings less interest capitalised, and bills discount charges.

Taxation

The Group and its subsidiaries are incorporated in different jurisdictions, with different taxation requirements.

Under the current laws of Bermuda, the Group is not subject to tax on ordinary income or capital gain.

Under the current laws of the BVI, the Group's BVI subsidiaries are exempt from income tax on foreign derived income. In addition, there are no withholding taxes in the BVI.

The Group's revenues are primarily derived from its operations in China. Without taking into account preferential tax treatment for enterprise income tax, Dongguan Nine Dragons is subject to enterprise income tax at a rate of 24% at the central level and 3% at the local level, Dongguan Sea Dragon, Taicang Nine Dragons and Taicang Sea Dragon are subject to enterprise income tax at a rate of 24% at the central level and 3% at the local level, ND Xing An is subject to enterprise income tax at a rate of 30% at the central level and 3% at the local level and Dongguan Transportation and Taicang Transportation are subject to enterprise income tax at a rate of 33%. See Note 22 to the Accountants' Report on the Group included in Appendix I to this prospectus.

Dongguan Nine Dragons, Dongguan Sea Dragon, Taicang Nine Dragons and ND Xing An generally enjoy preferential tax treatment under which they are entitled to a two-year tax exemption followed by a three-year 50% tax reduction of enterprise income tax at the central level, and a tax exemption at the local level for the period it enjoys preferential tax treatment at the central level, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from previous years. In the case of Dongguan Nine Dragons, its preferential tax treatment applies with respect to profit from production lines that are treated, either individually or on a group basis, as separate operations, with PM1 and PM2 considered as one operation, PM3 as the another operation and PM6 and PM7 as a third operation. Dongguan Nine Dragons has utilized such tax benefits with respect to PM1 and PM2 since 1 January 2001 and the tax benefits with respect to PM1 and PM2 are expected to expire on 31 December 2005. PM3 is entitled only to a one-year tax exemption followed by a three-year 50% tax reduction of enterprise income tax, instead of a two-year tax exemption followed by a three-year 50% tax reduction of enterprise income tax. Dongguan Nine Dragons has also utilized such tax benefits with respect to PM3 since 1 January 2004. ND Xing An has utilized such tax benefits since 1 January 2004.

The tax benefits with respect to PM6 and PM7 of Dongguan Nine Dragons and with respect to Dongguan Sea Dragon and Taicang Nine Dragons remain unutilized as of 30 September 2005. Taicang Sea Dragon and Dongguan Land Dragon have not applied for and have not been granted preferential tax treatment.

Taicang Transportation is entitled to tax exemptions for the first year after incorporation (since 1 January 2004) followed by a 50% tax reduction of enterprise income tax in the second year (since 1 January 2005).

In fiscal years 2003, 2004, 2005 and the three months ended 30 September 2005, the Group's income tax expense was approximately RMB30.9 million, RMB52.7 million, RMB60.4 million and RMB32.6 million, respectively. The Group has made a provision for possible additional income tax liabilities of approximately RMB27.1 million as of 30 September 2005. See "Risk Factors — Risks Relating to the Group — The Group may be subject to additional enterprise income tax liabilities if the central tax authority determines that the Group should be subject to a higher enterprise income tax rate than the rate currently assessed by the local tax authority".

Profit Attributable to Minority Interests

Profit attributable to minority interests relates to the proportion of profit attributable to minority shareholders in the Group's non-wholly owned subsidiaries.

Critical Accounting Policies and Practices

The Group's discussion and analysis of its operating results and financial condition are based on its audited financial information, which have been prepared in accordance with HKFRS. The Group's operating results and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of its financial information. The Group bases its assumptions and estimates on its industry experience and on various other factors, including its expectations of future events that it believes to be reasonable. The Group's management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

The Group's management considers the following factors in reviewing its combined financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's audited financial information. The Group's significant accounting policies are summarized in Note 2 of the Accountants' Report on the Group in Appendix I to this prospectus. The Group believes the following critical accounting policies and practices, discussed in Note 4 of the Accountants' Report on the Group in Appendix I to this prospectus, involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Estimated Impairment of Goodwill

The Group's accounting policy on goodwill is stated in Note 2.8 of the Accountants' Report on the Group included in Appendix I to this prospectus. The Group has carried out an impairment review of goodwill to substantiate the value of goodwill as of 30 June 2005 and 30 September 2005, based on a business valuation carried out by Vigers, an independent valuer. The Directors consider that the estimates and assumptions used for the business valuation should not have a significant risk of causing material adjustments to the carrying amount of goodwill within the next financial year.

Useful Lives of Plant and Machinery

The Group's management determines the estimated useful lives and related depreciation expenses for its manufacturing plant and machinery. 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.

Results of Operations

Three Months Ended 30 September 2005 Compared to Three Months Ended 30 September 2004

Sales

The Group's sales increased 120.8% to RMB1,847.8 million in the three months ended 30 September 2005 from RMB836.7 million in the three months ended 30 September 2004 due to increased sales volumes of the Group as well as increased weighted average selling prices of most of the Group's products. Sales volumes increased primarily as a result of contribution from the Acquired Subsidiaries, the commencement of production of PM6 and PM7 in October 2004, the commencement of production of PM8 in April 2005.

From 1 July 2005 to 30 September 2005, the Acquired Subsidiaries contributed sales of RMB756.8 million, representing 41.0% of the Group's total sales in the three months ended 30 September 2005. See Note 27 to the Accountants' Report on the Group included in Appendix I to this prospectus.

Total sales volumes of the Group's packaging paperboard products increased 132.7% to 628,771 tonnes in the three months ended 30 September 2005 from 270,215 tonnes in the three months ended 30 September 2004, primarily due to (a) contribution from the Acquired Subsidiaries, which included PM4 (which has an annual capacity of 450,000 tonnes of coated duplex board with grey back) and PM5 (which has an annual capacity of 500,000 tonnes of linerboard), (b) the commencement of production of PM6 and PM7 (which have an aggregate annual capacity of 400,000 tonnes of high performance corrugating medium) in October 2004, and (c) the commencement of production of PM8 (which has an annual capacity of 450,000 tonnes of high performance corrugating medium and testlinerboard) in April 2005.

The weighted average selling prices of the Group's linerboard products increased slightly by 1.7% in the three months ended 30 September 2005 compared to the three months ended 30 September 2004, primarily as a result of changes in product mix. The Group did not sell any high performance corrugating medium or coated duplex board with grey back in the three months ended 30 September 2004. The weighted average selling prices per tonne for the Group's packaging paperboard products in the three months ended 30 September 2005 were RMB3,004 for linerboard, RMB2,270 for high performance corrugating medium and RMB3,433 for coated duplex board with grey back, compared to RMB2,954 for linerboard in the three months ended 30 September 2004.

The weighted average selling price per tonne for the Group's unbleached kraft pulp increased 6.5% to approximately RMB3,436 in the three months ended 30 September 2005 from approximately RMB3,226 in the three months ended 30 September 2004, primarily due to increases in the quality of unbleached kraft pulp the Group was able to produce as it optimized its operations.

Cost of Goods Sold

The Group's cost of goods sold increased 109.1% to RMB1,468.2 million in the three months ended 30 September 2005 from RMB702.2 million in the three months ended 30 September 2004. The increase was primarily due to an increase in sales as a result of (a) the increase in the Group's production capacity resulting from the Acquisition (which included PM4 and PM5); (b) the commencement of production of PM6 and PM7 in October 2004; and (c) the commencement of production of PM8 in April 2005, which resulted in increases in purchases of raw material, coal costs, production staff costs and depreciation of production equipment. The Group's cost of goods sold was 79.5% of sales in the three months ended 30 September 2005 compared to 83.9% in the three months ended 30 September 2004. The decrease in the Group's costs of goods sold as a percentage of sales was primarily due to (a) increased economies of scale arising from the increase in production capacity and volume; and (b) a decrease in the cost of raw materials as a proportion of cost of goods sold as a result of various measures that management had taken to enable the Group to increase its flexibility to use an increased variety of certain raw materials or alternative raw materials to increase cost efficiency.

Gross Profit

As a result of the foregoing, the Group's gross profit increased 182.2% to RMB379.6 million in the three months ended 30 September 2005 from RMB134.5 million in the three months ended 30 September 2004. The Group's gross margin was 20.5% in the three months ended 30 September 2005 compared to 16.1% in the three months ended 30 September 2004. The increase in gross margin was primarily due to (a) a change of product mix of major products to include complementary products, namely, (i) high performance corrugating medium produced by PM6, PM7 and PM8; (ii) coated duplex board with grey back produced by PM4; and (iii) additional testlinerboard produced by PM8. The change of product mix also included changes in specifications within major product types; (b) further optimization of PM4, PM5, PM6 and PM7, particularly PM6 and PM7; (c) realization of synergies by management and increased efficiencies and economies of scale resulting from the Acquisition and increased production capacity; (d) a decrease in the cost of raw materials as a proportion of cost of goods sold as a result of various measures that management had taken to enable the Group to increase its flexibility to use an increased variety of certain raw materials or alternative raw materials to increase cost-efficiency and (e) slightly lower weighted average recovered paper and coal prices in the three months ended 30 September 2005 compared to the three months ended 30 September 2004.

Other Gains — Net

Other gains, net, of the Group increased significantly to RMB48.5 million in the three months ended 30 September 2005 from RMB2.1 million in the three months ended 30 September 2004. This increase was due primarily to (a) significantly increased sales of excess electricity to RMB36.3 million in the three months ended 30 September 2005 from RMB0.2 million in the three months ended 30 September 2004, due to the commencement of operations of generating Unit 6 of the Group's coal-fired cogeneration power plant in Dongguan in May 2005; and (b) an increase in the sales of scrap materials (which comprise materials salvaged from recovered paper that cannot be used by the Group such as metals, plastics and certain types of paper) from RMB0.3 million to RMB9.2 million in fiscal year 2005. The increase in sales of scrap materials was primarily a function of the timing of sales as the Group accumulates certain of the more valuable scrap metals and plastics and sells them at irregular intervals as well as a result of the Acquisition.

Selling and Marketing Costs

The Group's selling and marketing costs increased 88.4% to RMB32.4 million in the three months ended 30 September 2005 from RMB17.2 million in the three months ended 30 September 2004. The increase in selling and marketing costs was due primarily to an increase in sales volumes, the number of sales and marketing staff, vehicle operation and maintenance expenses and transportation expenses as a result of the Acquisition as well as the commencement of production of the new paper machines. However, the Group's selling and marketing costs as a percentage of sales decreased to 1.8% in the three months ended 30 September 2005 from 2.1% in the three months ended 30 September 2004, primarily due to the synergies and increased efficiencies the Group was able to achieve from the Acquisition and increased economies of scale.

Administrative Expenses

The Group's administrative expenses increased by 71.7% to RMB42.4 million in the three months ended 30 September 2005 from RMB24.7 million in the three months ended 30 September 2004. This increase was primarily as a result of the Acquisition, in particular the acquisition of its Taicang base. In addition, the Group also hired management and administrative staff in connection with (a) the increase in its production capacity apart from the Acquisition; (b) PM9 and PM10, to train them ahead of the commencement of production; and (c) the addition of new power plant generating units in Dongguan and Taicang. However, the Group's administrative expenses as a percentage of sales decreased from 3.0% in the three months ended 30 September 2004 to 2.3% in the three months ended 30 September 2005, primarily due to the synergies and increased efficiencies the Group was able to achieve from the Acquisition and increased economies of scale.

Finance Costs

The Group's finance costs increased 139.3% to RMB71.3 million in the three months ended 30 September 2005 from RMB29.8 million in the three months ended 30 September 2004, as a result of an increase in the Group's borrowings, primarily reflecting the Group's increased bank borrowings to fund the expansion of its production capacity and increase in capacity of its power plants, and the combination of interest expense of the Acquired Subsidiaries. Finance costs in the three months ended 30 September 2005 was partially offset by foreign exchange gains on foreign currency borrowings of RMB8.5 million.

Income Tax Expense

The Group's income tax expense increased to RMB32.6 million in the three months ended 30 September 2005 from RMB8.2 million in the three months ended 30 September 2004. This increase was due primarily to an increase in operating profit, despite a lower effective tax rate of 11.6% in the three months ended 30 September 2005, compared to 12.6% in the three months ended 30 September 2004.

Profit Attributable to Minority Interests

Profit attributable to minority interests of the Group increased to RMB7.3 million in the three months ended 30 September 2005 from RMB3.9 million in the three months ended 30 September 2004, primarily reflecting the interests of the minority shareholder of ND Xing An in its increased profits.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Group increased 358.5% to RMB242.1 million in the three months ended 30 September 2005 from RMB52.8 million in the three months ended 30 September 2004 as a result of the foregoing. The Acquired Subsidiaries contributed profit of RMB68.3 million for the three months ended 30 September 2005, representing 26.3% of the Group's total profit for the period for the three months ended 30 September 2005.

Fiscal Year 2005 Compared To Fiscal Year 2004

Sales

The Group's sales increased 81.9% to RMB4,825.4 million in fiscal year 2005 from RMB2,653.5 million in fiscal year 2004 due to increased sales volumes of the Group primarily as a result of contribution from the Acquired Subsidiaries with respect to the period from 1 January 2005 to 30 June 2005 and the commencement of production of PM6 and PM7 in October 2004 as well as increased weighted average selling prices of the Group's packaging paperboard products.

From 1 January 2005 to 30 June 2005, the Acquired Subsidiaries contributed sales of RMB1,235.9 million, representing 25.6% of the Group's total sales in fiscal year 2005. See Note 27 to the Accountants' Report on the Group included in Appendix I to this prospectus.

Total sales volumes of the Group's packaging paperboard products increased 73.0% to 1,578,214 tonnes in fiscal year 2005 from 912,449 tonnes in fiscal year 2004, primarily due to (a) contribution with respect to the period from 1 January 2005 to 30 June 2005 from the Acquired Subsidiaries, which included PM4 and PM5 and which contributed to the substantial increase in kraftlinerboard and testlinerboard in fiscal year 2005 compared to fiscal year 2004, and accounted for the sales of coated duplex board with grey back in fiscal year 2005 and (b) the commencement of production of PM6 and PM7 in October 2004 which substantially increased the Group's sales volumes of high performance corrugating medium in fiscal year 2005 compared to fiscal year 2004. Additionally, the increased sales volumes of unbleached kraft pulp by ND Xing An, with respect to which the Group established a joint venture in February 2004, was due to a full year's contribution of sales compared to less than five months of sales in fiscal year 2004. Increased sales of linerboard and high performance corrugating medium by the Group in fiscal year 2005 were also due to the larger sales and marketing team of the Group and its increased effectiveness subsequent to the Acquisition as the sales and marketing employees, including those from the Acquired Subsidiaries, were able to market and sell the full range of the Group's products.

The weighted average selling prices of all of the Group's packaging paperboard products increased 5.1% to RMB2,962 per tonne in fiscal year 2005 from RMB2,819 per tonne in fiscal year 2004. The weighted average selling prices per tonne for the Group's packaging paperboard products were RMB3,007 for linerboard, RMB2,382 for high performance corrugating medium and RMB3,274 for coated duplex board with grey back in fiscal year 2005 compared to RMB2,824 for linerboard and RMB2,097 for high performance corrugating medium in fiscal year 2004. The average selling price per tonne for the Group's unbleached kraft pulp increased 1.0% to approximately RMB3,190 in fiscal year 2005 from approximately RMB3,157 in fiscal year 2004. The increases in average selling prices of the Group's products in fiscal year 2005 compared to fiscal year 2004 were primarily due to increases in quality of products the Group was able to produce resulting in a product mix with higher proportions of higher grade products and general market conditions.

For the six months ended 31 December 2004, sales of NDP Industries Group were RMB588.8 million and total sales volume was 200,003 tonnes, which reflected primarily sales of kraftlinerboard, testlinerboard and high performance corrugating medium produced by PM5, which commenced production in November 2003. For the six months ended 31 December 2003, sales of NDP Industries Group amounted to RMB23.8 million and total sales volume was 3,133 tonnes. The minimal sales was due to PM5 being in the start-up phase during such period, and a majority of sales in such period comprised sales of packaging boxes produced by Taicang Packaging on a trial basis. Taicang Packaging was subsequently disposed on 31 December 2004. The weighted average selling price per tonne for NDP Industries Group's products were RMB2,773 for linerboard and RMB2,455 for high performance corrugating medium in the six months ended 31 December 2004, compared to RMB2,751 for linerboard and RMB2,336 for high performance corrugating medium in the six months ended 31 December 2003. The increase in weighted average selling price of linerboard was primarily due to the further optimization of its PM5. The weighted average selling price for NDP Industries Group's products in the six months ended 31 December 2004 differed from the weighted average selling prices of the Group's packaging paperboard products in fiscal year 2005 as a result of various reasons including primarily (a) the difference in product mix; and (b) sales to customers of NDP Industries Group (which is based in Taicang) generally include delivery charges as part of the price of goods sold, while sales to customers of the Group (which was based only in Dongguan before the Acquisition) generally do not include delivery charges as part of the price of goods sold, due to market and prior practice for customers in those areas.

For the six months ended 31 December 2004, sales of MSL Group were RMB462.6 million and total sales volumes was 144,770 tonnes of coated duplex board with grey back produced by PM4, which commenced production in October 2003. For the six months ended 31 December 2004, sales of MSL Group amounted to RMB36.1 million and total sales volume was 13,561 tonnes. The minimal sales was due to PM4 being in the start-up phase during such period. The weighted average selling price per tonne for MSL Group's coated duplex board with grey back increased 19.9% to RMB3,195 in the six months ended 31 December 2004 from RMB2,664 in the six months ended 31 December 2003. The increase was primarily due to the further optimization of its PM4. The weighted average selling price per tonne of the Group's coated duplex board with grey back in fiscal year 2005, which was RMB3,274, further increased compared to the weighted average selling price for MSL Group's coated duplex board with grey back in the six months ended 31 December 2004 primarily due to continued further optimization of PM4.

Cost of Goods Sold

The Group's cost of goods sold increased 93.0% to RMB4,064.9 million in fiscal year 2005 from RMB2,105.7 million in fiscal year 2004. The Group's cost of goods sold was 84.2% of sales in fiscal year 2005 compared to 79.4% in fiscal year 2004. The Group's cost of goods sold increased in fiscal year 2005 compared to fiscal year 2004 primarily due to an increase in sales as a result of the increase in the Group's production capacity resulting from the Acquisition, which included PM4 and PM5, and the start up of PM6 and PM7, which resulted in increases in purchases of raw material, energy costs, production staff costs and depreciation of PM4, PM5, PM6 and PM7. In fiscal year 2005, staff salaries and benefits and raw materials prices also increased compared to fiscal year 2004.

For the six months ended 31 December 2004, cost of goods sold of NDP Industries Group was RMB516.3 million, primarily related to the commencement of production of PM5 in November 2003. For the six months ended 31 December 2003, costs of goods sold of NDP Industries Group was RMB27.5 million, which primarily reflected costs of goods sold relating to sales of packaging boxes produced by Taicang Packaging on a trial basis. PM5 was in the start-up phase after it commenced production during such period.

For the six months ended 31 December 2004, cost of goods sold of MSL Group was RMB455.3 million, primarily related to the commencement of production of PM4 in October 2003. For the six months ended 31 December 2003, costs of goods sold of MSL Group was RMB47.2 million, as PM4 was in the start-up phase after it commenced production during such period.

Gross Profit

As a result of the foregoing, the Group's gross profit increased 38.8% to RMB760.5 million in fiscal year 2005 from RMB547.8 million in fiscal year 2004. The Group's gross margin was 15.8% in fiscal year 2005 compared to 20.6% in fiscal year 2004. The decrease in gross margin was primarily due to (a) the lower gross margins achieved by the Acquired Subsidiaries because of the relatively recent start up of PM4 in October 2003 and PM5 in November 2003, which had not allowed those machines to reach optimal efficiencies yet compared to PM1, PM2 and PM3, (b) the start up of PM6 and PM7 in October 2004, which were the Group's first paper machines dedicated to the production of high performance corrugating medium and which carried out trial production during the start-up phase at lower efficiency levels and (c) higher raw material prices in fiscal year 2005 compared to fiscal year 2004.

For the six months ended 31 December 2004, gross profit of NDP Industries Group was RMB72.5 million and gross margin of 12.3%. The gross profit of MSL Group for the same period was RMB7.3 million with gross margin of 1.6%.

Other Gains — Net

Other gains, net, of the Group increased significantly to RMB24.1 million in fiscal year 2005 from RMB5.3 million in fiscal year 2004. This increase was due primarily to an increase in the sales of scrap materials, which comprise materials salvaged from recovered paper that cannot be used by the Group such as metals, plastics and certain types of paper, from RMB0.9 million in fiscal year 2004 to RMB10.4 million in fiscal year 2005, increased sales of excess electricity due to the contribution of sales of electricity generated by Unit 1 of the Group's coal-fired cogeneration power plant in Taicang as a result of the Acquisition, increased interest income and income from transportation services. The increase in sales of scrap materials was primarily a function of the timing of sales as the Group accumulates certain of the more valuable scrap metals and sells them at irregular intervals as well as a result of the Acquisition. The increase in interest income was primarily due to higher bank and cash balances in fiscal year 2005.

For the six months ended 31 December 2004, other gains, net, of NDP Industries Group were RMB1.4 million, due primarily to interest income and sales of scrap materials, partially offset by loss from sales of excess electricity generated by generating Unit 1 of Taicang Nine Dragons' own coal-fired cogeneration plant which it brought on-line in November 2003. This compared to other gains, net, of NDP Industries Group of RMB1.5 million for the six months ended 31 December 2003, which primarily comprised a gain from sales of scrap materials.

Selling and Marketing Costs

The Group's selling and marketing costs increased 52.0% to RMB91.5 million in fiscal year 2005 from RMB60.2 million in fiscal year 2004. The increase in selling and marketing costs was due primarily to an increase in sales volumes, the number of sales and marketing staff, vehicle operation and maintenance expenses and warehousing storage costs, in part as a result of the Acquisition. However, the Group's transportation costs decreased slightly despite the Acquisition in part because the Group was able to achieve synergies and increased efficiencies relating to transportation and deliveries by operating from two bases, in Dongguan and Taicang, compared with only Dongguan before the Acquisition, therefore shortening average delivery distances. The Group's selling and marketing costs as a percentage of sales decreased to 1.9% in fiscal year 2005 from 2.3% in fiscal year 2004, primarily due to the synergies and increased efficiencies the Group was able to achieve after the Acquisition.

For the six months ended 31 December 2004, selling and marketing costs of NDP Industries Group were RMB15.6 million, primarily related to the sales of kraftlinerboard, testlinerboard and high performance corrugating medium produced by PM5, which commenced production in November 2003. For the six months ended 31 December 2003, selling and marketing costs of NDP Industries Group was RMB1.2 million, which were incurred primarily in connection with sales of packaging boxes produced by Taicang Packaging on a trial basis.

For the six months ended 31 December 2004, selling and marketing costs of MSL Group were RMB3.3 million, primarily related to the sales of coated duplex board with grey back produced by PM4, which commenced production in October 2003. For the six months ended 31 December 2003, MSL Group had selling and marketing costs of RMB0, as PM4 commenced production only in October 2003.

Administrative Expenses

The Group's administrative expenses increased 100.6% to RMB135.0 million in fiscal year 2005 from RMB67.3 million in fiscal year 2004. This increase was primarily a result of the Acquisition, in particular the acquisition of its Taicang base. In addition, the Group also hired management and administrative staff to train them ahead of the commencement of production of PM6, PM7 and PM8 as well as in connection with the addition of new power plant generating units in Dongguan and Taicang.

Administrative expenses of NDP Industries Group were RMB13.1 million for the six months ended 31 December 2004, compared to RMB10.7 million for the six months ended 31 December 2003. The increase reflected the increases in administrative and management staff costs, depreciation of non-production related fixed assets and amortization of land use rights with the commencement of production by PM4 in October 2003.

Administrative expenses of MSL Group were RMB5.5 million for the six months ended 31 December 2004, compared to RMB7.9 million for the six months ended 31 December 2003. The decrease was because administrative expenses for the six months ended 31 December 2003 had included a portion of salaries for production staff who were employed during the setting-up period of the plant, and the salaries for production staff for the six months ended 31 December 2004 have been expensed as part of production cost.

Finance Costs

The Group's finance costs increased 111.3% to RMB179.8 million in fiscal year 2005 from RMB85.1 million in fiscal year 2004, as a result of an increase in interest expense resulting from an increase in the principal amount of the Group's borrowings to RMB6,248.9 million as of 30 June 2005 from RMB2,962.3 million as of 30 June 2004, primarily reflecting the Group's increased bank borrowings to fund the expansion of its production capacity and the combination of interest expense of the Acquired Subsidiaries.

Finance costs of NDP Industries Group were RMB39.2 million for the six months ended 31 December 2004, compared to RMB1.3 million for the six months ended 31 December 2003. The increase for the six months ended 31 December 2004 reflected primarily the cost of bank borrowings to fund the installation and operation of PM5.

Finance costs of MSL Group were RMB29.2 million for the six months ended 31 December 2004 compared to RMB9.2 million for the six months ended 31 December 2003, The increase for the six months ended 31 December 2004 reflected primarily the cost of bank borrowings to fund the installation and operation of PM4.

Income Tax Expense

The Group's income tax expense increased to RMB60.4 million in fiscal year 2005 from RMB52.7 million in fiscal year 2004. This increase was due primarily to an increase in operating profit. The Group's effective tax rate was 16.0% in fiscal year 2005, compared to 15.5% in fiscal year 2004.

For the six months ended 31 December 2004, income tax expense of NDP Industries Group was RMB1.1 million, which resulted from accounting of deferred income tax. NDP Industries Group had income tax expense of RMB0 for the six months ended 31 December 2003.

For the six months ended 31 December 2004, income tax expense of MSL Group was RMB6.3 million, which resulted from accounting of deferred income tax. MSL Group had no income tax expense for the six months ended 31 December 2003.

Provision for deferred income tax has been made for NDP Industries Group and MSL Group for the six months ended 31 December 2004 because the difference in useful lives of plant and machinery between tax bases and accounting bases resulted in temporary differences between the tax bases of fixed assets and their carrying amounts in the respective accounts of NDP Industries Group and MSL Group as of 31 December 2004. Deferred income tax has been provided in full, using the liability method, on the temporary differences.

Profit Attributable to Minority Interests

Profit attributable to minority interests of the Group increased to RMB14.2 million in fiscal year 2005 from RMB6.4 million in fiscal year 2004, primarily reflecting the interests of the minority shareholder of ND Xing An in its increased profits.

Profit attributable to minority interests of NDP Industries Group was less than RMB0.1 million for the six months ended 31 December 2004. The minority interest of NDP Industries Group represents a 10% equity interest in Taicang Transportation held by a minority shareholder. Taicang Transportation is a subsidiary indirectly held by NDP Industries Group. As Taicang Transportation was established on 8 January 2004, there was no profit attributable to minority interests of NDP Industries Group for the six months ended 31 December 2003.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Group increased 7.9% to RMB303.7 million in fiscal year 2005 from RMB281.4 million in fiscal year 2004 as a result of the foregoing. The Group believes that the percentage increase in profit was less than the increase in sales in fiscal year 2005 compared to fiscal year 2004 primarily because the synergies from the Acquisition have not been fully realized and reflected. The Acquired Subsidiaries contributed profit of RMB25.9 million for the six months ended 30 June 2005, representing 8.1% of the Group's profit for the year in fiscal year 2005.

Profit margin with respect to profit attributable to equity holders for the Group decreased to 6.3% in fiscal year 2005 from 10.6% in fiscal year 2004 primarily due to the reasons that gross profit margin decreased, described under "— Gross Profit".

Profit for the period of NDP Industries Group attributable to equity holders of NDP Industries was RMB4.9 million for the six months ended 31 December 2004 compared to RMB15.4 million loss for the six months ended 31 December 2003. The profit for the six months ended 31 December 2004 was primarily because NDP

Industries Group had already commenced substantial operations for a period with the commencement of production of PM5 in November 2003, while it was in a start-up phase after commencing production during the six months ended 31 December 2003.

Loss for the period of MSL Group attributable to equity holders of MSL was RMB36.1 million for the six months ended 31 December 2004 compared to RMB28.2 million for the six months ended 31 December 2003. The increased loss was primarily because of increased finance costs and because PM4 had not yet fully achieved optimal efficiency in the six months ended 31 December 2004.

Fiscal Year 2004 Compared To Fiscal Year 2003

Sales

The Group's sales increased 18.2% to RMB2,653.5 million in fiscal year 2004 from RMB2,244.8 million in fiscal year 2003. This increase was due primarily to higher sales of linerboard and contribution from sales of unbleached kraft pulp by ND Xing An with respect to which the Group entered into a joint venture in February 2004. These increases were partially offset by lower sales of high performance corrugating medium in fiscal year 2004.

Total sales volumes of the Group's packaging paperboard products increased 9.7% to 912,449 tonnes in fiscal year 2004 from 831,766 tonnes in fiscal year 2003, primarily due to higher sales volumes of linerboard. Sales volume of unbleached kraft pulp was 25,660 tonnes in fiscal year 2004.

The weighted average selling prices of all the Group's packaging paperboard products increased 4.4% to RMB2,819 per tonne in fiscal year 2004 from RMB2,699 per tonne in fiscal year 2003. The weighted average selling prices per tonne for the Group's packaging paperboard products were RMB2,824 for linerboard and RMB2,097 for high performance corrugating medium in fiscal year 2004 compared with RMB2,739 for linerboard and RMB2,072 for high performance corrugating medium in fiscal year 2003. The increases in weighted average selling prices of the Group's packaging paperboard products in fiscal year 2004 compared to fiscal year 2003 were primarily due to the Group's ability to produce higher proportions of higher grade products and general market conditions.

Sales of NDP Industries Group increased to RMB380.0 million in fiscal year 2004 from RMB2.4 million in fiscal year 2003. This increase was due primarily to PM5 commencing production of kraftlinerboard, testlinerboard and high performance corrugating medium in November 2003, which resulted in approximately eight months of production in fiscal year 2004, as well as increased sales in fiscal year 2004 of packaging boxes produced on a trial basis by Taicang Packaging which was subsequently disposed on 31 December 2004. Sales in fiscal year 2003 were derived from the sales of packaging boxes produced by Taicang Packaging. Total sales volumes of linerboard and high performance corrugating medium for NDP Industries Group increased to approximately 0.1 million tonnes in fiscal year 2004 from nil in fiscal year 2003, for the same reasons.

Sales of MSL Group were RMB369.4 million in fiscal year 2004 which were due to PM4 commencing production of coated duplex board with grey back in October 2003, resulting in approximately nine months of production in fiscal year 2004. Total sales volumes of MSL Group were approximately 0.1 million tonnes in fiscal year 2004 compared to nil in fiscal year 2003, for the same reasons.

Cost of Goods Sold

The Group's cost of goods sold increased 7.7% to RMB2,105.7 million in fiscal year 2004 from RMB1,954.3 million in fiscal year 2003. The Group's cost of goods sold increased primarily as a result of the Group's establishment of a joint venture with respect to ND Xing An resulting in commencement of sales of unbleached kraft pulp in fiscal year 2004, and increased sales of linerboard in fiscal year 2004. Compared to fiscal year 2003, staff salaries and benefits increased, while increased purchase volumes of raw materials were partially offset by lower recovered paper prices in fiscal year 2004.

Cost of goods sold of NDP Industries Group increased to RMB333.8 million in fiscal year 2004 from RMB3.3 million in fiscal year 2003. Cost of goods sold increased primarily due to an increase in sales as a result of the increase in production capacity and sales from the start-up of PM5 in November 2003, which resulted in increases in purchases of raw material, energy costs and staff costs and depreciation of PM5. Compared to fiscal year 2003, staff salaries and benefits increased, while increased purchase volumes of raw materials were partially offset by lower recovered paper prices in fiscal year 2004.

Cost of goods sold of MSL Group was RMB363.7 million in fiscal year 2004 which was primarily due to an increase in sales as a result of the start-up of PM4 in October 2003. Cost of goods sold primarily comprised cost of raw material, energy costs, staff costs and depreciation of PM4.

Gross Profit

As a result of the foregoing, the Group's gross profit increased 88.6% to RMB547.8 million in fiscal year 2004 from RMB290.5 million in fiscal year 2003. The Group's gross margin was 20.6% in fiscal year 2004 compared to 12.9% in fiscal year 2003. The increase in gross margin was due primarily to higher efficiencies achieved by PM1, PM2 and PM3 as well as changes in product mix. The Group had in fiscal year 2003 used PM3, which primarily produces linerboard, to produce some high performance corrugating medium on a trial basis to test market demand, and had in fiscal year 2004 subsequently substantially reduced its production of high performance corrugating medium as it was able to achieve better margins on linerboard. In addition, the outbreak of SARS adversely affected sales prices and gross margins in fiscal year 2003.

Gross profit of NDP Industries Group was RMB46.2 million in fiscal year 2004 compared to a gross loss of RMB0.9 million in fiscal year 2003. The gross margin was 12.2% in fiscal year 2004. The gross loss in fiscal year 2003 was primarily because NDP Industries Group only commenced substantial operations with the commencement of production of PM5 in November 2003, and was in a start-up phase for a significant part of fiscal year 2003.

Gross profit of MSL Group was RMB5.7 million in fiscal year 2004 compared to RMB0 in fiscal year 2003. Gross margin was 1.5% in fiscal year 2004 primarily because PM4 was producing on a trial basis for a significant part of fiscal year 2004.

Other Gains — Net

Other gains, net, of the Group increased to RMB5.3 million in fiscal year 2004 from RMB3.1 million in fiscal year 2003. This increase was due primarily to increased income from transportation services and interest income, partially offset by a decrease in sales of scrap materials in fiscal year 2004.

Other gains, net, of NDP Industries Group increased to RMB4.8 million in fiscal year 2004 from RMB0.3 million in fiscal year 2003, due primarily to income from sales of excess electricity generated by generator Unit 1 of Taicang Nine Dragons' own coal-fired cogeneration plant which it brought online in November 2003, and increased sales of scrap materials.

Selling and Marketing Costs

The Group's selling and marketing costs increased 18.0% to RMB60.2 million in fiscal year 2004 from RMB51.0 million in fiscal year 2003. This increase was due primarily to an increase in sales volumes resulting in an increase in, among others, transportation costs, staff salaries and benefits and vehicle maintenance expenses, as well as the establishment of the joint venture with respect to ND Xing An and subsequent sales of unbleached kraft pulp.

Selling and marketing costs of NDP Industries Group increased to RMB12.0 million in fiscal year 2004 from RMB0.2 million in fiscal year 2003, due primarily to the commencement of sales of linerboard and high performance corrugating medium in fiscal year 2004.

Selling and marketing costs of MSL Group were RMB2.7 million in fiscal year 2004 compared to RMB0 in fiscal year 2003, due to the commencement of sales of coated duplex board with grey back in fiscal year 2004.

Administrative Expenses

The Group's administrative expenses increased 72.1% to RMB67.3 million in fiscal year 2004 from RMB39.1 million in fiscal year 2003. This increase was due primarily to increases in administrative and management staff costs, pension contributions and depreciation on non-production related fixed assets in part as a result of the establishment of the joint venture with respect to ND Xing An.

Administrative expenses of NDP Industries Group increased to RMB21.9 million in fiscal year 2004 from RMB1.3 million in fiscal year 2003. This increase was due primarily to increases in administrative and management staff costs, depreciation on non-production related fixed assets and amortization of land use rights after the commencement of production of PM5 in November 2003.

Administrative expenses of MSL Group were RMB14.4 million in fiscal year 2004 compared to RMB0 in fiscal year 2003. This increase was due primarily to administrative and management staff costs, depreciation on non-production related fixed assets and amortization of land use rights after the commencement of production of PM4 in October 2003.

Finance Costs

The Group's finance costs increased 37.0% to RMB85.1 million in fiscal year 2004 from RMB62.1 million in fiscal year 2003, as a result of an increase of the Group's bank borrowings to RMB2,962.3 million as of 30 June 2004 from RMB2,205.2 million as of 30 June 2003, primarily reflecting the Group's increased bank borrowings to fund the construction and installation of PM6 and PM7.

Finance costs of NDP Industries Group increased to RMB36.4 million in fiscal year 2004 from RMB0.5 million in fiscal year 2003, as a result of an increase in bank borrowings to RMB1,677.2 million as of 30 June 2004 from RMB423.9 million as of 30 June 2003, primarily reflecting increased bank borrowings to fund the construction and operations of PM5.

Finance costs of MSL Group were RMB35.3 million in fiscal year 2004 compared to RMB0 in fiscal year 2003, as a result of an increase in bank borrowings to RMB1,157.3 million as of 30 June 2004 from RMB168.8 million as of 30 June 2003, primarily reflecting increased bank borrowings to fund the installation of PM4. Finance costs was RMB0 in fiscal year 2003 due to the capitalization of interest of RMB1.5 million in fiscal year 2003, before the commencement of production of PM4 in October 2003.

Income Tax Expense

The Group's income tax expense increased 70.6% to RMB52.7 million in fiscal year 2004 from RMB30.9 million in fiscal year 2003. This increase was due primarily to an increase in operating profit. The Group's effective tax rate was 15.5% in fiscal year 2004, compared to 21.9% in fiscal year 2003. The lower effective tax rate in fiscal year 2004 was because income tax expenses in fiscal years 2003 and 2004 included PRC enterprise income tax and deferred income tax, and PRC enterprise income tax increased significantly from fiscal year 2003 to fiscal year 2004 resulting from the increase in taxable profit, while the deferred income tax remained stable.

Income tax expense of NDP Industries Group was RMB0.4 million in fiscal year 2004 compared to RMB0 in fiscal year 2003. Income tax expense in fiscal year 2004 was due to deferred income tax liabilities.

Income tax expense of MSL Group was RMB4.9 million in fiscal year 2004 compared to RMB0 in fiscal year 2003. Income tax expense in fiscal year 2004 was due to deferred income tax liabilities.

Profit Attributable to Minority Interests

Profit attributable to minority interests of the Group was RMB6.4 million in fiscal year 2004 compared to a loss of RMB0.1 million in fiscal year 2003, reflecting primarily the interests of the minority shareholder of ND Xing An in its profits for fiscal year 2004.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Group increased 154.4% to RMB281.4 million in fiscal year 2004 from RMB110.6 million in fiscal year 2003. Profit margin with respect to profit attributable to equity holders for the Group increased to 10.6% in fiscal year 2004 from 4.9% in fiscal year 2003 primarily due to the reasons that gross profit margin increased, described under "— Gross Profit".

Loss for the year of NDP Industries Group attributable to equity holders of NDP Industries increased to RMB19.7 million in fiscal year 2004 from RMB2.6 million in fiscal year 2003.

Loss for the year of MSL Group attributable to equity holders of MSL was a loss of RMB51.5 million in fiscal year 2004 compared to RMB0 in fiscal year 2003.

Capital Expenditures

The packaging paperboard manufacturing business is highly capital intensive. The Group's development over the past three years has required significant capital investment. Additional expansion for the future will continue to require significant investment for the construction and installation of new manufacturing facilities and installation of new equipment.

The following table sets forth information on the Group's historical and planned capital expenditures for the periods indicated.

	Years ended 30 June				
	2003	2004	2005[1]	2006 (planned)	2007 (planned)
	(in millions of RMB)				
Total capital expenditures.	269.5	853.2	5,406.0[1]	1,607.2[2]	2,234.3

(1) Included capital expenditures of RMB3,339.8 million as a result of the Acquisition, which in part reflects capital expenditures on fixed assets and land use rights previously incurred by the Acquired Subsidiaries before the Acquisition.

(2) Includes RMB271.7 million of capital expenditures incurred in the three months ended 30 September 2005.

The Group's capital expenditures include additions to property, plant and equipment, additions to land use rights and cost of the Acquisition. The Group's total capital expenditures for fiscal year 2005 were RMB5,406.0 million, which were incurred primarily in connection with PM6, PM7, PM8, PM9 and PM10 for high-performance corrugating medium, generating Unit 6 of its power plant in Dongguan, generating Unit 2 of its power plant in Taicang, the Taicang pier and the Acquisition. The Group's capital expenditures for the three months ended 30 September 2005 were RMB271.7 million, which were incurred primarily in connection with PM9 and PM10. The Group's planned capital expenditures for fiscal years 2006 and 2007 amount to approximately RMB1,607.2 million and RMB2,234.3 million, respectively.

The Group plans to start constructing in fiscal year 2006, and bring online by fiscal year 2007, a paper machine in Dongguan with an annual production capacity of 500,000 tonnes of coated duplex board with grey back, or PM11, a paper machine in Dongguan with an annual production capacity of 400,000 tonnes of linerboard, or PM12 and a paper machine in Taicang with an annual production capacity of 400,000 tonnes of high performance corrugating medium, or PM13.

Capital expenditures for fiscal year 2006 include expenditures of approximately RMB640.0 million relating to the Group's PM9 and PM10 which commenced production in December 2005 with an aggregate annual production capacity of 500,000 tonnes of high performance corrugating medium.

PM11 is expected to require capital expenditures of RMB420.5 million in fiscal year 2006 and RMB841.0 million in fiscal year 2007. PM12 is expected to require capital expenditures of RMB306.7 million in fiscal year 2006 and RMB613.3 million in fiscal year 2007. PM13 is expected to require capital expenditures of RMB240.0 million in fiscal year 2006 and RMB480.0 million in fiscal year 2007.

In addition, the Group plans to start constructing in fiscal year 2007, and bring online by fiscal year 2008, additional paper machines with aggregate annual production capacity of 800,000 tonnes.

In fiscal year 2005, the Group's capital expenditures, which was RMB5,406.0 million and included capital expenditures of RMB3,398.8 million as a result of the Acquisition, exceeded its net cash generated from operating activities of RMB1,063.0 million. In the three months ended 30 September 2005, its net cash generated from operating activities of RMB273.3 million exceeded its capital expenditures of RMB271.7 million.

The Group financed its PM9 and PM10 from borrowings and cash generated from operations, and secured a US$65.0 million loan facility with a pledge over a part of the Group's equity interests in Dongguan Nine Dragons and Taicang Nine Dragons, which will be released after the Global Offering, in the first quarter of fiscal year ended 30 June 2006 for that purpose. The Group expects to fund a portion of its capital expenditure requirements in fiscal years 2006 and 2007, which primarily includes capital expenditures for PM11, PM12 and PM13, with the proceeds from the Global Offering as well as with cash from additional borrowings and cash generated from operations.

Taking into account the financial resources available to the Group, including cash generated from its operations, presently available credit facilities and estimated net proceeds from the Global Offering, the Group believes it will have sufficient capital resources to satisfy its currently planned capital requirements.

The Group's capital expenditure plans are subject to change based upon the execution of the Group's business plan, the progress of the Group's capital projects, the Group's financial performance, market conditions and the Group's outlook on future business conditions. To the extent that the Group does not generate sufficient cash flows from its operations to meet its working capital needs or its capital expenditure plans, the Group may revise its capital expenditure plans or rely on additional debt or equity financing. The Group cannot provide any assurance that it will be able to raise additional capital, should that become necessary, on terms acceptable to it or at all.

Inventory Management

The Group seeks to maintain a low level of inventory of raw materials and finished products. The Group generally keeps an inventory level of 30 to 60 days' supply of raw materials which it believes is an optimal level. The Group may increase the supply of raw materials when it believes that the cost of raw materials and its estimates of production and sales make it prudent to do so. The Group has sufficient storage area to meet increases in supplies of raw materials. As of 30 June 2003, 2004, 2005 and 30 September 2005, the Group's inventory of raw materials amounted to RMB185.3 million, RMB327.0 million, RMB669.3 million and RMB571.4 million, respectively. The inventory turnover ratio of the Group's raw materials for the years ended 30 June

2003, 2004 and 2005 and the three months ended 30 September 2005 was 35, 57, 49, and 36 days, respectively. The increase in raw materials inventory turnover ratio for fiscal year 2004 compared with fiscal year 2003 reflected in part a build up of inventory of recovered paper by the Group to take advantage of the lower prices in the first half of fiscal year 2004 and in anticipation of forecasted orders. The slight decrease in inventory turnover days for fiscal year 2005 and further decrease for the three months ended 30 September 2005 reflected in part the synergies and increased efficiencies resulting from the Acquisition, increased production capacity and economies of scale. Subsequent to the Acquisition, the Group was able to coordinate raw material purchases centrally, and the Group's larger operations enabled it to reduce its raw material inventory turnover while still meeting its operational requirements. The Group's policy is to store between 20 and 45 days' supply of recovered paper and kraft pulp in its raw materials yard. The Group also has a policy to have 20 days supply en route from its suppliers.

The Group's inventory of finished products primarily comprises products awaiting delivery to customers, products produced in anticipation of existing customers' demand and products produced and stored to meet unexpected demand. As linerboard, high performance corrugating medium and coated duplex board with grey back cannot be stored for an extended period of time due to moisture absorption, discoloration and aging, the Group monitors its stock of finished products closely to minimize the time finished products remain in storage. As of 30 June 2003, 2004 and 2005 and 30 September 2005, the Group's inventory of finished products amounted to approximately RMB126.5 million, RMB239.1 million, RMB328.9 million and RMB284.8 million, respectively. The inventory turnover ratio of the Group's finished products for the fiscal years ended 30 June 2003, 2004, 2005 and the three months ended 30 September 2005 was 23, 41, 24 and 18 days, respectively. The Group's finished goods inventory turnover ratio for fiscal year 2004 increased compared with fiscal year 2003 as a result of the build up of inventory of recovered paper by the Group and in anticipation of forecasted orders. Finished goods inventory turnover ratio returned to more typical levels in fiscal year 2005.

The Group has not made any provisions for inventory obsolescence during the Track Record Period as recovered paper and kraft pulp, the Group's primary raw materials, are not generally susceptible to obsolescence by passage of time. In addition, the Group typically manufactures its products according to customers' specifications only after it has received an order, due to the wide range of the Group's products with varying specifications.

As the Group's cost of goods sold between 1 July 2004 to 31 December 2004 does not reflect costs of goods sold of the Acquired Subsidiaries, but the Group's inventories as of 30 June 2005 reflects the Group's inventories including inventories of the Acquired Subsidiaries combined after the Acquisition, the Group's inventory turnover ratio for fiscal year 2005 with respect to both raw materials and finished goods has been adjusted for the Acquisition. The total cost of goods sold of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB516.3

million and RMB455.3 million, respectively. The inter-company transactions between NDP Industries Group and MSL Group or between these entities and the Group between 1 July 2004 and 31 December 2004 amounted to RMB28.4 million. The Group's inventory turnover ratio for fiscal year 2005 for raw materials and finished goods was adjusted from 60 days to 49 days for raw materials and from 30 days to 24 days for finished goods, after adjusting to include such cost of goods sold less such inter-company transactions.

The inventory turnover ratio for NDP Industries Group was 973, 322 and 63 days for the fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, respectively. The inventory turnover ratio for MSL Group was 324 and 114 days for the fiscal year ended 30 June 2004 and the six months ended 31 December 2004, respectively. These reflected the fact that prior to November 2003, NDP Industries Group was engaged only in the sales of packaging boxes produced by Taicang Packaging on a trial basis, and NDP Industries Group and MSL Group only commenced packaging paperboard production on a trial basis around November and October 2003, respectively, and were in the initial start-up phase for a significant part of fiscal year 2004.

Trade and Bills Receivable

The following tables set forth aging analyses of the Group's trade receivables by product groups at 30 June 2003, 2004 and 2005 and 30 September 2005.

	As of 30 June			As of 30 September
	2003	2004	2005	2005
	(in millions of RMB)			
Linerboard and high performance corrugating medium				
0 to 30 days	251.8	165.4	283.1	509.1
31 to 90 days	51.2	54.6	97.6	84.0
Over 90 days	10.0	90.7	14.4	3.1
Total	313.0	310.7	395.1	596.2

	As of 30 June			As of 30 September
	2003	2004	2005	2005
	(in millions of RMB)			
Coated duplex board with grey back				
0 to 30 days	—	—	85.2	64.1
31 to 90 days	—	—	79.2	75.0
Over 90 days	—	—	19.4	8.3
Total	—	—	183.8	147.4

	As of 30 June			As of 30 September
	2003	2004	2005	2005
		(in millions of RMB)		
Unbleached kraft pulp				
0 to 30 days	—	5.1	4.5	4.9
31 to 90 days	—	—	—	0.3
Total	—	5.1	4.5	5.2

The Group's turnover for trade and bills receivable, or debtors' turnover ratio, was 77, 62, 48 and 43 days for fiscal years 2003, 2004, 2005 and the three months ended 30 September 2005, respectively. The Group's debtors' turnover ratio decreased during the Track Record Period primarily as a result of tighter control and closer monitoring by management of trade and bills receivables. As the Group's sales between 1 July 2004 to 31 December 2004 do not reflect sales of the Acquired Subsidiaries, but the Group's trade and bills receivable as of 30 June 2005 reflect the Group's trade and bills receivable including trade and bills receivable of the Acquired Subsidiaries combined after the Acquisition, the Group's turnover for trade and bills receivable for fiscal year 2005 has been adjusted for the Acquisition. The sales of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB588.8 million and RMB462.6 million, respectively. The inter-company transactions between NDP Industries Group and MSL Group or between these entities and the Group between 1 July 2004 and 31 December 2004 amounted to RMB28.4 million. The debtors' turnover ratio for fiscal year 2005 was adjusted from 58 days to 48 days, after adjusting to include such sales less such inter-company transactions.

With respect to linerboard and high performance corrugating medium, the Group typically grants a credit period of approximately 30 days for customers to whom it extends credit. With respect to coated duplex board with grey back, the Group typically grants a credit period of approximately 30 to 60 days for customers to whom it extends credit. The Group typically requires prepayment for unbleached kraft pulp. In addition to a credit period, customers are subject to a credit limit, and are required to settle their accounts before further delivery of the Group's products can be made if they have reached the credit limit before expiration of the credit period. Payment upon delivery or in advance of delivery is required for certain customers. See "Business — Sales and Marketing — Terms of Sales and Credit Policy".

The debtors' turnover ratio for NDP Industries Group was 563, 146 and 71 days for the fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, respectively. The debtors' turnover ratio for MSL Group was 81 and 47 days for the fiscal year ended 30 June 2004 and the six months ended 31 December 2004, respectively. These reflected the fact that prior to November 2003, NDP Industries Group was engaged only in the sales of packaging boxes produced by Taicang Packaging on a trial basis, and NDP Industries Group and MSL Group only commenced packaging paperboard production on a trial basis around November and October 2003, respectively, and were in the initial start-up phase for a significant part of fiscal year 2004.

The Group had trade receivables due from related parties of RMB0.8 million, RMB63.1 million, RMB19.4 million and RMB19.4 million as of 30 June 2003, 2004, 2005 and 30 September 2005, respectively. Trade receivables from related parties as of 30 June 2003 were immaterial compared to those for the year ended 30 June 2004 because the trade receivables from related parties as of 30 June 2003 represented receivables from Taicang Packaging alone and Taicang Packaging was producing packaging boxes on a trial basis in fiscal year 2003. The trade balances for the year ended 30 June 2004 included trade receivables from Taicang Nine Dragons and Dongguan Sea Dragon in addition to Taicang Packaging after PM5 of Taicang Nine Dragons commenced operation in November 2003 and PM4 of Dongguan Sea Dragon commenced operation in October 2003. Trade receivables from related parties decreased again in fiscal year 2005 as the Group acquired Taicang Nine Dragons and Dongguan Sea Dragon with effect from 1 January 2005 and these entities were combined with the Group.

Trade and Bills Payable

The Group's turnover for trade and bills payable, or creditor' turnover ratio, were 64, 103, 158 and 135 days for fiscal years 2003, 2004, 2005 and the three months ended 30 September 2005, respectively. The Group's creditors' turnover ratio increased between fiscal year 2003 and fiscal year 2005 primarily due to better credit granted by the Group's suppliers as the relationships became more established. Creditors' turnover ratio decreased in the three months ended 30 September 2005 primarily due to increased purchases of recovered paper from independent third parties which generally provide shorter credit terms than ACN, as well as due to more prompt payments by the Group to ACN. As the Group's cost of goods sold between 1 July 2004 and 31 December 2004 does not reflect costs of goods sold of the Acquired Subsidiaries, but the Group's trade and bills payable as of 30 June 2005 reflect the Group's trade and bills payable including trade and bills payable of the Acquired Subsidiaries combined after the Acquisition, the Group's turnover for trade and bills payable for fiscal year 2005 has been adjusted for the Acquisition. The total cost of goods sold of NDP Industries Group and MSL Group between 1 July 2004 and 31 December 2004 amounted to RMB516.3 million and RMB455.3 million, respectively. The inter-company transactions between NDP Industries Group and MSL Group or between these entities and the Group between 1 July 2004 and 31 December 2004 amounted to RMB28.4 million. The creditors' turnover ratio for fiscal year 2005 was adjusted from 195 days to 158 days, after adjusting to include such cost of goods sold less such inter-company transactions.

The Group generally receives credit terms of approximately 30 days from domestic suppliers and approximately 90 to 180 days from overseas suppliers.

The creditors' turnover ratio for NDP Industries Group was 819, 317 and 106 days for the fiscal years ended 30 June 2003 and 2004 and the six months ended 31 December 2004, respectively. The creditors' turnover ratio for MSL Group was 347 and 162 days for the fiscal year ended 30 June 2004 and the six months ended 31 December 2004, respectively. These reflected the fact that prior to November 2003, NDP Industries Group was engaged only in the sales of packaging boxes produced by Taicang Packaging on a trial basis, and NDP Industries Group and MSL Group only commenced packaging paperboard production on a trial basis around November and October 2003, respectively, and were in the initial start-up phase for a significant part of fiscal year 2004.

Liquidity and Capital Resources

The Group's primary uses of cash are to invest in additional manufacturing facilities and equipment, service its indebtedness, and fund working capital and normal recurring expenses. To date, the Group has financed its cash requirements through a combination of internal resources and bank borrowings.

As of 30 June 2005, the Group had bank and cash balances of RMB651.6 million, excluding restricted cash of RMB659.3 million, and approximately RMB931.0 million of unutilized banking facilities.

The following table sets forth a summary of the Group's cash flows for the periods indicated.

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
				(unaudited, reviewed)	
	(in millions of RMB)				
Bank and cash balances at beginning of year/period	304.0	137.1	446.9	446.9	651.6
Net cash generated from operating activities	35.3	341.3	1,063.0	320.0	273.3
Net cash used in investing activities	(692.7)	(827.2)	(1,537.3)	(422.0)	(411.1)
Net cash generated from/(used in) financing activities	490.9	795.4	681.4	140.1	(177.7)
Net (decrease)/increase in bank and cash balances	(166.5)	309.5	207.1	38.1	(315.5)
Exchange (losses)/gains on bank and cash balances	(0.4)	0.3	(2.4)	1.4	23.4
Bank and cash balances at end of year/period	137.1	446.9	651.6	486.4	359.5

Cash generated from operating activities

Cash from operating activities reflects profit for the year/period adjusted for non-cash items, such as depreciation and amortisation, and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables and trade and other payables.

Net cash generated from operating activities decreased 14.6% to RMB273.3 million in the three months ended 30 September 2005 compared with RMB320.0 million in the three months ended 30 September 2004. The decrease of RMB46.7 million was primarily due to a decrease in cash generated from operations and an increase in interest paid in the three months ended 30 September 2005. Cash generated from operations decreased to RMB359.9 million in the three months ended 30 September 2005 compared with RMB372.6 million in the three months ended 30 September 2004 primarily because cash provided by increases in trade payables and other payables was RMB74.2 million for the three months ended 30 September 2005 compared to RMB484.7 million for the three months ended 30 September 2004. Cash generated from operations before changes in working capital increased to RMB428.7 million in the three months ended 30 September 2005 compared with RMB126.2 million in the three months ended 30 September 2004. Cash generated from operations also reflected changes in working capital. In the three months ended 30 September 2005 and 2004, cash of RMB283.2 million and RMB357.9 million, respectively, was used by increases in trade receivables and other receivables, cash of RMB140.2 million and RMB119.6 million, respectively, was provided by decreases in inventory and cash of RMB74.2 million and RMB484.7 million, respectively, was provided by increases in trade payables and other payables.

In fiscal year 2005, net cash generated from operating activities increased 211.6% to RMB1,063.0 million in fiscal year 2005 from RMB341.3 million in fiscal year 2004. This increase of RMB721.7 million was primarily due to an increase in cash generated from operations, partially offset by an increase in interest paid in fiscal year 2005. Cash generated from operations increased 216.1% to RMB1,338.8 million in fiscal year 2005 from RMB423.6 million in fiscal year 2004 primarily as a result of the Acquisition. Cash generated from operations before changes in working capital increased to RMB728.1 million in fiscal year 2005 compared to RMB514.1 million in fiscal year 2004. In fiscal year 2005, cash of RMB470.2 million was provided by increases in trade and other payables and cash of RMB104.9 million was provided by decreases in trade and other receivables. Cash of RMB35.6 million was also provided by changes in inventories in fiscal year 2005, although total inventory levels increased in fiscal year 2005 as a result of the Acquisition.

Net cash generated from operating activities increased 866.9% to RMB341.3 million in fiscal year 2004 from RMB35.3 million in fiscal year 2003. This increase of RMB306.0 million was primarily due to increased cash generated from operations in fiscal year 2004. Cash generated from operations increased 320.2% to RMB423.6 million from RMB100.8 million. Cash generated from operations before changes in working capital increased to RMB514.1 million in fiscal year 2004 compared to RMB286.7 million in fiscal year 2003 primarily as a result of increased profit for the year in fiscal year 2004. Cash generated from operations also reflected changes in working capital. In fiscal year 2004, cash of RMB250.6 million was used by increases in inventories, cash of RMB178.4 million was used by increases in trade and other receivables, and cash of RMB338.5 million was provided by increases in trade and other payables. The increase in inventories in fiscal year 2004 reflected in part a build up of inventory of recovered paper by the Group to take advantage of the lower prices in the first half of fiscal year 2004 and in anticipation of forecasted orders. The increase in trade and other receivables and trade and other payables in part reflected the establishment of the joint venture with respect to ND Xing An in February 2004 while the increase in trade and other payables in fiscal year 2004 also reflected the increase in inventories of raw materials in fiscal year 2004.

In fiscal year 2003, cash of RMB269.5 million was used by decreases in trade and other payables, cash of RMB70.2 million was used by increases in trade and other receivables, and cash of RMB153.8 million was provided by decreases in inventories.

Cash used in investing activities

The principal items affecting net cash used in investing activities have been capital expenditures for property, plant and equipment. Net cash used in investing activities in the three months ended 30 September 2005 amounted to RMB411.1 million, of which RMB319.6 million related to purchases of property, plant and equipment. Net cash used in investing activities in fiscal year 2005 amounted to RMB1,537.3 million, of which RMB1,737.7 million related to purchases of property, plant and equipment. Cash used in investing activities was also offset by a cash inflow of RMB128.9 million, net of cash acquired, resulting from the Acquisition. In fiscal year 2004, net cash used in investing activities amounted to RMB827.2 million, of which RMB666.1 million related to purchases of property, plant and equipment. Net cash used in investing activities in fiscal year 2003 amounted to RMB692.7 million, of which RMB287.9 million related to purchases of property, plant and equipment and RMB336.5 million was due to cash advances made to related parties.

Cash from financing activities

The items that have affected cash flows from financing activities are primarily new loans payable and repayment of borrowings. Net cash used in financing activities in the three months ended 30 September 2005 amounted to RMB177.7 million primarily as a result of repayment of borrowings of RMB2,726.0 million, partially offset by new loans of RMB2,481.1 million. These reflected the roll-over short term loans, the extension of the maturities of a portion of the Group's short-term borrowings to over one year as well as the repayment of certain loans. Net cash from financing activities decreased RMB114.0 million to RMB681.4 million in fiscal year 2005 from RMB795.4 million in fiscal year 2004. Net cash from financing activities in fiscal year 2005 reflected primarily new loans of RMB2,724.6 million, primarily as a result of the combination of loans of the Acquired Subsidiaries, as well as to fund the construction of generating Unit 6 of the Group's power plant in Dongguan, generating Unit 2 of the Group's power plant in Taicang, and the construction and installation of PM6, PM7 and PM8, partially offset by repayment of borrowings of RMB1,919.7 million which consisted primarily of the roll-over of short term loans.

In fiscal year 2004, net cash from financing activities amounted to RMB795.4 million, reflecting primarily new loans of RMB2,044.4 million, partially offset by repayment of borrowings of RMB1,287.3 million which consisted primarily of the roll-over of short-term loans.

Indebtedness

As of 30 September 2005, the Group had total debt of RMB6,004.0 million, comprising RMB273.4 million of short term borrowings, RMB657.5 million of current portion of long-term borrowings and RMB5,073.1 million of long-term borrowings, less current portion. As of 31 December 2005, the Group had total debt of RMB6,316.0 million, comprising RMB470.1 million of short term borrowings, RMB2,023.3 million of current portion of long-term borrowings and RMB3,822.6 million of long-term borrowings, less current portion.

As of 30 September 2005 and 31 December 2005, the Group had secured and unsecured current borrowings, comprising letter of credit arrangements, short-term revolving credit facilities as well as long-term borrowings due within one year. As of 30 September 2005 and 31 December 2005, the Group had RMB931.8 million and RMB1,179.2 million, respectively, of credit available under undrawn borrowing facilities.

As of 30 September 2005, RMB5,460.3 million, or 90.9% of the Group's borrowings, was denominated in RMB and the remaining RMB543.7 million, or 9.1%, was denominated in US dollars. As of 31 December 2005, RMB5,208.0 million, or 82.5% of the Group's borrowings, was denominated in RMB and the remaining RMB1,108.0 million, or 17.5%, was denominated in US dollars.

The Group's secured borrowings are secured by a certain portion of its assets as well as guarantees provided by certain related parties of the Group that will be released on or before listing. See Notes to the Accountants' Report on the Group included in Appendix I to this prospectus. As of 30 September 2005 and 31 December 2005, 59.3% and 59.3%, respectively, of the Group's borrowings consists of secured debt. As of 30 September 2005, the Group had pledged assets in the amount of approximately RMB3,022.9 million to secure its debt obligations.

The following table sets forth the effective interest rates of the Group's borrowings as of the dates indicated.

	As of 30 June			As of 30 September
	2003	2004	2005	2005
Bank borrowings				
Long-term	5.213%	5.238%	5.524%	5.439%
Short-term	4.704%	4.802%	5.242%	5.194%

As of 30 September 2005, of the Group's total borrowings, RMB930.9 million were due within a year, RMB2,718.1 million were due between one and two years, RMB2,010.0 million were due between two and five years and RMB345.0 million were due after five years.

Net current liabilities and working capital

The Group had net current liabilities of RMB601.5 million as of 30 September 2005, RMB1,984.4 million as of 30 June 2005, RMB56.1 million as of 30 June 2004 and RMB325.2 million as of 30 June 2003. Net current liabilities increased in fiscal year 2005 due primarily to the Acquisition and the weaker working capital position of the Acquired Subsidiaries, which resulted in an increase in current borrowings of RMB1,194.8 million and trade and bills payable of RMB1,574.1 million. After the Acquisition, the Group reviewed the maturities of its assets and liabilities and its liquidity and financing requirements. During the three months ended 30 September 2005, the Group made a net loan repayment of RMB244.9 million and also arranged to extend the maturities of a portion of its short-term borrowings, which resulted in the decrease of net current liabilities in the three months ended 30 September 2005.

The Group's current assets divided by current liabilities, or current ratio, was 0.8, 1.0, 0.6 and 0.8 as of 30 June 2003, 2004 and 2005 and 30 September 2005, respectively. The Group's current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 0.7, 0.8, 0.4 and 0.6 as of 30 June 2003, 2004 and 2005 and 30 September 2005, respectively. Both current ratio and quick ratio decreased in fiscal year 2005 as a result of the Acquisition as the Acquired Subsidiaries had higher short-term debt leverage, and increased in the three months ended 30 September 2005 as a result of a net loan repayment and the extension of the maturities of a portion of its short-term borrowings.

NDP Industries Group's current ratio was 0.7, 0.8 and 0.9, and quick ratio was 0.7, 0.6 and 0.7, each as of 30 June 2003 and 2004 and 31 December 2004, respectively. MSL Group's current ratio was 0.4, 0.6 and 0.6, and quick ratio was 0.4, 0.3 and 0.4, each as of 30 June 2003 and 2004 and 31 December 2004, respectively. These reflected the improving liquidity following the initial start-up phase periods, and the building up of inventory from fiscal year 2004 as more substantial operations commenced.

Taking into account its cash generated by operations, the estimated net proceeds from the Global Offering and its credit facilities maintained with its banks, the Directors are satisfied after due and careful enquiry that the Group has sufficient resources to meet its working capital requirements for 12 months from the date of this prospectus. The Directors also believe that the Group has sufficient resources to finance its future funding requirements for 12 months from the date of this prospectus, as discussed below.

Improved cash flow from operations. The Group's operating results during the Track Record Period reflected growth in turnover and profit for the year/period and positive cash flows generated from operating activities. Net cash generated from operating activities was RMB35.3 million, RMB341.3 million, RMB1,063.0 million and RMB273.3 million for the years ended 30 June 2003, 2004, 2005 and the three months ended 30 September 2005, respectively. As of 30 September 2005, the Group had bank and cash balances of RMB359.5 million.

Banking facilities and short-term debt. As of 30 September 2005, the Group had RMB931.8 million of credit available under undrawn borrowing facilities. Due to a substantial portion of the Group's borrowings being financed by commercial banks in China, the Group has a relatively high level of short-term borrowing, although a significant portion of which is typically rolled over. As a result of measures that the Group took, the Group has reduced its short-term borrowings in the three months ended 30 September 2005. As of 30 September 2005, of the Group's total borrowings, RMB930.9 million were due within a year, RMB2,718.1 million were due between one and two years, RMB2,010.0 million were due between two and five years and RMB345.0 million were due after five years. The Group plans to use approximately RMB1,068 million (excluding proceeds from any exercise of the Over-allotment Option) from the net proceeds of the Global Offering to repay a portion of its short-term bank borrowings and any remaining balance of such amount to repay part of its long-term bank borrowings. See "Future Plans and Use of Proceeds."

Sources of funding for capital expenditures. The Group's planned capital expenditures for fiscal years 2006 and 2007 amount to approximately RMB1,607.2 million and RMB2,234.3 million, respectively. The Group expects to fund a portion of its capital expenditure requirements in fiscal years 2006 and 2007, which primarily includes capital expenditures for PM11, PM12 and PM13, with the proceeds from the Global Offering as well as with cash generated from operations. See "Future Plans and Use of Proceeds." The Group's capital expenditure plans are subject to change based upon the execution of the Group's business plan, the progress of the Group's capital projects, the Group's financial performance, market conditions and the Group's outlook on future business conditions. To the extent that the Group does not generate sufficient cash flows from its operations to meet its working capital needs or its capital expenditure plans, the Group may revise its capital expenditure plans or rely on additional debt or equity financing. The Group cannot provide any assurance that it will be able to raise additional capital, should that become necessary, on terms acceptable to it or at all.

Contractual Obligations

The following table sets forth the scheduled maturities of the Group's material contractual obligations as of 30 September 2005.

	Payments due between			
	1 October 2005 and 30 September 2006	1 October 2006 and 30 September 2010	1 October 2010 and after	Total
	(in millions of RMB)			
Material Contractual Obligations				
Debt obligations	930.9	4,728.1	345.0	6,004.0
Operating lease obligations[1]	1.6	3.8	—	5.4
Land use rights lease obligations	151.9	14.9	—	166.8
Capital expenditures[2]	577.7	52.0	—	629.7
Total contractual obligations	1,662.1[3]	4,798.8	345.0	6,805.9

(1) Represents primarily payment for leasing of property, plant and equipment.

(2) Represents primarily payment obligations in relation to PM9 and PM10.

(3) As of 30 June 2005, material contractual payments due by 30 June 2006 amounted to RMB2,975.2 million and comprised RMB2,431.6 million of debt obligations and RMB543.6 million of capital expenditures.

Off-Balance Sheet Arrangements and Contingencies

As of 30 September 2005, the Group had provided a corporate guarantee in the amount of RMB32.0 million for the bank borrowings and credit facilities of Taicang Packaging, a related party. As of 30 September 2005, the Group had also discounted bills of exchange with recourse in the amount of RMB447.2 million, for which it remains liable if the relevant customer defaults on payment. See Notes 25 and 28 (f) of the Accountants' Report on the Group included in Appendix I to this prospectus. Except as disclosed, as of 30 September 2005, the Group did not have any other material off-balance sheet arrangements with unconsolidated entities.

Financial Independence

As of 30 September 2005, the Group had non-trade balances due to Directors in the amount of RMB18.8 million, non-trade balances due from Directors in the amount of RMB0.6 million and non-trade balances due from related parties in the amount of RMB46.1 million. As of 30 September 2005, related parties and Directors had provided guarantees in the amount of RMB2,150.6 million as securities for bank loans of the Group. These non-trade balances will be fully repaid and settled before the listing of the Shares on the Stock Exchange, and all the guarantees provided by related parties of the Group as securities for the Group's bank borrowings and credit facilities will be released upon listing.

Market Risks

The Group is exposed to various types of market risks in the ordinary course of its business, including fluctuations in interest rates and foreign exchange rates and changes in the selling prices for its main products and costs of raw materials. The Group manages its exposure to these and other market risks through regular operating and financial activities The Group does not currently use any derivative instruments to manage its interest rate, foreign currency or commodity price risks.

Interest Rate Risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rates. Most of the Group's RMB loans are at fixed rates although most of the Group's RMB loans are short term loans and interest rate under certain loans are subject to adjustment if PBOC rates are adjusted. The Group's US dollar loans are at floating rates. Increases in interest rates would increase interest expenses relating to the Group's outstanding floating rate borrowings and increase the cost of new debt including rolled over short term loans. Increase or decrease of the Group's effective interest rate by 50 basis points would increase or decrease, respectively, the Group's interest payable under the borrowings by approximately RMB30.0 million annually, based on total borrowings of RMB6,004.0 million as of 30 September 2005.

Foreign Currency Risk

The Group is exposed to foreign currency risk as a portion of its sales is denominated in HK dollars and US dollars. In fiscal year 2005 and the three months ended 30 September 2005, 49.0% and 55.1%, respectively, of the Group's sales were denominated in Renminbi and 51.0% and 44.9%, respectively, were denominated in foreign currencies, primarily HK dollars. In addition, the Group purchased most of its recovered paper and kraft pulp, the Group's principal raw materials, in US dollars. Most of the Group's equipment is purchased in foreign currencies, such as US dollars and Euro and the Group's bank borrowings are denominated in RMB and US dollars. As a result, the Group is exposed to fluctuations in foreign exchange rates. These risks are partially offset by the Group's foreign currency denominated purchases and the principal payments on foreign currency denominated borrowings. The Group has also sought to shorten its turnover days for accounts receivable in foreign currencies.

Commodity Price Risk

The Group is also exposed to commodity price risk resulting from changes in the prices of its products and the costs of recovered paper, kraft pulp, chemicals and coal.

Disclosure under Rules 13.13 to 13.19 of the Listing Rules

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following statement of the Group's unaudited pro forma adjusted net tangible assets as at 30 September 2005 comprises the Group's historical audited combined net tangible assets as at 30 September 2005, as shown in the Accountants' Report on the Group, the text of which is set out in Appendix I to this prospectus and the adjustments described below.

The Group's unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the Group's financial position.

	Audited combined net tangible assets as at 30 September 2005(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share(3)	
	(in millions of RMB)			(RMB)	(HK$)
Based on the Offer Price of HK$2.85 for each Offer Share	2,440.7	2,777.4	5,218.1	1.30	1.25
Based on the Offer Price of HK$3.40 for each Offer Share	2,440.7	3,326.3	5,767.0	1.44	1.38

1. The audited combined net tangible assets as at 30 September 2005 stated above represents the audited combined net tangible assets attributable to equity holders of the Company as at 30 September 2005.

2. The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$2.85 per Share to HK$3.40 per Share, after deduction of the underwriting fees and other related expenses payable by the Group and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible asset per Share is arrived at after the adjustment referred to in the preceding paragraph and on the basis that 4,000,000,000 Shares were in issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option.

4. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2005.

5. Details of the valuation of the Group's properties as at 30 June 2005 are set out in Appendix V to this prospectus. The unaudited net book value of the Group's properties as at 30 June 2005 was approximately the same as the valuation of the Group's properties as included in Appendix V to this prospectus.

6. The translation of RMB into HK dollars has been made at the rate of RMB1.04 to HK$1.00, the PBOC rate prevailing on 30 September 2005. No representation is made that the HK dollar amounts have been, could have been or could be converted to RMB or vice versa, at that rate or at any other rate or at all.

Profit Forecast

The Group believes that on the bases and assumptions as set forth below and the absence of unforeseen circumstances, its forecast combined profit attributable to equity holders for the fiscal year ending 30 June 2006 will not be less than RMB1,050 million under HKFRS. On the basis of the prospective financial information and the number of shares expected to be issued, assuming the Over-allotment Option is not exercised, the forecast combined profit attributable to equity holders per share for the fiscal year ending 30 June 2006 would be approximately RMB0.26 on a pro forma fully diluted basis under HKFRS.

The prospective financial information has been prepared based on HKFRS. The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in China, Hong Kong, or any other country or territory in which the Group currently operates or which are otherwise material to the Group's business;

- there will be no changes in legislation, regulations or rules in China, Hong Kong or any other country or territory in which the Group operates or with which the Group has arrangements or agreements, which materially adversely affect its business;

- there will be no material change in the bases or rates of taxation in China or any other country or territory in which the Group operates, except as otherwise disclosed in this prospectus;

- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing;

- there will be no material fluctuations in coal prices and power tariff setting that will have a material adverse effect on the Group's business; and

- there will be no material fluctuations in raw material prices, including prices of recovered paper, kraft pulp and chemicals.

Dividend Policy

The Group has not declared or paid any dividends, but has retained earnings for use in its business and to invest in additional facilities. Going forward, the Company currently expects to maintain a general policy that not less than 20% of its profits available for distribution in each fiscal year commencing from the Listing Date will be distributed to its shareholders. However, final dividends, if any, on the outstanding shares must be recommended by the Company's Board and approved at the Company's annual general meeting of shareholders. In addition, the Board may declare interim dividends as appear to the Board to be justified by the Company's profits. The payment and the amount of any dividends declared will be subject to the Company's Bye-laws and the Companies Act. No dividends are payable if doing so would render the Company unable to pay its liabilities as they become due or the realizable assets would be less than the aggregate of its liabilities and its issue share capital and share premium accounts. The declaration or recommendation of, payment and amount of dividends will be subject to the discretion of the Board and will be dependent upon the Group's future operations, earnings, financial conditions, business needs, prospects, cash requirements and availability and other factors as the Board may deem relevant at such time. As the Company will not have been listed for the whole of the fiscal year ending 30 June 2006, its dividend payment for the current fiscal year 2006, if declared, will be based on the results of operations of the period from 3 March 2006 to 30 June 2006.

The timing, amount and form of future dividends, if any, will depend, among other things, on:

- the Group's results of operations and cash flows;
- the Group's future prospects;
- general business conditions;
- the Group's capital requirements and surplus;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by subsidiaries to the Company;
- taxation considerations;
- possible effects on the Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

The Company's ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its PRC operating subsidiaries. PRC laws and regulations governing dividend distribution for foreign invested enterprises differ from those for domestic enterprises.

The Company's PRC operating subsidiaries incorporated as foreign invested enterprises, including Dongguan Nine Dragons, Dongguan Sea Dragon, Dongguan Land Dragon, Taicang Nine Dragons and Taicang Sea Dragon, may only distribute dividends after they have made allowances for:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve funds equivalent to no less than 10% of after-tax income, as determined under PRC accounting rules and regulations; and
- allocations to the bonus and welfare fund determined by the Company's Board.

When the accumulated allocations to the reserve fund reaches 50% of the registered capital, the relevant PRC operating subsidiary is not required to make further allocation to such fund.

The Company's PRC subsidiaries incorporated as domestic enterprises, including ND Xing An, Dongguan Transportation and Taicang Transportation may only distribute dividends after they have made allowances for:

- recovery of accumulated losses, if any;
- allocations to statutory reserve funds equivalent to 10% of after-tax income, as determined under PRC accounting rules and regulations; and
- allocations to a discretionary surplus reserve fund if approved by the Company's shareholders in a shareholders' meeting.

As a result of the foregoing, the aggregate allocations to the statutory funds are 10% of the profit of the companies now comprising the Group established in the PRC for the year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to statutory reserve funds reach 50% of the respective subsidiaries' registered capital, the operating subsidiaries will no longer be required to set aside any of their profit attributable to equity holders as statutory reserve funds.

Under PRC law, dividends may be paid only out of distributable profits, which are the retained earnings of the companies now comprising the Group established in the PRC, as determined in accordance with PRC accounting rules and regulations. The Company will not ordinarily pay any dividends in a year in which it does not have any distributable earnings.

The Company can give no assurance that any dividends will be paid. You should consider the assumptions underlying the Group's forecasts contained in "Profit Forecast" in Appendix IV to this prospectus, the risk factors affecting the Group contained in "Risk Factors" and the cautionary notice regarding forward-looking statements contained in "Forward-looking Statements".

Distributable Reserves

The Company was incorporated in Bermuda on 17 August 2005, and there were no reserves available for distribution to the shareholders as at 30 September 2005.

No Material Adverse Change

The Directors have confirmed that there has been no material adverse change in the Group's financial or trading position since 30 September 2005 (being the date to which the Group's latest combined financial results were prepared, as set out in the Accountants' Report on the Group in Appendix I to this prospectus).

FUTURE PLANS AND PROSPECTS

The Group aims to become the world's leading manufacturer of packaging paperboard products. To achieve this, among other strategies, the Group plans to significantly expand its production capacity in the next few years.

The Group plans to start constructing in fiscal year 2006, and bring online by fiscal year 2007, PM11 in Dongguan with a planned annual production capacity of 500,000 tonnes of coated duplex board with grey back, PM12 in Dongguan with a planned annual production capacity of 400,000 tonnes of linerboard and PM13 in Taicang with a planned annual production capacity of 400,000 tonnes of high performance corrugating medium. In addition, the Group plans to start constructing in fiscal year 2007, and bring online by fiscal year 2008, additional paper machines with aggregate annual production capacity of 800,000 tonnes.

The Directors believe that the Group is well positioned to seize growth opportunities in China's packaging paper markets resulting from China's role as a global manufacturing and export center. According to RISI, China's aggregate consumption of containerboard increased at a compound annual growth rate of 18.3% from approximately 13.0 million tonnes in 2002 to approximately 18.2 million tonnes in 2004. From 2002 to 2004, the consumption of containerboard products has been exceeding the domestic production in China of such products. Based on RISI forecasts, China's consumption of containerboard is projected to grow from 18.2 million tonnes in 2004 to 28.2 million tonnes in 2009, representing a projected compound annual growth rate of 9.2%. The Group also believes it is well positioned to capture future growth opportunities as it has already made substantial capital investment to secure valuable resources, including power plants capable of supporting additional annual production capacity of approximately 1,000,000 tonnes at each of its Dongguan and Taicang sites and land use rights sufficient to accommodate its current expansion plans.

See "Business — Business Strategies" for a detailed description of the Group's future plans.

USE OF PROCEEDS

The Directors believe that the Global Offering will raise and strengthen the Group's corporate profile and capital base, and will provide funding for achieving the Group's business strategies and carrying out its future plans.

The net proceeds of the Global Offering are estimated to be approximately HK$2,934 million, before exercise of the Over-allotment Option, after deducting underwriting commission and other estimated expenses and assuming an initial public offering price of HK$3.125 per Share, being the mid-point of the stated range of the Offer Price, or approximately HK$3,384 million if the Over-allotment Option is exercised in full, after deducting underwriting commission and other estimated expenses and assuming the same mid-point Offer Price. The Directors intend to use such net proceeds as follows:

- not more than 55% of the net proceeds, or approximately RMB1,678 million (equivalent to HK$1,614 million), to fund capital expenditures on PM11, PM12 and PM13 which the Group plans to begin construction in the current fiscal year 2006 and bring online by fiscal year 2007;

- not more than 35% of the net proceeds, or approximately RMB1,068 million (equivalent to HK$1,027 million), (a) to repay a portion of the short-term bank borrowings with interest rates ranging from 4.65% to 5.76% per annum, and (b) the remaining balance of such portion, if any, after the settlement of the aforementioned short-term bank borrowings, to repay part of the long-term bank borrowings at interest rates ranging from 3.85% to 6.21% per annum; and

- the remaining amount to provide funding for working capital and other general corporate purposes.

The Directors intend to use additional net proceeds of approximately HK$450 million (the mid-point Offer Price of HK$3.125 per Share) that the Group estimates it will receive from subscription for additional Shares in the event the Over-allotment Option is exercised in full to fund the Group's capital expenditure and repay debt obligations.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if the Group is unable to effect any part of its development plan as intended, it may hold such funds in short-term deposits so long as it deems to be in the best interests of the Group. In such event, the Company will comply with the appropriate disclosure requirements under the Listing Rules.

OVERVIEW

Set forth below are summaries of certain PRC laws and regulations applicable to paper products manufacturers in China.

Government policies and regulations affecting the paper manufacturing industry in China

Historically, the paper manufacturing industry in China was characterized by a large number of small-scale, highly pollutive, low technology producers with minimal capacity for producing high-grade paper. To address concerns over environmental protection, the State Council issued a Decision Regarding Several Issues Relating to Environmental Protection (關於環境保護若干問題的決定) in August 1996 announcing clear and stringent rules and requirements to reduce industrial pollution. The paper manufacturing industry in China underwent consolidation in the past decade as a result of such notice requiring the shutdown of small scale paper mills with an annual production of less than 50,000 tonnes by 30 September 1996. In the few years following the issuance of such notice, a few thousand mills were estimated to have been ordered to close. In addition, other small scale paper mills closed because they were unable to compete with large scale paper manufacturers who were able to achieve economies of scale from mass production and procurement of raw materials at low cost, because they were unable to meet the applicable environmental standards and still remain competitive, or because they were uncompetitive for other reasons such as ability to produce high quality products. Furthermore, the expansion of urban areas made it more profitable for the paper mills to abandon their paper production operations and use their land for development of commercial or residential properties. The consolidation of the paper manufacturing industry in China as well as the increasing demand of high quality paper products attracted many foreign paper manufacturers to enter the China paper manufacturing market to operate large scale, technologically advanced and modern production facilities. Notwithstanding this consolidation, the paper manufacturing industry in China currently remains relatively fragmented.

For the past few years, the China's paper manufacturing industry has relied heavily on imports to meet its growing domestic and export demand. The PRC government has implemented a series of policies to deal with the short supply and promote capacity expansions in China's pulp and paper industry. As part of China's tenth Five-Year Plan during the implementation period from 2001 to 2005, the PRC government aims to increase domestic production of paper and paperboard by 40 million tonnes and pulp by 2.2 million tonnes according to the guidelines set by the China National Light Industry Council, an organization approved by the State Council and responsible for the development and promotion of paper and pulp industry in China. A summary of the PRC government policies affecting China's paper manufacturing industry is set out below.

The PRC government promulgates the Catalogue of Industry Guidelines for foreign investment industries from time to time to regulate foreign investment in certain industries in the PRC. In the past years, there have been several changes in the policies and regulations on foreign investment in paper manufacturing industry in the PRC.

On 20 June 1995, the Three Authorities promulgated the Catalogue of Industry Guidelines, under which foreign investment in manufacture of commercial-grade paper pulp was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On 31 December 1997, the Three Authorities promulgated the Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue for the Guidance of Foreign Investment Industries on January 1, 1998. Pursuant to the Catalogue of Industry Guidelines, foreign investment in manufacture of paper pulp with an annual production capacity of over 170,000 tonnes of wood pulp and a related raw material base tonnes was encouraged, foreign investment in manufacture of paper and paper plate was restricted, foreign investment in manufacture of rice paper was prohibited and foreign investment in the other paper manufacturing projects was permitted.

On 11 March 2002, the Three Authorities promulgated a revised Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue of Industry Guidelines on 1 April 2002. Under the new Catalogue of Industry Guidelines, foreign investment in (1) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanic wood pulp (CTMP, BCTMP, APMP) production capacity of 100,000 tonnes or more, and raw materials forest bases (limited to joint ventures and co-operative ventures), or (2) production of high-grade papers and paperboards (excluding newsprint) was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On 30 November 2004, MOFCOM and the NDRC promulgated the Catalogue of Industry Guidelines, which took effect and superseded the previous Catalogue of Industry Guidelines on 1 January 2005. As at the Latest Practicable Date, the Catalogue of Industry Guidelines is still in effect. Pursuant to the Catalogue of Industry Guidelines, foreign investment in (1) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more (only in the form of equity joint ventures and co-operative ventures), or (2) manufacture of high-grade papers and paperboards (only in the form of equity joint ventures and co-operative ventures) is encouraged, foreign investment in manufacture of rice paper is prohibited and foreign investment in other paper manufacturing projects is permitted.

Environmental protection regulations applicable to paper manufacturing industry

In PRC, there are strict environmental protection regulations applicable to paper manufacturing industry. Each of the various paper manufacturing phases, including without limitation the construction of paper manufacturing projects, completion of the construction, daily operation and manufacture of paper, is governed by the respective environmental protection regulations.

Environmental impact appraisal

On 29 November 1998, the State Council promulgated the Ordinance of Environmental Management for the Construction Project (建設項目環境保護管理條例). On 28 October 2002 the Standing Committee approved the Law of the People's Republic of China on Appraising of Environment Impacts (中華人民共和國環境影響評價法) which became effective on 1 September 2003. According to the aforesaid laws, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an environmental impact record of analysing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed. Units responsible for the construction projects must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. If the units fail to submit the aforesaid environmental impact appraisal documents according to PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant construction projects shall not approve such projects and the construction units shall not commence the construction.

According to the Classified Directory for Environmental Management of Construction Projects (建設項目環境保護分類管理名錄) and the Provisions on the Classificatory Examination and Approval of EIA Documents of Construction Projects (建設項目環境影響評價文件分級審批規定) as promulgated by the SEPA on 13 October 2002 and 1 November 2002 respectively (both of which came into effect on 1 January 2003), an environmental impact report is required for all paper manufacturing projects (including manufacture of recycled paper). As for the paper manufacturing projects with annual production capacity of 100,000 tonnes or more, an environmental impact appraisal is required to be prepared and approved by SEPA.

In order to further regulate examination and approval of environmental impact appraisals of construction projects at various levels, SEPA has promulgated the Notice of Strengthening Examination and Approval of Environmental Impact Appraisals of Construction Projects at Various Levels (關於加強建設項目環境影響評價分級審批的通知) on 15 December 2004, according to the State Council's Decision to Reform Investment System (國務院關於投資體制改革的決定). Pursuant to the aforesaid notice, the environmental impact appraisals of the paper pulp projects with annual production capacity of 100,000 tonnes or more shall be approved by SEPA.

In compliance with applicable laws and regulations, the Group has prepared environmental impact statements and design environmental protection facilities as an integral part of all of the Group's construction and expansion projects, and submit such plans at the project proposal, feasibility study, design and commissioning stages to the relevant environmental protection authorities.

Inspection and acceptance of environmental protection facilities

According to the Measures on Pollution Sources Monitoring promulgated by SEPA on 2 November 1999, the enterprises carrying on construction projects with pollution sources must apply to the relevant environmental protection authorities which are responsible for approving such construction projects for inspection and acceptance of the completed construction projects or the completed environmental protection facilities. The aforesaid application shall be made before the construction projects or the environmental protection facilities are put into operation. The results of supervision done by the supervision institutions of environmental protection will form the basis of the aforesaid inspection and acceptance. Since paper manufacturing projects are regarded as construction projects with pollution sources, the aforesaid inspection and acceptance of environmental protection facilities is required on completion of paper manufacturing projects.

Discharge of sewage

As required in the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 by the Standing Committee, enterprises discharging any pollutants in their daily operation and manufacture shall observe the national discharge standards which are regulated by SEPA. In accordance with the aforesaid law, SEPA has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises. Since paper manufacturing enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as regulated by SEPA from time to time.

On 20 March 1988, SEPA promulgated the Interim Measures on the Administration of Water Pollutants Discharge Permit (水污染物排放許可證管理暫行辦法), which regulates that any units discharging pollutants into water directly or indirectly shall apply to the local environmental protection authorities for the Discharge Permit (排放許可證) or the Provisional Discharge Permit (臨時排放許可證), based on such units' report and registration of discharge according to laws. The Discharge Permit is issued to units which discharge pollutants within the regulated discharge amount, and the Provisional Discharge Permit is issued to units which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount in a certain time limit. Since paper manufacturing enterprises discharge pollutants to the water in the course of production, they are required to apply for the Discharge License or the Provisional Discharge Permit as required by the aforesaid regulation.

Under the Measures on Pollution Sources Monitoring, enterprises discharging pollutants are subject to supervision of the pollution sources in their daily operation. According to the business nature of such enterprises, the requirements of the environmental management, the class of the discharged pollutants and the national pollutants discharge standards, the local environmental protection authorities will supervise the enterprises on their discharge outlets of pollutants and pollutants treatment facilities regularly. Since paper manufacturing enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

Regulations in relation to water-drawing during the course of paper manufacturing

According to the Water Law of the PRC (中華人民共和國水法) which was promulgated by the Standing Committee on 29 August 2002 and took effect on 1 October 2002, any units and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for the Water-drawing Permit (取水許可證) and pay the water resource fees in order to obtain the water-drawing right in accordance with the national water-drawing permit system and the water resource fee system. The State Council is responsible for stipulating the detailed rules regarding the implementation of the water-drawing permit system and the collection of water resource management fees. Since paper manufacturing enterprises use a large amount of water in the course of production, such enterprises are required to apply for the Water-drawing Permit and pay the water resource fees in accordance with the aforesaid law. As stated in the Rules on the Implementation of the Water Drawing Permit System (取水許可制度實施辦法) which was promulgated by the State Council on 11 June 1993 and took effect on 1 September 1993, the main procedures of applying for the Water-drawing Permit are: (i) when construction units need to apply or re-apply for the Water-drawing Permit for their construction projects of new construction, re-construction or expansion, they shall submit a preliminary application for the Water-drawing permit to the water administrative departments at county level or above before obtaining approval on the construction projects, in order to obtain a preliminary approval on such application; and (ii) after the construction units have obtained an approval on their construction projects, they shall make a formal application for the Water-drawing Permit to the water administrative departments at county level or above.

Regulations in relation to the import of recovered paper

PRC Customs, General Administration is the highest authority for supervising and administering the customs points for entering into and departing from the PRC and is responsible for customs administration throughout the nation.

The PRC Customs Law (中華人民共和國海關法) is intended to protect PRC sovereignty and interests and to strengthen the administration of customs supervision. In accordance with the PRC Customs Law, PRC Customs, General Administration has primary responsibility for:

- supervising the entering into and departing from the PRC of transportation tools, goods, luggage, postal items and other articles;
- collecting customs duties and other taxes and fees;
- investigating and suppressing smuggling; and
- preparing customs statistics and conducting other customs affairs.

On 30 October 1995, the Standing Committee passed the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法) which was later amended on 29 December 2004 and took effect on 1 April 2005. It stipulates that the units and individuals that collect, store, utilize, or dispose of solid wastes shall take precautions against the spread, loss, and leakage of the solid wastes as well as other measures for preventing the solid wastes from polluting the environment and are forbidden to dump, pile, abandon or scatter solid wastes without permission. The import of solid wastes used as raw materials is administered under two systems: restricted import and automatic import licence. Units and individuals that import solid wastes used as raw materials under the automatic import licence category shall obtain the automatic import license according to the relevant regulations. The solid wastes imported shall be in compliance with the national environmental protection standards and be examined and approved by the quality supervision, inspection and quarantine departments.

On 1 March 1996 and 26 July 1996, the State Environmental Protection Administration, the former Ministry of Foreign Trade and Economic Cooperation, the Customs General Administration, the State Administration for Industry and Commerce and the former State Bureau of Import and Export Commodities Inspection promulgated the Interim Provisions for the Administration of Environmental Protection regarding the Import of Waste Materials (廢物進口環境保護管理暫行規定) and its supplementary provisions respectively, which took effect on 1 April 1996 and 1 August 1996 respectively. The aforesaid provisions provide that any units or individuals that import wastes, including recovered paper, into the PRC shall obtain the Waste Import Licence (進口廢物批准證書) from the SEPA and provide the Certificate of Approved Pre-shipping Inspection on Imported Waste Materials (進口廢物裝運前檢驗合格證明) issued by the commodities inspection institutions of the PRC or other commodities inspection institutions as appointed or recognised by the State Bureau of Commodities Inspection. On 18 January 2002, the SEPA issued the Notice of Issues on the Adjustment of the Administration of Environmental Protection regarding the Import of Waste Materials (關於調整廢物進口環境保護管理有關問題的通知), under which the import of recovered paper used as raw materials is administered under the automatic registration system. The customs examine and approve the import of recovered paper based on the Waste Import Permit with such wording as "automatic import licence" issued by SEPA and the Customs Pass for Imported Goods (入境貨物通關單) issued by the inspection and quarantine institutions. Therefore, the paper manufacturing enterprises shall apply for the Waste Import Permit according to the aforesaid regulations when they import recovered paper used as raw materials.

Subject to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) passed on 21 February 1989 and revised on 1 October 2002 by the Standing Committee, imported wastes shall be inspected by the commodities inspection institutions. Further, in accordance with the Measures Governing the Management of Pre-shipping Inspection on Imported Waste Materials (Tentative) (進口廢物裝運前檢驗管理辦法(試行)) promulgated by the former State Bureau of Commodities Inspection on 12 September 1996, the wastes permitted to be imported into the PRC as raw materials shall be inspected before shipping. Such pre-shipping inspection shall be undertaken by the inspection institutions which are legally established in the exporting countries or areas and are accepted by the State Bureau of Commodities Inspection. The Supervision for Inspection Institutions to Certify Imported Wastes Materials before Shipping (進口廢物原料裝運前檢驗機構認可管理辦法(試行)) which was promulgated by the State Entry-Exit Inspection and Quarantine Bureau on 22 November 1999 and took effect on 1 January 2000 regulates the recognition of the inspection institutions in the exporting countries. Since recovered paper imported as raw materials by the paper manufacturing enterprises is categorised as permitted import wastes of the PRC, such import of recovered paper shall be subject to the aforesaid regulations on inspection and quarantine.

To further strengthen the administration of the import of wastes, on 15 December 2003, the AQSIQ issued the no. 115 announcement in 2003. According to the announcement, an administrative measure on tentative registration of the Exporting Enterprises is adopted. Since 1 July 2004, for those Exporting Enterprises which fail to complete the tentative registration with AQSIQ, they are forbidden to export wastes used as raw materials to the PRC. On 8 May 2004, the AQSIQ promulgated the Implementation Rules on the Registration of Foreign Enterprises Exporting Wastes used as Raw Materials to the PRC (進口廢物原料境外供貨企業註冊實施細則), which clearly stipulates the requirements and procedures of registration, and the post-registration, continuing administration of such Exporting Enterprises. On 23 June 2004 and 26 October 2004, the AQSIQ issued the no. 75 announcement in 2004 and the no. 159 notice of the year 2004 respectively, the implementation date of which were deferred firstly to 1 November 2004, and then to 1 January 2005. As required in the no. 159 notice of the year 2004, as from 1 January 2005, the inspection institutions in charge of pre-shipping inspection of imported waste materials shall only accept inspection applications from the Exporting Enterprises which have registered with AQSIQ and shall specify the registration number of the Exporting Enterprises on their Certificates of Pre-shipping Inspection (裝運前檢驗證書). Based on the aforesaid regulations, as of 1 January 2005, the Exporting Enterprises must register with AQSIQ before they can export paper to the PRC.

Taxes and duties applicable to paper manufacturing industry

Elimination of value-added tax rebates for paper and paperboard exports

In accordance with the notice on the adjustment of the rate of value-added tax rebate for exported goods jointly issued by the Ministry of Finance and the State Administration of Taxation on 13 October 2003, effective from 1 January 2004, the value-added tax rebate on the export of kraft pulp and paperboard was eliminated. The elimination of the value-added tax rebate is intended to discourage the export of paper and paperboard due to increased domestic demand for such products. The elimination of the value-added tax rebate also encouraged manufacturers of such products to make domestic sales. The increase in domestic supply may result in a reduction of imports of such products.

Reduction of tariffs on imported high-grade paper production equipment

Tariffs on imported high-grade paper production equipment have been reduced in recent years to facilitate the introduction of new technology to expand capacity and increase efficiency. Foreign-invested enterprises meeting certain qualifications and regulatory requirements are entitled to tariff-free treatment on production equipment imported for self-use.

Reduction of import tariffs on paper products and raw materials

As part of China's obligation subsequent to its accession to the World Trade Organization, China has reduced the import tariff on certain paper products. Effective from 1 January 2005, the import tariff for imported kraftlinerboard is 5.0% and the import tariff for corrugating medium is 7.5%. The reduction of import tariff on imported kraftlinerboard and corrugating medium may encourage import of such products which may increase competition in the domestic market but also ease the supply shortage.

Since 1999, import tariffs for recovered paper and kraft pulp have been eliminated.

Anti-dumping duties

In recent years, China has initiated anti-dumping investigations and imposed anti-dumping duties on a broad range of imported paper products, including linerboard, newsprint and coated wood-free paper in an effort to protect domestic manufacturers and further attract foreign investment to expand their capacities in China. Upon receipt of complaints from a group of domestic producers (including state-owned enterprises, Sino-foreign joint ventures and wholly foreign-owned enterprises) which represent at least 50 percent of the total production of a specific category of product in China, the Ministry of Commerce has the authority to initiate the investigating and assess anti-dumping duties against imported products from a certain country or countries.

In March 2004, China initiated an antidumping investigation against imports of linerboard from the United States, South Korea, Taiwan and Thailand upon receipt of a petition jointly filed by a number of domestic paper manufacturers, including the Group, in January 2004. The Ministry of Commerce imposed provisional anti-dumping duties against linerboard imported from the United States, Korea, Taiwan and Thailand on 31 May 2005 and issued its definitive ruling on 30 September 2005 to impose final anti-dumping duties. The amounts of anti-dumping duties payable range from 7.0% to 65.2% of the value of the imported products. Effective from 9 January 2006, however, China withdrew its anti-dumping measures against these countries.

UNDERWRITERS

Public Offer Underwriters

BNP Paribas Peregrine Capital Limited
BOCI Asia Limited
Merrill Lynch Far East Limited
BCOM Securities Company Limited
CITIC Capital Markets Limited
DBS Asia Capital Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Kim Eng Securities (Hong Kong) Limited
Pacific Foundation Securities Limited
Phillip Securities (Hong Kong) Limited
Tai Fook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offering

Public Offer Underwriting Agreement

Pursuant to the Public Offering, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be offered as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for the Public Offer Shares are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

(a) any new law or regulation or any change in any existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction;

(b) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development in local, national or international, financial, political, military, industrial, legal, fiscal, economic, regulatory, operational or market matters or conditions in Hong Kong, the PRC, Japan, the United Kingdom or the United States;

(c) any change or development in the conditions of the PRC market and the conditions of the Hong Kong, Japan, the United States and the United Kingdom equity securities markets;

(d) the imposition of any general moratorium on commercial banking activities in Hong Kong, the PRC, Japan, the United States or the United Kingdom;

(e) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the Tokyo Stock Exchange, the American Stock Exchange, the New York Stock Exchange or in the NASDAQ System, or any material disruption in commercial banking or securities settlement, payment or clearance services or procedures in Hong Kong, Japan, the United Kingdom or the United States due to exceptional financial circumstances or otherwise;

(f) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in the PRC, the United States or any other jurisdiction relevant to any member of the Group;

(g) the outbreak or escalation of hostilities involving Hong Kong, the PRC, Japan, the United States, the United Kingdom or any other jurisdiction relevant to any member of the Group, or the declaration by Hong Kong, the PRC, Japan, the United States or the United Kingdom, of a national emergency or war or the occurrence of any other calamity or crisis;

(h) the imposition of any moratorium, suspension or restriction on trading in the Shares by the SFC on the Stock Exchange;

(i) any imposition of economic sanctions by the US on the PRC, Hong Kong or any other jurisdiction relevant to any member of the Group;

(j) any adverse change or development or event involving a prospective adverse change in the business or in the financial or the earnings of the Group which will have a material adverse effect on the Group taken as a whole;

(k) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic (including SARS or H5N1 or such related/mutated forms), terrorism, strike or lock-out which has a material adverse effect on the financial position of the Group as a whole; or

(l) a petition having been presented for the winding up or liquidation of any member of the Group or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or anything analogous thereto occurring in respect of any member of the Group or any material litigation or claim being instigated against any member of the Group, or a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity, or any loss or damage sustained by any member of the Group, which, individually or in the aggregate and in the sole opinion of the Joint Global Coordinators (on behalf of the Public Offer Underwriters):

(1) is or shall be or is likely to be materially adverse to the business or financial condition or prospects of the Group taken as a whole;

(2) has or shall have or is likely to have a material adverse effect on the success, marketability or pricing of any of the Global Offering; or

(3) makes it inadvisable or inexpedient or impracticable to proceed with the Global Offering;

(ii) there is any change or development or event involving a prospective change, or a materialization of, any of the risks set out in the section headed "Risk Factors" of this prospectus which has a material adverse effect on the success of the Global Offering;

(iii) any statement contained in this prospectus or the Application Forms becomes or is discovered to be untrue, inaccurate, incomplete or misleading in any material respect with reference to the facts and circumstances then subsisting;

(iv) there shall have occurred any matter or event, act or omission which gives rise or is reasonably likely to give rise to any material liability of any of the Company pursuant to the indemnities contained in the Public Offer Underwriting Agreement;

(v) any matter or event arises or has been discovered rendering, or there comes to the notice of any of the Joint Global Coordinators, the Joint Sponsors or the Underwriters any matter or event showing, any of the warranties given by the Company and some of the Controlling Shareholders in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading or having been breached in any material respect or having been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect; or

(vi) there is any breach on the part of the Company and/or any of the Controlling Shareholders of any of the material provisions of the Public Offer Underwriting Agreement and other underwriting documents in any material respect,

then the Joint Global Coordinators may, upon giving notice to the Company and the Public Offer Underwriters, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings from the Company and the Controlling Shareholders

The Company undertakes to each of the Joint Global Coordinators, Joint Sponsors and Public Offer Underwriters that, and each of the Controlling Shareholders undertakes to procure that:

(i) within the first six months from the Listing Date, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), or in certain prescribed circumstances, which includes the issue of Shares pursuant to Pre-IPO Share Option Scheme and the Share Option Scheme or with the prior written consent of the Joint Global Coordinators and of the Stock Exchange, and unless in compliance with the requirements of the Listing Rules, the Company shall not (a) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of the Shares or any securities (including warrants or other securities convertible into or exercisable or exchangeable for or that represent the right to receive any of the Shares) or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise, or offer or agree to do any of the foregoing, or announce any intention to do so; and

(ii) in the event of any issuance or disposal by the Company of any of the foregoing as set out in paragraph (i) above by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six-month period after the Listing Date, the Company shall take all reasonable steps to ensure that any such act shall not create a disorderly or false market for any Shares or other securities of the Company.

Each of the Controlling Shareholders undertakes to each of the Company, the Joint Global Coordinators, the Joint Sponsors and the Public Offer Underwriters that:

(i) during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date (the "First Period"), it/he/she shall not, and shall procure that the relevant registered holder(s) and/its/his/her associates and companies controlled by it/him/her and any nominee or trustee holding in trust for it/him/her shall not, without the prior written consent of the Joint Global Coordinators and unless in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or shares in the capital of Best Result ("Best Result Shares") or shares in the capital of Max Dragon ("Max Dragon Shares") held by it/him/her or any of its/his/her associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him/her or other securities of the Company that are convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or Best Result Shares or Max Dragon Shares (as the case may be) or such other securities; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or Best Result Shares or Max Dragon Shares (as the case may be), whether any of the foregoing transactions is to be settled by delivery of Shares or Best Result Shares or Max Dragon Shares (as the case may be) or such other securities, in cash or otherwise;

(ii) it/he/she shall not, and shall procure that the relevant registered holder(s) and its/his/her associates or companies controlled by it/him/her and any nominee or trustee holding in trust for it/him/her shall not, without the prior written consent of the Stock Exchange in the six-month period commencing on the expiry of the First Period set out in paragraph (i) above, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by Best Result or Max Dragon upon completion of the Global Offering or Best Result Shares or Max Dragon Shares held by it/him/her or any of its/his/her associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him/her if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, Best Result, Max Dragon, Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang would together cease to be controlling shareholders (as defined in the Listing Rules) of the Company or if Ms. Cheung, Mr. Liu and Mr. Zhang would together cease to be controlling shareholders (as defined in the Listing Rules) of the Company;

(iii) in the event of a disposal of any Shares or securities of the Company or any interest therein within six months immediately following the expiry of the First Period set out in paragraph (i) above, it/he/she shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of the Company; and

(iv) it/he/she shall, and shall procure that its/his/her associates and companies controlled by and nominees or trustees holding in trust for it/him/her shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/him/her or by the registered holder controlled by it/him/her of any Shares.

Each of the Controlling Shareholders undertakes to each of the Company, the Joint Global Coordinators, the Joint Sponsors, the Public Offer Underwriters and the Stock Exchange that, during the period commencing on the date by reference to which disclosure of its/his/her direct or indirect shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she shall:

(i) when it/he/she or its/his/her nominee or trustee holding in trust for it/him/her pledges or charges any of the Shares or other securities of the Company beneficially owned by it/him/her in favour of any authorized institution pursuant to Note (2) to Rule 10.07 of the Listing Rules, immediately inform the Company of such pledge or charge (as the case may be) together with the number of Shares or securities so pledged or charged; and

(ii) when it/he/she receives any indication, either verbal or written, from the pledgee or chargee of any of the Shares or securities it/he/she pledged or charged shall be disposed of, immediately inform the Company of such indication.

The Company shall inform the Joint Sponsors and the Stock Exchange as soon as the Company has been informed by any of Best Result, Max Dragon, Ms. Cheung, Mr. Liu, Mr. Zhang or Ms. Chang of the above matters (if any) and disclose such matters by way of an announcement which is published in the newspapers in Hong Kong as soon as possible.

Confirmations from trustees of YC 2006 QuickGRAT, MCL Living Trust, The Golden Nest Trust and The Zhang Family Trust

Each of Ms. Cheung and HSBC Bank USA, National Association, being trustees of YC 2006 QuickGRAT, confirms that:

(i) under the terms of YC 2006 QuickGRAT, the 37,073 shares in Best Result (the "**YC 2006 QuickGRAT Shares**") being the assets held under YC 2006 QuickGRAT shall not be vested in or otherwise distributed to any beneficiary of YC 2006 QuickGRAT; and

(ii) she/it shall not offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or other transfer or dispose of any of the YC 2006 QuickGRAT Shares held by her/it or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such YC 2006 QuickGRAT Shares, whether any of the foregoing transactions is to be settled by delivery of YC 2006 QuickGRAT Shares, in cash or otherwise,

in each case during the period commencing on the date by reference to which disclosure of her/its interests is made in this prospectus and ending on the date which is 12 months from the Listing Date,

PROVIDED THAT if it is necessary pursuant to the terms of YC 2006 QuickGRAT to distribute YC 2006 QuickGRAT Shares to Ms. Cheung or to her estate in order to pay to her the annuity amount required during such period, she/it shall not be prevented from doing so.

Each of Ms. Cheung, Mr. Liu and Bank of The West, being trustees of MCL Living Trust, confirms that:

(i) under the terms of MCL Living Trust, the 37,053 shares in Best Result (the "**MCL Living Trust Shares**") being the assets held under MCL Living Trust shall not be vested in or otherwise distributed to any beneficiary of MCL Living Trust; and

(ii) she/he/it shall not offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or other transfer or dispose of any of the MCL Living Trust Shares held by her/him/it or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such MCL Living Trust Shares, whether any of the foregoing transactions is to be settled by delivery of MCL Living Trust Shares, in cash or otherwise, in each case, during the period commencing on the date by reference to which disclosure of her/his/its interests is made in this prospectus and ending on the date which is 12 months from the Listing Date.

BNP Paribas Jersey Trust Corporation Limited, being trustee of The Golden Nest Trust and The Zhang Family Trust, confirms that it shall not:

(i) exercise its discretionary powers under the terms of The Golden Nest Trust related to the vesting in or the distribution to any beneficiary of The Golden Nest Trust any of the 15,874 shares in Best Result (the "**Golden Nest Trust Shares**") which is wholly owned by Winsea Investments Limited, the shares of which are the only asset of The Golden Nest Trust, or any of the shares in Winsea Investments Limited (the "**Winsea Shares**"); or

(ii) exercise its discretionary powers under the terms of The Zhang Family Trust related to the vesting in or the distribution to any beneficiary of The Zhang Family Trust any of the 10,000 shares in Best Result (the "**Zhang Family Trust Shares**") which is wholly owned by Acorn Crest Limited, the shares of which are the only asset of The Zhang Family Trust, or any of the shares in Acorn Crest Limited (the "**Acorn Shares**");

(iii) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or other transfer or dispose of any of the Golden Nest Trust Shares, the Winsea Shares, the Zhang Family Trust Shares or the Acorn Shares held by it or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of the Golden Nest Trust Shares, the Winsea Shares, the Zhang Family Trust Shares and/or the Acorn Shares, as the case may be, whether any of the foregoing transactions is to be settled by physical share delivery, in cash or otherwise,

in each case, during the period commencing on the date by reference to which disclosure of its interests is made in this prospectus and ending on the date which is 12 months from the Listing Date.

The International Placing

In connection with the International Placing, it is expected that the Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, the International Underwriters will severally agree to purchase all Shares being sold in the International Placing.

The Company is expected to grant to the Joint Global Coordinators the Over-allotment Option, exercisable by the Joint Global Coordinators within 30 days from the date of this prospectus, to require the Company to issue and allot up to an aggregate of

150,000,000 additional Shares, representing in aggregate not more than 15% of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Placing, solely to cover over-allocations, if any, in the International Placing.

Commission and Expenses

The Public Offer Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed or unpurchased Public Offer Shares reallocated to the International Placing, the Company will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Public Offer Underwriters). For International Placing Shares reallocated to the Public Offering, the Company will pay an underwriting commission, at the rate applicable to the International Placing, to the International Underwriters.

The aggregate underwriting commissions and fees, together with listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK$191 million, assuming the mid-point Offer Price of HK$3.125 and the Over-allotment Option is not exercised, and are payable by the Company.

Public Offer Underwriters' Interests in the Company

None of the Public Offer Underwriters has any shareholding interests in the Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

Save as disclosed above, none of the Joint Sponsors and the Public Offer Underwriters is legally or beneficially interested in any Shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group nor any interest in the Global Offering.

The Company has in accordance with Rule 3A.19 of the Hong Kong Listing Rules retained Merrill Lynch Far East Limited as its compliance adviser. The term of the appointment shall commence on the Listing Date and end on the date on which the Company distributes the Company's annual report in respect of its financial results for the first full financial year commencing after the Listing Date.

THE GLOBAL OFFERING

The Global Offering comprises 1,000,000,000 Shares initially being offered by the Company for subscription by way of International Placing and Public Offering (assuming the Over-allotment Option is not exercised). A total of 900,000,000 Shares, representing an aggregate of 90% of the initial total number of the Offer Shares, will initially be offered under the International Placing to professional, institutional and/or other investors in Hong Kong and certain other jurisdictions outside the US in accordance with Regulation S and in the US to QIBs in reliance on Rule 144A. A total of 100,000,000 Shares, representing 10% of the initial total number of the Offer Shares, will initially be offered under the Public Offering.

The number of Shares to be offered under the Public Offering and the International Placing are subject to reallocation and, in the case of the International Placing only, the Over-allotment Option, as described below.

Investors may apply for Shares under the Public Offering or indicate an interest for Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Public Offering from investors that received International Offer Shares, and to identify and reject indications of interest in the International Placing from investors that received Public Offer Shares. The Public Offering is open to members of the public in Hong Kong as well as to institutional, professional and/or other investors. The International Placing will involve selective marketing of the International Offer Shares to institutional, professional and/or other investors, which are anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Global Offering.

If the Over-allotment Option is exercised in full, the Shares comprised in the Global Offering will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option.

PRICE PAYABLE ON APPLICATION

The maximum Offer Price of HK$3.40 per Share plus brokerage of 1%, trading fee payable to the Stock Exchange of 0.005% and transaction levy payable to the SFC of 0.005% in each case of the Offer Price amounting to a total of HK$3,434.34 per board lot of 1,000 Public Offer Shares is payable in full on application.

If the Offer Price, as finally determined in the manner as set out below, is lower than the maximum Offer Price of HK$3.40 per Share, appropriate refund payments will be made. Further details in this regard are set out in "How to Apply for the Public Offer Shares".

DETERMINING THE OFFER PRICE

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about Friday, 24 February 2006.

The Offer Price will be fixed by agreement between the Company and the Joint Global Coordinators (on behalf of the Underwriters) at or before the Price Determination Date, which is currently scheduled on Friday, 24 February 2006 or by the latest on Monday, 27 February 2006. If the Joint Global Coordinators (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on Monday, 27 February 2006, the Global Offering will not become unconditional and will lapse.

The Offer Price will not be more than HK$3.40 per Share and is currently expected to be not less than HK$2.85 per Share. **Prospective investors should be aware that the Offer Price to be determined at or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters), and with the consent of the Company thinks it appropriate (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range stated in this prospectus), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the day which is the latest day for lodging applications under the Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offering cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of such a change. Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics, as currently set out in "Summary" and any other financial information which may change materially as a result of any such change. Applicants under the Public Offering should note that, even if the indicative Offer Price is so reduced, in no circumstances can applications be withdrawn once submitted, except where a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which limits the responsibility of that person for this prospectus, in which case applications made may be revoked before the said fifth day.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction of the indicative Offer Price range in the manner set out above, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds from the issue of the Public Offer Shares and the International Offer Shares to be received by the Company, assuming that the Over-allotment Option is not exercised and an Offer Price of HK$3.125 per Share (being the mid-point of the stated range of the Offer Price of between HK$2.85 and HK$3.40 per Share) and after deducting commissions and expenses, are estimated to be about HK$2,934 million.

If the Over-allotment Option is exercised in full and assuming an Offer Price of HK$3.125 per Share (being the mid-point of the stated range of the Offer Price of between HK$2.85 and HK$3.40 per Share), the Company would receive additional net proceeds from the issue of new Shares, after deducting commissions and expenses attributable to the exercise of the Over-allotment Option, of about HK$450 million.

The Offer Price, level of indication of interest in the International Placing, basis of allotment and the results of applications of the Public Offering are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 2 March 2006.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of applications for the Offer Shares in the Global Offering are conditional upon:

(a) Listing

The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including Shares which may fall to be issued upon the exercise of the Over-allotment Option and any additional Shares up to 10% of the issued share capital of the Company as at the date of listing of the Shares on the Main Board of the Stock Exchange, which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme); and

(b) Underwriting Agreements

(i) the execution and delivery of the International Underwriting Agreement in accordance with their terms or otherwise, prior to on or about the date of the Price Determination Agreement; and

(ii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming unconditional (which requires, amongst other things, that the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement be entered into) and the obligations under any of the Underwriting Agreements not being terminated in accordance with their terms or otherwise, prior to 8:00 a.m. on the day on which the Shares commence trading on the Main Board of the Stock Exchange.

If, for any reason, the Price Determination Agreement or the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

The consummation of each of the Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If any of the above conditions is not fulfilled (or, where applicable, waived by the Joint Global Coordinators (on behalf of the Underwriters)) at or before 8:00 a.m. on Friday, 3 March 2006, the Global Offering will lapse and notice of the lapse will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, application monies will be returned, without interest. The terms on which money will be returned are set out in "Refund of your money" on the Application Forms.

In the meantime, application monies will be held in one or more separate bank account(s) with Bank of China (Hong Kong) Limited and Standard Chartered Bank (Hong Kong) Limited or any other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE PUBLIC OFFERING

Pursuant to the Public Offering, the Company is initially offering 100,000,000 new Shares, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised), for subscription to the public in Hong Kong at the Offer Price. The Public Offering is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement.

Allocation of the Public Offer Shares to investors under the Public Offering will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

For allocation purposes only, the Public Offer Shares (after taking into account of any reallocation of Offer Shares between the International Placing and the Public Offering referred to below) will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A will initially consist of 45,000,000 Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage and Stock Exchange trading fee and SFC transaction levy) of HK$5 million or less. The Public Offer Shares in pool B will initially consist of 45,000,000 Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage and Stock Exchange trading fee and SFC transaction levy) of more than HK$5 million and up to the total value of pool B. Applicants should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and may only apply for Public Offer Shares in either pool A or pool B.

The Public Offering is open to all members of the public in Hong Kong. An applicant for Shares under the Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him that he has not taken up any Shares under the International Placing nor otherwise participated in the International Placing nor has he indicated (nor will he indicate) an interest under the International Placing, and such applicant's application will be rejected if the said undertaking and confirmation is breached and/or found to be untrue (as the case may be). The Public Offering will be subject to the conditions stated in the paragraph headed "Conditions of the Global Offering" above. The attention of applicants, including nominees who wish to submit separate applications on behalf of different beneficial owners, is drawn to the information regarding multiple applications contained in "How to Apply for the Public Offer Shares". Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares in either pool A or pool B initially being offered for subscription pursuant to the Public Offering will be rejected at the discretion of the Joint Sponsors on behalf of the Company.

EMPLOYEE SUBSCRIPTION

Up to a maximum of 10,000,000 Public Offer Shares, representing 10% of the total number of Shares initially available under the Public Offering and 1% of the Offer Shares, are available for subscription by full-time employees of the Group (excluding the Directors or chief executive of the Company and its subsidiaries, the existing beneficial owners of Shares and their respective associates or connected persons) (the "Eligible Employees") on a preferential basis, if their applications for the Public Offer Shares are made on the **PINK** Application Forms. Allocation of these Public Offer Shares will be based on the written guidelines consistent with the allocation guidelines contained in Practice Note 20 of the Listing Rules and distributed to the Eligible Employees. Under such written guidelines, the allocation will be made on a pro rata basis in an equitable manner based solely on the level of valid applications received from Eligible Employees. The allocation will not be based on the seniority or the length of service of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Public Offer Shares and applications made on **PINK** Application Forms for more than the maximum number of Public Offer Shares available for subscription by Eligible Employees will be rejected.

THE INTERNATIONAL PLACING

Pursuant to the International Placing, the Company is initially offering 900,000,000 new Shares for subscription, these Shares representing 90% of the total number of Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised). The International Placing is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement to be entered into on or about Friday, 24 February 2006.

It is expected that the International Underwriters or selling agents nominated by them on behalf of the Company will conditionally place the International Offer Shares at the Offer Price with professional, institutional and/or other investors in Hong Kong and certain other jurisdictions. Professional and/or institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and/or other securities and corporate entities which regularly invest in shares and /or other securities. In Hong Kong, retail investors should apply for the Public Offer Shares under the Public Offering, as retail investors applying for the International Offer Shares (including applying through banks and/or other institutions) are unlikely to be allocated any International Offer Shares. Prospective investors may be required to give an undertaking and confirmation that he has not applied for or taken up any Public Offer Shares.

The International Placing is subject to the same conditions as stated in the paragraph headed "Conditions of the Global Offering" above. The total number of International Offer Shares to be allotted and issued or transferred pursuant to the International Placing may change as a result of the clawback arrangement referred to in the paragraph headed "Reallocation of the Offer Shares between the Public Offering and the International Placing" below, exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Public Offering.

Allocation of International Offer Shares to investors pursuant to the International Placing will be effected in accordance with the "book-building" process undertaken by the International Underwriters. Final allocation of the International Offer Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares or hold or sell its Shares, after the listing of the Shares on the Main Board of the Stock Exchange. Such allocation is generally intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base for the benefit of the Company and its shareholders taken as a whole. Investors who have not received Public Offer Shares may receive Shares from the International Placing.

Professional and institutional investors may apply for Offer Shares under the Public Offering or receive Offer Shares under the International Placing. However, such investor will only receive Offer Shares under either the Public Offering or the International Placing, but not both.

As part of the International Placing, the Joint Global Coordinators and the Company have entered into corporate placing agreements with the Corporate Investors for each Corporate Investor to purchase at the Offer Price such number of Offer Shares that may be purchased with US$20 million. See "The Corporate Investors."

REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFERING AND THE INTERNATIONAL PLACING

The allocation of Offer Shares between the Public Offering and the International Placing is subject to adjustment on the following basis:

(a) if the number of Shares validly applied for under the Public Offering represents 15 times or more but less than 50 times of the number of Shares initially available under the Public Offering, then an additional 200,000,000 Shares, representing 20% of the Shares being offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised) will be reallocated to the Public Offering from the International Placing, so that an aggregate of 300,000,000 Shares will be available under the Public Offering, representing 30% of the Shares being offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised);

(b) if the number of Shares validly applied for under the Public Offering represents 50 times or more but less than 100 times of the number of Shares initially available under the Public Offering, then an additional 300,000,000 Shares, representing 30% of the Shares being offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised) will be reallocated to the Public Offering from the International Placing, so that an aggregate of 400,000,000 Shares will be available under the Public Offering, representing 40% of the Shares being offered pursuant to the Global Offering (assuming Over-allocation Option is not exercised); and

(c) if the number of Shares validly applied for under the Public Offering represents 100 times or more of the number of Shares initially available under the Public Offering, then an additional 400,000,000 Shares, representing 40% of the Shares initially being offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised) will be reallocated to the Public Offering from the International Placing, so that an aggregate of 500,000,000 Shares will be available under the Public Offering, representing 50% of the Shares being offered pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

International Offer Shares being offered in the International Placing may be re-allocated and made available as additional Public Offer Shares at the discretion of the Joint Global Coordinators (on behalf of the Underwriters) to satisfy valid applications made pursuant to the Public Offering.

If the Public Offer Shares are not fully subscribed for, the Joint Global Coordinators (on behalf of the Underwriters) has the authority (but not an obligation) to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offering to the International Placing in such proportions as it deems appropriate.

The number of International Offer Shares available under the International Placing will be correspondingly reduced or increased (as the case may be) as a result of reallocation (if any) described above.

OVER-ALLOTMENT OPTION

Pursuant to the International Underwriting Agreement, the Company is expected to grant the Joint Global Coordinators a right (but not an obligation) to exercise the Over-allotment Option up to the day which is the 30th day after the date of this prospectus, to require the Company to issue up to an aggregate of 150,000,000 additional Shares, representing approximately 15% of the number of the Offer Shares initially available under the Global Offering. These Shares will be issued or sold (as the case be) at the Offer Price for the purpose of covering over-allocations in the International Placing, if any. Any election in respect of the Over-allotment Shares may be exercised in whole or in part and from time to time.

The Offer Shares will constitute 25.0% of the Company's issued share capital before exercise of the Over-allotment Option and about 27.7% of the enlarged issued share capital of the Company immediately following the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable in accordance to the requirements of the Listing Rules.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Merrill Lynch Far East Limited, as stabilising manager, may, but is not obliged to, over-allocate and/or effect any other transactions with a view to supporting the market price of the Shares at a level higher than which might otherwise prevail in the open market for a limited period. Such stabilising activity may include stock borrowing, making market purchases of Shares in the secondary market or selling Shares to liquidate a position held as a result of those purchases as well as exercising the Over-allotment Option by the Joint Global Coordinators. Any such market purchases will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Merrill Lynch Far East Limited to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Merrill Lynch Far East Limited and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the day on which the application lists close under the Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 150,000,000 Shares, which is approximately 15% of the number of Shares initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of the Shares, Merrill Lynch Far East Limited may maintain a long position in the Shares. The size of the long position, and the period for which Merrill Lynch Far East Limited will maintain the long position is at the discretion of Merrill Lynch Far East Limited and is uncertain. In the event that Merrill Lynch Far East Limited liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by Merrill Lynch Far East Limited is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the 30th day after the day on which the application lists close under the Public Offering. The stabilising period is expected to end on Saturday, 25 March 2006. As a result, demand for the Shares, and its market price, may fall after the end of the stabilising period.

Any stabilising action taken by Merrill Lynch Far East Limited may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the Shares by Merrill Lynch Far East Limited may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by investors.

Merrill Lynch Far East Limited may also cover such over-allocations by, amongst other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares as well as by the exercise of the Over-allotment Option by the Joint Global Coordinators either in full or in part or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In order to facilitate the settlement of over-allocations, Merrill Lynch Far East Limited may borrow up to 150,000,000 shares from Best Result, equivalent to the maximum number of Shares to be offered on a full exercise of the Over-allotment Option, under a stock borrowing agreement. An application on behalf of the Company has been made to the Stock Exchange for a waiver from strict compliance with rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, in order to allow Best Result to enter into and perform its obligations under the stock borrowing agreement on condition that:

— the stock borrowing agreement will only be effected by Merrill Lynch Far East Limited for settlement of over-allocations in the International Placing;

— the maximum number of Shares borrowed from Best Result will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

— no payments or benefits will be made to Best Result in relation to the stock borrowing agreement; and

— the same number of Shares so borrowed must be returned to Best Result on or before the third business day following the earlier of (i) the last day on which Shares may be issued by the Company pursuant to the Over-allotment Option, or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Over-allotment Shares have been issued.

The stock borrowing agreement will be effected in compliance with all applicable laws, rules and regulations.

1. METHODS TO APPLY FOR THE PUBLIC OFFER SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form and/or a **PINK** Application Form; or
- **electronically** instructing HKSCC to cause HKSCC Nominees Limited to apply for Public Offer Shares on your behalf.

You or you and your joint applicant(s) may only make one application (whether individually or jointly) by applying on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) WHITE Application Forms

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

(c) PINK Application Forms

Use a **PINK** Application Form if you are a full-time employee of the Group (other than a Director, the chief executive of the Company and its subsidiaries, an existing beneficial owner of the Shares or their respective associates or connected persons), and want the Public Offer Shares to be registered in your own name and want your application to be given preferential treatment. Up to 10,000,000 Shares under the Public Offering representing approximately 10% of the total number of Shares initially available under the Public Offering and approximately 1% of the Offer Shares, are available for subscription by eligible full-time employees of the Group.

Joint applications are not permitted. You may not apply on behalf of other person(s) as a nominee.

(d) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **WHITE** or **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees Limited to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: Except in the circumstances permitted under the Listing Rules, the Offer Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of the Company or any of its subsidiaries or associates (as defined in the Listing Rules) or connected persons (as defined in the Listing Rules) of any of them or United States person (as defined in Regulation S) or persons who do not have a Hong Kong address.

3. WHERE TO COLLECT THE APPLICATION FORMS

(a) You can collect a **WHITE** Application Form and a prospectus from:

Any participant of the Stock Exchange

or

BNP Paribas Peregrine Capital Limited
61st Floor
Two International Finance Centre
8 Finance Street
Central, Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

Merrill Lynch Far East Limited
17th Floor, ICBC Tower
3 Garden Road
Central, Hong Kong

BCOM Securities Company Limited
3rd Floor, Far East Consortium Building
121 Des Voeux Road
Central, Hong Kong

CITIC Capital Markets Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road
Central, Hong Kong

Kim Eng Securities (Hong Kong) Limited
Room 1901, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Pacific Foundation Securities Limited
11th Floor, New World Tower II
16–18 Queen's Road Central
Central, Hong Kong

Phillip Securities (Hong Kong) Limited
11th-12th Floors, United Centre
95 Queensway
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

Branches	**Address**
Hong Kong Island	
Bank of China Tower Branch	3/F, 1 Garden Road
Central District (Wing On House) Branch	71 Des Voeux Road Central
409 Hennessy Road Branch	409–415 Hennessy Road, Wan Chai
Taikoo Shing Branch	Shop G1006–7, Hoi Sing Mansion, Taikoo Shing
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong

Branches	**Address**
North Point (Kiu Fai Mansion) Branch	413–415 King's Road, North Point
Kowloon	
Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
Humphrey's Avenue Branch	4–4A Humphrey's Avenue, Tsim Sha Tsui
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill
Kwun Tong Branch	20–24 Yue Man Square, Kwun Tong
New Territories	
Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II

or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited**:

Branches	**Address**
Hong Kong Island	
Central Branch	Shop No 16, G/F & LG/F, New World Tower 16–18 Queen's Road Central, Central
DVR Branch	Standard Chartered Bank Building 4–4A Des Voeux Road Central, Central
88 DVR Branch	88 Des Voeux Road Central, Central
Leighton Centre Branch	Shop 12–16, UG/F Leighton Centre 77 Leighton Road, Causeway Bay
Hennessy Road Branch	399 Hennessy Road, Wanchai
Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road Quarry Bay
North Point Centre Branch	North Point Centre, 284 King's Road North Point

Branches	Address
Kowloon	
Kwun Tong Branch	88–90 Fu Yan Street, Kwun Tong
Mongkok Branch	Shop B, G/F, 1/F &2/F, 617-623 Nathan Road Mongkok
Tsimshatsui Branch	10 Granville Road, Tsimshatsui
Cheung Sha Wan Branch	828 Cheung Sha Wan Road Cheung Sha Wan
Telford Gardens Branch	Shop P9–12, Telford Centre, Telford Gardens Tai Yip Street, Kwun Tong
San Po Kong Branch	Shop A, G/F, Perfect Industrial Building 31 Tai Yau Street, San Po Kong
Yaumati Branch	546–550 Nathan Road, Yaumati
New Territories	
Tsuen Wan Branch	Shop C G/F & 1/F, Jade Plaza, No. 298 Sha Tsui Road, Tsuen Wan
Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade Shatin Centre, 2–16 Wang Pok Street, Shatin

(b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 20 February 2006 until 12:00 noon on Thursday, 23 February 2006 from:

(1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

Your broker may have **YELLOW** Application Forms and this prospectus available.

(c) You can collect a **PINK** Application Form from the Company Secretary, Ms. Cheng Wai Chu, Judy, at the Company's head office and principal place of business in Hong Kong at 3129–3140, 31/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 23 February 2006, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited or Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "Where to collect the Application Forms" in this section at the following times:

Monday, 20 February 2006	**—**	**9:00 a.m. to 4:00 p.m.**
Tuesday, 21 February 2006	**—**	**9:00 a.m. to 4:00 p.m.**
Wednesday, 22 February 2006	**—**	**9:00 a.m. to 4:00 p.m.**
Thursday, 23 February 2006	**—**	**9:00 a.m. to 12:00 noon**

(b) PINK Application Forms

Completed **PINK** Application Form, with a cheque or banker's cashier order attached, must be returned to the Company Secretary, Ms. Cheng Wai Chu, Judy, at the Company's head office and principal place of business in Hong Kong at 3129–3140, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 22 February 2006.

(c) Electronic application instructions to HKSCC

CCASS Broker Participants or CCASS Custodian Participants should input **electronic application instructions** at the following times:

Monday, 20 February 2006	**—**	**9:00 a.m. to 8:30 p.m.(1)**
Tuesday, 21 February 2006	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Wednesday, 22 February 2006	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Thursday, 23 February 2006	**—**	**8:00 a.m.(1) to 12:00 noon**

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker Participants or CCASS Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 20 February 2006 until 12:00 noon on Thursday, 23 February 2006 (24 hours daily, except on the last application date).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 23 February 2006 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

(d) Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 23 February 2006, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 23 February 2006, subject to weather conditions. The application lists will not be open in relation to the Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 23 February 2006. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. HOW TO APPLY USING A WHITE OR YELLOW AND/OR PINK APPLICATION FORM

(a) Obtain a **WHITE** or **YELLOW** and/or **PINK** Application Form.

(b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the firstnamed applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

(c) Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK$3.40 per Public Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005%. The table below sets out the total amount payable for the specified number of Public Offer Shares.

Each application must be in one of the numbers set out in the table below:

Table of multiples and payments

No. of Public Offer Shares applied for	Amount payable on application *HK$*	No. of Public Offer Shares applied for	Amount payable on application *HK$*	No. of Public Offer Shares applied for	Amount payable on application *HK$*
1,000	3,434.34	85,000	291,918.90	2,500,000	8,585,850.00
2,000	6,868.68	90,000	309,090.60	3,000,000	10,303,020.00
3,000	10,303.02	95,000	326,262.30	3,500,000	12,020,190.00
4,000	13,737.36	100,000	343,434.00	4,000,000	13,737,360.00
5,000	17,171.70	150,000	515,151.00	4,500,000	15,454,530.00
6,000	20,606.04	200,000	686,868.00	5,000,000	17,171,700.00
7,000	24,040.38	250,000	858,585.00	5,500,000	18,888,870.00
8,000	27,474.72	300,000	1,030,302.00	6,000,000	20,606,040.00
9,000	30,909.06	350,000	1,202,019.00	6,500,000	22,323,210.00
10,000	34,343.40	400,000	1,373,736.00	7,000,000	24,040,380.00
15,000	51,515.10	450,000	1,545,453.00	7,500,000	25,757,550.00
20,000	68,686.80	500,000	1,717,170.00	8,000,000	27,474,720.00
25,000	85,858.50	550,000	1,888,887.00	8,500,000	29,191,890.00
30,000	103,030.20	600,000	2,060,604.00	9,000,000	30,909,060.00
35,000	120,201.90	650,000	2,232,321.00	9,500,000	32,626,230.00
40,000	137,373.60	700,000	2,404,038.00	10,000,000	34,343,400.00
45,000	154,545.30	750,000	2,575,755.00	15,000,000	51,515,100.00
50,000	171,717.00	800,000	2,747,472.00	20,000,000	68,686,800.00
55,000	188,888.70	850,000	2,919,189.00	25,000,000	85,858,500.00
60,000	206,060.40	900,000	3,090,906.00	30,000,000	103,030,200.00
65,000	223,232.10	950,000	3,262,623.00	35,000,000	120,201,900.00
70,000	240,403.80	1,000,000	3,434,340.00	40,000,000	137,373,600.00
75,000	257,575.50	1,500,000	5,151,510.00	45,000,000	154,545,300.00
80,000	274,747.20	2,000,000	6,868,680.00		

* You may only apply for a maximum of 45,000,000 Public Offer Shares, being the total number of Shares originally allocated to each pool A and pool B and the amount payable on such application should be HK$154,545,300.00.

(d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign on the Application Form. If it is a joint application, all applicants must sign on the Application Form. If your application is made through a duly authorised attorney, the Company, the Joint Sponsors (or their respective agents or nominees) may accept or reject the application at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. The Joint Sponsors in their capacities as agents of the Company have full discretion to accept or reject any application, in full or in part, without assigning any reasons therefor.

(e) Each **WHITE**, **YELLOW** and/or **PINK** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the Application Form (or, in the case of joint applicants, the name of the firstnamed applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the firstnamed applicant;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Nine Dragons Paper Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker's cashier order must be the same as the name of the firstnamed joint applicant;
- not be post-dated;

- be in Hong Kong dollars;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Nine Dragons Paper Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your banker's cashier order does not meet all these requirements.

(f) Lodge your **WHITE** or **YELLOW** Application Forms in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraph 4(a) above.

(g) If you are applying for Shares using a **PINK** Application Form, you should return your Application Form to the Company Secretary by the time and at the location referred to in sub-paragraph 4(b) above.

(h) The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 23 February 2006. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

(i) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed "How many applications you can make" in this section.

(j) In order for the **YELLOW** Application Forms to be valid:

- If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
  - — the designated CCASS Participant or its authorised signatories must sign in the appropriate box on the **YELLOW** Application Form; and
  - — the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box on the **YELLOW** Application Form.

- If the application is made by an individual CCASS Investor Participant:
  - the **YELLOW** Application Form must contain your full name and your Hong Kong Identity Card number; and
  - the CCASS Investor Participant should insert its CCASS Participant I.D. and sign in the appropriate box on the **YELLOW** Application Form.
- If the application is made by a joint individual CCASS Investor Participant:
  - the **YELLOW** Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
  - the CCASS Participant I.D. must be inserted and the authorised signatory or signatories of the CCASS Investor Participant's stock account must sign in the appropriate box on the **YELLOW** Application Form.
- If you are applying as a corporate CCASS Investor Participant:
  - the **YELLOW** Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
  - the CCASS Participant I.D. and company chop (bearing the CCASS Investor Participant's company name) endorsed by its authorised signatory or signatories of the CCASS Investor Participant's stock account must be inserted in the appropriate box on the **YELLOW** Application Form.
- The signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** Application Form should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory or signatories (where applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

(k) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are required to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow these instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the firstnamed applicant in the case of joint applicant(s)) at your own risk at the address stated on the Application Form.

If the Offer Price as finally determined is less than HK$3.40 per Share, appropriate refund payments (including brokerage of 1%, the SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "Refund of your money — additional information".

7. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offer Shares and to arrange for payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

(b) If you are a CCASS Investor Participant, you may give **electronic application instructions** to HKSCC through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at *https://ip.ccass.com* (according to the procedures contained in "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Customer Service Centre of HKSCC
Upper Ground Floor, V-Heun Building,
128–140 Queen's Road Central,
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

(c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares.

(d) You are deemed to have authorised HKSCC and/or HKSCC Nominees Limited to transfer the details of your application whether submitted by you or through your designated CCASS Broker Participant or CCASS Custodian Participant to the Company and the Company's Hong Kong branch share registrar.

(e) You may give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table on the Application Form and in sub-paragraph 5(c) above.

(f) Where a **WHITE** Application Form is signed by HKSCC Nominees Limited on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

(i) HKSCC Nominees Limited is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form and/or this prospectus; and

(ii) HKSCC Nominees Limited does all the things on behalf of each of such persons as stated in the paragraph headed "Effect of making any application" below.

(g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees Limited will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(h) For the purpose of allocating the Public Offer Shares, HKSCC Nominees Limited shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

(i) The paragraph headed "Personal data" below applies to any personal data held by the Joint Sponsors, the Company and the Company's Hong Kong branch share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees Limited.

Warning

Application for the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, the Joint Sponsors and all other parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

(a) submit the WHITE or YELLOW and/or PINK Application Form (as appropriate); or

(b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 23 February 2006 or such later time as described under the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" above.

8. RESULTS OF ALLOCATIONS

The Company expects to announce the level of interest in the Public Offering and the International Placing, basis of allotment, the Offer Price and the results of applications under the Public Offering, including applications made under **WHITE**, **YELLOW** and **PINK** Application Forms and by giving **electronic application instructions** to HKSCC, the Hong Kong Identity Card numbers, passport numbers or Hong Kong Business Registration numbers of successful applicants under the Public Offering and the number of the Public Offer Shares successfully applied for on Thursday, 2 March 2006 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

9. TERMS AND CONDITIONS OF THE PUBLIC OFFERING

(a) If you apply for the Public Offer Shares in the Public Offering, you will be agreeing with the Company and the Joint Sponsors (on behalf of the Public Offer Underwriters) as set out below.

(b) If you electronically instruct HKSCC to cause HKSCC Nominees Limited to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees Limited to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) In this section, references to "you", "applicants", "joint applicants" and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees Limited are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.

(d) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offering, the paragraph headed "The Public Offering" under the section headed "Structure and Conditions of the Global Offering" in this prospectus and the terms and conditions set out on the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

(e) You offer to purchase from the Company at the Offer Price the number of Public Offer Shares indicated on your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

(f) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (where applicable) representing the Public Offer Shares applied for but not allocated to you and representing the difference (where applicable) between the final Offer Price and the maximum indicative Offer Price (including brokerage of 1%, the SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005% attributable thereto), is expected to be sent to you by ordinary post and at your own risk to the address stated on your Application Form.

Details of the procedure for refunds relating to each of the Public Offering methods are set out below in the paragraphs headed "If your application for the Public Offer Shares is successful (in whole or in part)" and "Refund of your money — additional information" in this section.

(g) Any application may be rejected in whole or in part.

(h) Applicants under the Public Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

(i) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the level of interest in the Public Offering and the International Placing, basis of allotment, the Offer Price and the results of applications under the Public Offering, including applications made under **WHITE**, **YELLOW** and **PINK** Application Forms and by giving **electronic application instructions** to HKSCC, the Hong Kong Identity Card numbers, passport numbers or Hong Kong Business Registration numbers of successful applicants under the Public Offering and the number of the Public Offer Shares successfully applied for in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 2 March 2006.

(j) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(k) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

(l) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

10. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked "For nominees" you must include:

  — an account number; or

  — some other identification code

  for **each** beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

- You are a full-time employee of the Group and apply on a **PINK** Application Form, in which case you may also apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form or **electronically** through HKSCC (if you are a CCASS Participant or act through a CCASS Broker Participant or a CCASS Custodian Participant).

Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications for the Public Offer Shares (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on **WHITE** or **YELLOW** or **PINK** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or

- both apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS; or

- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than 100% of the Public Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed "Structure and Conditions of the Global Offering" in this prospectus; or

- make more than one application on a **PINK** Application Form; or

- apply on one **PINK** Application Form for more than the maximum number of Shares available for subscription by eligible full-time employees of the Group (i.e. 10,000,000 Shares); or

- have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any International Offer Shares under the International Placing.

(c) **All** of your applications for the Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions** unless you are a full-time employee of the Group who has made an application on a **PINK** Application Form). If an application is made by an unlisted company and:

(i) the only business of that company is dealing in securities; and

(ii) you exercise statutory control over that company, then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

(i) control the composition of the board of directors of that company; or

(ii) control more than half of the voting power of that company; or

(iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

11. EFFECT OF MAKING ANY APPLICATION

(a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- **instruct** and **authorise** the Company and/or the Joint Sponsors (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees Limited, as the case may be, as required by the Bye-laws and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees Limited, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Bye-laws;

- **represent** and **warrant** that you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act and you are outside the United States when completing the Application Form (as defined in Regulation S) and you are not, and none of the other person(s) for whose benefit you are applying, is a US person (as defined in Regulation S) described under the US Securities Act;

- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus (save as set out in any supplement to this prospectus) in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, the Joint Sponsors and the Public Offer Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC unless you are a full-time employee of the Group who has made an application on a **PINK** Application Form;

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorised to sign the Application Form or to give **electronic application instruction** as that other person's agent;

- (if the application is made on a **PINK** application form) **warrant** that you are a full-time employee of the Group (other than a Director, the chief executive of the Company and its subsidiaries, an existing beneficial owner of the Shares or their respective associates or connected persons) and **confirm** that the application is the only application, other than any application (if any) made on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, which will be made for your benefit;

- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offering made available by the Company;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Placing, nor otherwise participate in the International Placing;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** to disclose to the Company, its registrar, receiving banker, the Joint Sponsors and the Public Offer Underwriters and any of their respective officers, advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

- **authorise** the Company to place your name(s) or the name of HKSCC Nominees Limited, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the firstnamed applicant on the Application Form by ordinary post at your own risk to the address stated on your Application Form (unless you have applied for 500,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person then you can collect them from Tricor Investor Services Limited between 9:00 a.m. and 1:00 p.m. on Thursday, 2 March 2006 (Hong Kong time);

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Joint Sponsors and the Public Offer Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions set out in the Application Form and in this prospectus;

- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Law and the Bye-laws;

- **agree** with the Company, each shareholder, director, manager and officer of the Company, and the Company acting for itself and for each director, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Bye-laws or any rights or obligations conferred or imposed by the Companies Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Bye-laws, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and **agree** to be bound by them;

- **agree** with the Company and each shareholder of the Company that Shares are freely transferable by the holders thereof;

- **authorise** the Company to enter into a contract on behalf of you with each Director and officer of the Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Bye-laws;

- **confirm** that you are aware of the restrictions on Global Offering of the Public Offer Shares described in this prospectus; and

- **understand** that these declarations and representations will be relied upon by the Company and the Joint Sponsors in deciding whether or not to allocate any Public Offer Shares in response to your application.

(b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that

- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees Limited and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;

- each of HKSCC and HKSCC Nominees Limited reserves the right (1) **not to accept** any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees Limited or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the firstnamed applicant) and in such a case, to **post the Share certificates** for such allotted Public Offer Shares at your own risk to the address stated on your Application Form by ordinary post or to make available the same for your collection;

- each of HKSCC and HKSCC Nominees Limited may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees Limited;

- neither HKSCC nor HKSCC Nominees Limited shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;

- neither HKSCC nor HKSCC Nominees Limited shall be liable to you in any way.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees Limited will be liable to the Company nor any other person in respect of such things:

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees Limited (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK$3.40 per Public Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees Limited to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form;

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees Limited to do on your behalf the following:

  — **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;

  — **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;

  — **undertake** and **confirm** that you have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Placing, nor otherwise participate in the International Placing;

  — (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

  — (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

— **understand** that the above declaration will be relied upon by the Company and the Joint Sponsors in deciding whether or not to make any allocation of the Public Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

— **authorise** the Company to place the name of HKSCC Nominees Limited on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your **electronic application instructions** and to send Share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and HKSCC;

— **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and **agree** to be bound by them;

— **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;

— **agree** that the Company, the Joint Sponsors and the Public Offer Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;

— **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees Limited has been accepted, the application cannot be rescinded for innocent misrepresentation;

— **agree** to disclose to the Company, its registrar, receiving banker, the Joint Sponsors and the Underwriters and any of their respective officers, advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

— **agree** that any application made by HKSCC Nominees Limited on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable after 23 March 2006, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 23

March 2006, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees Limited may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

— **agree** that once the application of HKSCC Nominees Limited is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Public Offering made available by the Company; and

— **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees Limited on your behalf may only be revoked after 23 March 2006. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form or submit your **electronic application instructions** to HKSCC. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 23 March 2006 except by means of one of the procedures referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

However, your application or the application made by HKSCC Nominees Limited on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees Limited on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of the Public Offer Shares is void:

Your allocation of the Public Offer Shares (and the allocation to HKSCC Nominees Limited, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offering as well as the International Placing:

By filling in any of the Application Forms or giving application instructions to HKSCC electronically, you agree not to apply for International Offer Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Public Offering from investors who have received

International Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Public Offer Shares in the Public Offering.

(d) If the Company, the Joint Sponsors or their respective agents or nominees exercise their discretion to reject your application:

The Company, the Joint Sponsors (for itself and on behalf of the Public Offer Underwriters) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(e) If:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed in accordance with the instructions as stated therein (if you apply by an Application Form);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the International Offer Shares under the International Placing;
- your application is for more than 100% of the Public Offer Shares being initially available in either pool A or pool B to the public (i.e., 45,000,000 Public Offer Shares) as referred to under the section headed "Structure and Conditions of the Global Offering" in this prospectus;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof or otherwise; or
- the Company believes that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed.

(f) If you are giving **electronic application instructions** to HKSCC to apply for Public Offer Shares on your behalf, you will also not be allocated any Public Offer Shares if HKSCC Nominees Limited's application is not accepted.

13. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK$3.40 each. You must also pay a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.005%. The proposed board lot for trading in the Shares is 1,000 Shares. This means that for every 1,000 Public Offer Shares, you will pay HK$3,434.34. The Application Forms have tables showing the exact amount payable for multiples of Public Offer Shares.

You must pay the maximum Offer Price, brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.005% in full when you apply for the Public Offer Shares.

If your application is successful, the brokerage is paid to participants of the Stock Exchange, the Stock Exchange trading fee is paid to the Stock Exchange and the SFC transaction levy is paid to the SFC.

If the Offer Price as finally determined is less than HK$3.40 per Public Offer Share, appropriate refund payments (including brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedures for refund are set out in the paragraph headed "Refund of Your Money — additional Information" below.

14. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

(a) **If you are applying using a WHITE Application Form and you elect to receive any Share certificate(s) in your name:**

- Refund cheques for these applicants who apply for less than 500,000 Public Offer Shares are expected to be despatched on Thursday, 2 March 2006 to the same address as that for Share certificate(s), being the address specified in the relevant Application Form.

- Applicants who have applied on **WHITE** Application Forms for 500,000 Public Offer Shares or more and have indicated on their Application Forms that they wish to collect Share certificate(s) and/or refund cheque(s) (where applicable) in person from the Company's Hong Kong branch share registrar may collect Share certificate(s) and/or refund cheque(s) (where applicable) in person from the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 2 March 2006.

- Applicants being individuals who are applying for 500,000 Public Offer Shares or more and opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who are applying for 500,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representatives (where applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong branch share registrar.

- Uncollected Share certificate(s) and refund cheque(s) (where applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms.

(b) **If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your Share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), at the close of business on Thursday, 2 March 2006 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

- *If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form:*

  For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant on a **YELLOW** Application Form:*

  The Company is expected to make available the results of the Public Offering, including the results of CCASS Investor Participants' applications, in the manner described above in the paragraph headed "Results of allocations" on Thursday, 2 March 2006. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 March 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone

System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- *If you have given* ***electronic application instructions*** *to HKSCC:*

  The Company is expected to make available the application results of the Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong Identity Card number or passport number or Hong Kong Business Registration number or other identification code (as appropriate) in the manner described above in the paragraph headed "Results of allocations" on Thursday, 2 March 2006. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 March 2006 or any other date HKSCC or HKSCC Nominees Limited chooses.

- *If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give* ***electronic application instructions*** *to HKSCC on your behalf:*

  You can also check the number of Public Offer Shares allocated to you and the amount of refund (where applicable) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- *If you are applying as a CCASS Investor Participant by giving* ***electronic application instruction*** *to HKSCC:*

  You can also check the number of the Public Offer Shares allotted to you and the amount of refund (where applicable) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 2 March 2006. HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (where applicable).

(c) **If you are applying on a PINK Application Form:**

The Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address on your Application Form shortly after the date of despatch, which is expected to be on Thursday, 2 March 2006, by ordinary post and at your own risk.

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

15. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

(a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:

- your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

- your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;

- the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and

- the conditions of Global Offering are not fulfilled in accordance with the paragraph headed "Conditions of the Global Offering" under the section headed "Structure and Conditions of the Global Offering" in this prospectus.

(b) If you apply on a **YELLOW** Application Form for 500,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your refund cheque in person, you may collect your refund cheque (where applicable) in person from the Company's Hong Kong branch share registrar on Thursday, 2 March 2006. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed "If your application for the Public Offer Shares is successful (in whole or in part)" in this section.

(c) If you are applying by giving **electronic application instructions** to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker Participant or CCASS Custodian Participant) on Thursday, 2 March 2006.

(d) All refunds by cheque will be crossed "Account Payee Only", and made out to you, or if you are a joint applicant, to the firstnamed applicant on your Application Form. Part of your Hong Kong Identity Card number or passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number or passport number of the firstnamed applicant, provided by you may be printed on your refund cheque, where applicable. Such data may also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number or passport number may lead to delay in encashment of or may invalidate your refund cheque.

(e) Refund cheques are expected to be despatched on Thursday, 2 March 2006. The Company intends to make special efforts to avoid undue delays in refunding money.

16. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "Ordinance") came into effect in Hong Kong on 20th December, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of the Company and the Company's Hong Kong branch share registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Company's Hong Kong branch share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Company's Hong Kong branch share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong branch share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/or the despatch of or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Company's Hong Kong branch share registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees Limited;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing identities of successful applications by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Company's Hong Kong branch share registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by the Company and the Company's Hong Kong branch share registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Company's Hong Kong branch share registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers, receiving bankers and the Company's principal share registrar and Hong Kong branch share registrar;
- HKSCC and HKSCC Nominees Limited, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Company's Hong Kong branch share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Company's Hong Kong branch share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Company's Hong Kong branch share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Company's Hong Kong branch share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

17. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence on Friday, 3 March 2006.
- The Shares will be traded in board lots of 1,000 Shares.
- The stock code of the Shares is 2689.
- Any Share certificates in respect of Public Offer Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Public Offer Underwriting Agreement.

(b) Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

20 February 2006

The Directors
Nine Dragons Paper (Holdings) Limited
BNP Paribas Peregrine Capital Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information relating to Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 30 June 2003, 2004 and 2005 and the three months ended 30 September 2004 and 2005 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 20 February 2006 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 17 August 2005. Pursuant to a group reorganisation (the "Reorganisation") as detailed in note 1 of Section II below, the Company became the holding company of the subsidiaries set out below. The Reorganisation became effective on 30 December 2005.

As at 30 September 2005, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

Company	Date of incorporation/ establishment	Place of incorporation/ establishment	Issued and fully paid share capital/paid-in capital	Attributable equity interests to the Group	Principal activities/place of operation
Directly held:					
Nine Dragons Paper (BVI) Group Limited	13 June 2005	British Virgin Islands (the "BVI")	US$10,000	100%	Investment holdings/ People's Republic of China (the "PRC")
Indirectly held:					
Zhang's Enterprises Company Limited	5 December 1995	Hong Kong	HK$1,220,064	100%	Investment holdings/ Hong Kong
Nine Dragons Paper Industries Co., Ltd.#	6 March 2002	BVI	US$200	100%	Investment holdings/ PRC
Millennium Scope Limited#. . . .	21 August 2000	BVI	US$2,300	100%	Investment holdings/ PRC
River Dragon Paper Industries Co., Ltd.#	9 May 2002	BVI	US$200	100%	Investment holdings/ PRC
Emperor Dragon Paper Industries Co., Ltd.#	6 March 2002	BVI	US$100	100%	Investment holdings/ PRC
* 東莞玖龍紙業有限公司 Dongguan Nine Dragons Paper Industries Company Limited .	14 December 1995	PRC	US$130,960,855	100%	Manufacture of paper/ PRC
* 玖龍紙業(太倉)有限公司 Nine Dragons Paper Industries (Taicang) Company Limited#.	26 June 2002	PRC	US$53,787,511	100%	Manufacture of paper/ PRC
* 東莞海龍紙業有限公司 Dongguan Sea Dragon Paper Industries Company Limited#.	17 April 2002	PRC	US$22,439,000	100%	Manufacture of paper/ PRC
* 海龍紙業(太倉)有限公司 Sea Dragon Paper Industries (Taicang) Company Limited#.	20 June 2002	PRC	US$11,200,000	100%	Manufacture of paper/ PRC
* 東莞地龍紙業有限公司 Dongguan Land Dragon Paper Industries Company Limited#.	28 January 2005	PRC	US$56,040,000$^{\phi}$	100%	Manufacture of paper/ PRC
* 玖龍興安槳紙(內蒙古)有限公司 Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited.	16 February 2004	PRC	RMB163,640,000	55%	Manufacture of pulp and paper/ PRC
* 東莞市玖龍運輸有限公司 Dongguan Nine Dragons Transportation Company Limited	22 June 2001	PRC	RMB5,000,000	90%	Provision for transportation services/ PRC
* 太倉玖龍運輸有限公司 Nine Dragons Transportation (Taicang) Company Limited#.	8 January 2004	PRC	RMB2,000,000	90%	Provision for transportation services/ PRC

* The English names of these companies comprising the Group represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

\# These entities became wholly owned subsidiaries of the Group effective on 1 January 2005 (note 27)

ϕ The amount is the Company's registered capital, which remained unpaid as at 30 September 2005. The first instalment of paid in capital is US$4,902,000, which is due on or before 30 June 2006.

All companies established in the People's Republic of China (the "PRC") now comprising the Group have adopted 31 December as their financial year end date as required by the PRC statutory reporting requirement. Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)"), Nine Dragons Paper Industries Co., Ltd. ("NDP Industries"), Millennium Scope Limited ("MSL"), River Dragon Paper Industries Co., Ltd. ("RDP Industries") and Emperor Dragon Paper Industries Co., Ltd. ("EDP Industries") have adopted 30 June as their financial year end date. Zhang's Enterprises Company Limited ("Zhang's") used to adopt 31 December as its financial year end date. Pursuant to a board resolution passed by the directors of Zhang's on 1 January 2005, its financial year end date has been changed from 31 December to 30 June in order that the companies comprising the Group adopt the same year end date.

The statutory audited accounts and management accounts of the companies now comprising the Group were prepared in accordance with the accounting rules and regulations of the PRC (the "PRC GAAP"), or those relevant accounting principles applicable to their respective place of incorporation. No audited accounts have been prepared for companies incorporated in the British Virgin Islands (the "BVI") and companies with no foreign investors established in the PRC as they are not subject to any statutory audit requirements in their jurisdictions of establishments.

For the purpose of this report, the directors have prepared consolidated accounts of Zhang's and its subsidiaries in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the three years ended 30 June 2003, 2004 and 2005 and three months ended 30 September 2004 and 2005 (the "HKFRS Accounts").

No audited accounts have been prepared for the Company since its date of incorporation as it was newly incorporated and has not been involved in any significant business transactions since incorporation other than the Reorganisation. We acted as auditors of Zhang's for the period from 1 January 2004 to 30 June 2005. The statutory audited accounts not audited by PricewaterhouseCoopers, but by other auditors, are detailed below:

Company	Accounts for the years/periods ended	Auditors
Zhang's Enterprises Company Limited	31 December 2002 and 2003	Deloitte Touche Tohmatsu
Dongguan Nine Dragons Paper Industries Company Limited	31 December 2002	廣州信瑞有限責任會計師事務所 Guangzhou Xinrui Certified Public Accountants Company Limited
	31 December 2003 and 2004	廣東新華會計師事務所有限公司 Guangdong Xinhua Certified Public Accountants Company Limited
Nine Dragons Paper Industries (Taicang) Company Limited	31 December 2003 and 2004	昆山公信會計師事務所有限公司 Kunshan Gongxin Certified Public Accountants Company Limited
Dongguan Sea Dragon Paper Industries Company Limited	31 December 2002	廣州信瑞有限責任會計師事務所 Guangzhou Xinrui Certified Public Accountants Company Limited
	31 December 2003 and 2004	廣東新華會計師事務所有限公司 Guangdong Xinhua Certified Public Accountants Company Limited
Sea Dragon Paper Industries (Taicang) Company Limited	31 December 2004	昆山公信會計師事務所有限公司 Kunshan Gongxin Certified Public Accountants Company Limited
Nine Dragons Xing An Paper Industry (Inner Mongolia) Company Limited	31 December 2004	內蒙古中天華正會計師事務所有限公司 Inner Mongolia Zhongtian Huazheng Certified Public Accountants Company Limited

For the purpose of this report, we have carried out an independent audit and independent audit procedures on the HKFRS Accounts for the three years ended 30 June 2003, 2004 and 2005 and three months ended 30 September 2005, respectively, in accordance with the Statements of Auditing Standards issued by the HKICPA and have carried out such additional procedures as are necessary in accordance with the Auditing Guidelines "Prospectuses and the reporting accountant" issued by the HKICPA.

We have also reviewed the financial information for the three months ended 30 September 2004 in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information for the three months ended 30 September 2004.

The financial information as set out in Section I to V below (the "Financial Information") has been prepared based on the HKFRS Accounts, on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of Zhang's at the Relevant Periods, are responsible for preparing HKFRS Accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in section II below, give a true and fair view of the combined state of affairs of the Group as at 30 June 2003, 2004 and 2005 and 30 September 2005 and of the combined results and cash flows of the Group for the periods then ended.

Moreover, on the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the Financial Information for the three months ended 30 September 2004.

I. COMBINED ACCOUNTS

Combined balance sheets

The following is a summary of the combined balance sheets of the Group as at 30 June 2003, 2004 and 2005 and 30 September 2005 prepared on the basis as set out in note 1 of Section II below, after making adjustments as are appropriate:

		30 June			30 September
		2003	2004	2005	2005
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	2,115,684	2,864,932	7,639,960	7,788,120
Land use rights	7	150,550	159,005	607,562	654,259
Intangible asset	8	—	—	146,694	146,694
		2,266,234	3,023,937	8,394,216	8,589,073
Current assets					
Inventories	9	311,743	566,139	998,174	856,256
Trade and other receivables	10	1,039,593	1,162,559	997,009	1,168,821
Restricted cash	11	115,125	299,968	659,379	806,188
Bank and cash balances	12	137,149	446,890	651,587	359,487
		1,603,610	2,475,556	3,306,149	3,190,752
Total assets		3,869,844	5,499,493	11,700,365	11,779,825
EQUITY					
Capital and reserves attributable to the equity holders of Zhang's					
Combined capital	13	1,079	1,079	972,542	972,542
Other reserves	14	138,084	152,869	167,788	191,175
Retained earnings		628,272	895,138	1,181,624	1,423,673
		767,435	1,049,086	2,321,954	2,587,390
Minority interests		196	80,250	85,622	92,970
Total equity		767,631	1,129,336	2,407,576	2,680,360
LIABILITIES					
Non-current liabilities					
Other payables	15	15,218	9,300	15,248	50,780
Borrowings	16	1,080,946	1,725,482	3,817,280	5,073,067
Deferred income tax liabilities	17	77,200	103,716	169,747	183,416
		1,173,364	1,838,498	4,002,275	5,307,263
Current liabilities					
Trade and other payables	15	800,499	1,264,838	2,814,502	2,803,745
Current income tax payables		4,090	30,057	44,441	57,569
Borrowings	16	1,124,260	1,236,764	2,431,571	930,888
		1,928,849	2,531,659	5,290,514	3,792,202
Total liabilities		3,102,213	4,370,157	9,292,789	9,099,465
Total equity and liabilities		3,869,844	5,499,493	11,700,365	11,779,825
Net current liabilities		(325,239)	(56,103)	(1,984,365)	(601,450)
Total assets less current liabilities		1,940,995	2,967,834	6,409,851	7,987,623

Combined income statements

The following is a summary of the combined income statements of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of Section II below, after making adjustments as are appropriate:

		Years ended 30 June			Three months ended 30 September	
		2003	2004	2005	2004	2005
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales	5	2,244,817	2,653,501	4,825,373	836,660	1,847,810
Cost of goods sold	19	(1,954,283)	(2,105,683)	(4,064,869)	(702,115)	(1,468,190)
Gross profit		290,534	547,818	760,504	134,545	379,620
Other gains — net	18	3,147	5,315	24,122	2,051	48,512
Selling and marketing costs	19	(50,990)	(60,195)	(91,466)	(17,168)	(32,400)
Administrative expenses	19	(39,173)	(67,305)	(135,020)	(24,681)	(42,447)
Operating profit		203,518	425,633	558,140	94,747	353,285
Finance costs	21	(62,111)	(85,074)	(179,814)	(29,811)	(71,273)
Profit before income tax		141,407	340,559	378,326	64,936	282,012
Income tax expense	22	(30,900)	(52,770)	(60,418)	(8,223)	(32,615)
Profit for the year/period		110,507	287,789	317,908	56,713	249,397
Attributable to:						
Equity holders of the Zhang's		110,585	281,375	303,759	52,789	242,049
Minority interests		(78)	6,414	14,149	3,924	7,348
		110,507	287,789	317,908	56,713	249,397

Combined statements of changes in equity

The following is a summary of the combined statements of changes in equity of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below:

	Attributable to the equity holders of Zhang's				
	Combined capital	Other reserves	Retained earnings	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2002	1,079	102,778	553,293	274	657,424
Profit for the year	—	—	110,585	(78)	110,507
Transfer	—	35,606	(35,606)	—	—
Currency translation differences	—	(300)	—	—	(300)
Balance at 30 June 2003	1,079	138,084	628,272	196	767,631
Capital injection by a minority shareholder	—	—	—	73,640	73,640
Profit for the year	—	—	281,375	6,414	287,789
Transfer	—	14,509	(14,509)	—	—
Currency translation differences	—	276	—	—	276
Balance at 30 June 2004	1,079	152,869	895,138	80,250	1,129,336
Profit for the year	—	—	303,759	14,149	317,908
Dividend paid to minority shareholders	—	—	—	(9,000)	(9,000)
Transfer	—	17,273	(17,273)	—	—
Issue of share capital — capitalisation of advances from then shareholders *(note 13)*	253,797	—	—	—	253,797
Issue of share capital — business combination *(note 27)*	717,666	—	—	—	717,666
Acquisition of subsidiaries *(note 27)*	—	—	—	223	223
Currency translation differences	—	(2,354)	—	—	(2,354)
Balance at 30 June 2005	972,542	167,788	1,181,624	85,622	2,407,576
Profit for the period	—	—	242,049	7,348	249,397
Currency translation differences	—	23,387	—	—	23,387
Balance at 30 September 2005	972,542	191,175	1,423,673	92,970	2,680,360

Combined cash flow statements

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below:

		Years ended 30 June			Three months ended 30 September	
		2003	2004	2005	2004	2005
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Cash generated from operations	24	100,782	423,587	1,338,841	372,608	359,889
Income tax paid		—	(287)	(8,550)	(2)	(5,818)
Interest paid		(65,516)	(82,015)	(267,308)	(52,570)	(80,772)
Net cash generated from operating activities		35,266	341,285	1,062,983	320,036	273,299
Cash flows from investing activities						
Acquisition of subsidiaries, net of cash acquired	27	—	—	128,914	—	—
Purchase of property, plant and equipment		(287,900)	(666,109)	(1,737,666)	(395,710)	(319,584)
Payment of land use rights		(24,991)	(34,925)	(17,218)	(901)	(59,120)
Proceeds from sales of property, plant and equipment	24	—	—	482	565	—
Cash advances made to directors	28(d)	(18,279)	(24,458)	(38,492)	(353)	(600)
Cash advances made to related parties	28(d)	(336,452)	(87,888)	(10,305)	(70,619)	(35,452)
Cash advances made to then shareholders	28(d)	(27,316)	(21,453)	(70)	—	—
Cash receipts from repayments of cash advances from directors	28(d)	648	1,381	79,200	—	500
Cash receipts from repayments of cash advances from related parties	28(d)	—	2,931	—	463	81
Cash receipts from repayments of cash advances from then shareholders	28(d)	—	29	48,810	43,162	—
Interest received	18	1,619	3,321	8,988	1,345	3,123
Net cash used in investing activities		(692,671)	(827,171)	(1,537,357)	(422,048)	(411,052)
Cash flows from financing activities						
Cash advances from directors	28(d)	—	32,046	—	—	18,766
Cash advances repaid to directors	28(d)	—	—	(113,614)	—	—
Cash advances from related parties	28(d)	—	6,265	21,063	100,000	—
Cash advances repaid to related parties	28(d)	—	—	(20,000)	(4,507)	(1,063)
Cash advances repaid to then shareholders	28(d)	—	—	(1,910)	—	—
New loans payable		1,897,828	2,044,388	2,724,603	525,664	2,481,092
Repayment of borrowings		(1,406,927)	(1,287,348)	(1,919,708)	(481,046)	(2,725,988)
Government grants received	15(b)	—	—	—	—	49,459
Dividend paid to minority shareholders		—	—	(9,000)	—	—
Net cash generated from/(used in) financing activities		490,901	795,351	681,434	140,111	(177,734)
Net (decrease)/increase in cash and cash equivalents		(166,504)	309,465	207,060	38,099	(315,487)
Cash and cash equivalents at beginning of the year/period		303,987	137,149	446,890	446,890	651,587
Exchange (losses)/gains on bank and cash balances		(334)	276	(2,363)	1,368	23,387
Cash and cash equivalents at end of the year/period	12	137,149	446,890	651,587	486,357	359,487

II. NOTES TO THE COMBINED ACCOUNTS

1. Group reorganisation

The Company was incorporated in Bermuda on 17 August 2005 under the Companies Acts 1981 of Bermuda as an exempted company with limited liability in the preparation of the initial listing of the shares of the Company on the Main Board of the Stock Exchange, and became the holding company of the Group as a result of the Reorganisation that principally comprises Zhang's.

Zhang's is a limited liability company incorporated in Hong Kong on 5 December 1995. As at 30 September 2005, Zhang's issued share capital was HK$1,220,064 and was held by Ms. Cheung Yan ("Ms. Cheung"), Mr. Liu Ming Chung ("Mr. Liu"), Mr. Zhang Cheng Fei ("Mr. Zhang") and Ms. Chang Siu Hon ("Ms. Chang") as 36.9%, 36.9%, 19.35% and 6.85%, respectively. Zhang's is an investment holding company and holds, directly or indirectly, the entire share capital of Dongguan Nine Dragons Paper Industries Company Limited ("Dongguan Nine Dragons"), Nine Dragons Paper Industries (Taicang) Company Limited ("Taicang Nine Dragons"), Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon") and Sea Dragon Paper Industries (Taicang) Company Limited ("Taicang Sea Dragon").

Dongguan Nine Dragons, Taicang Nine Dragons, Dongguan Sea Dragon and Taicang Sea Dragon are PRC wholly owned foreign enterprise and were established to engage in the manufacture of paper.

The Reorganisation undertaken by the Group in anticipation of the listing of the Company principally comprised the following:

— On 4 November 2005, NDP (BVI) acquired the entire issued share capital of Zhang's for a consideration satisfied by the issue by NDP (BVI) of 3,690 shares to Ms. Cheung, 3,689 shares to Mr. Liu, 1,935 shares to Mr. Zhang and 685 shares to Ms. Chang, in each case, credited as fully paid;

— On 10 December 2005, Mr. Zhang acquired an approximately 6.41% interest in NDP (BVI) from Ms. Chang, resulting in Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang being interested in approximately 36.9%, 36.9%, 25.76% and 0.44% of the issued share capital of NDP (BVI); and

— On 30 December 2005, the Company acquired the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang for RMB2,386.70 million satisfied by the issue of 2,985,800,000 shares to Best Result Holdings Limited ("Best Result"), credited as fully paid, at the direction of Ms. Cheung, Mr. Liu and Mr. Zhang and 13,200,000 shares to Max Dragon Profits Limited, credited as fully paid, at the direction of Ms. Chang and crediting as fully paid of the 1,000,000 nil-paid shares then held by Best Result.

In addition, Zhang's also conducted the following acquisitions during the Relevant Periods:

— effective 1 January 2005, Zhang's acquired the entire issued share capital of NDP Industries from Mr. Zhang for a consideration of RMB295 million, which is satisfied by the issue by Zhang's of 69,315 shares to Mr. Zhang. NDP Industries is the holding company of Taicang Nine Dragons.

— effective 1 January 2005, Zhang's acquired the entire issued share capital of MSL from Ms. Cheung, Mr. Liu and Mr. Zhang for a consideration of RMB255 million, which is satisfied by the issue by Zhang's of 7,430 shares to Ms. Cheung, 7,400 shares to Mr. Liu and 37,551 shares to Mr. Zhang. MSL is the holding company of Dongguan Sea Dragon.

— effective 1 January 2005, Zhang's acquired the entire issued share capital of RDP Industries from Mr. Zhang for a consideration of RMB167 million, which is satisfied by the issue by Zhang's of 39,239 shares to Mr. Zhang. RDP Industries is the holding company of Taicang Sea Dragon.

— effective 1 January 2005, Zhang's acquired the entire issued share capital of EDP Industries from Mr. Zhang for a consideration of RMB1.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of this Financial Information is set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1 *Basis of preparation*

For the purpose of this report, the Financial Information has been prepared to reflect the Reorganisation of the business under control, in which the Company, NDP (BVI) and Zhang's are ultimately controlled by Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang throughout the Relevant Periods. The combined accounts set out in Section I above are presented on a combined basis as prescribed by the Auditing Guidelines "Prospectuses and the reporting accountant" issued by the HKICPA.

Accordingly, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods, include the Financial Information of the Company, NDP (BVI) and Zhang's as a result of the Reorganisation as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or effective date of acquisition, whichever is the shorter period. The minority interests in the combined income statements represent the net profit attributable to the equity holders outside the Group for the Relevant Periods.

The combined balance sheets of the Group as at 30 June 2003, 2004 and 2005 and 30 September 2005 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates. As at 30 September 2005, the Reorganisation was not yet undertaken. Accordingly, the owners' equity of the Group as at 30 June 2003, 2004 and 2005 and 30 September 2005 only represents the issued share capital of Zhang's, which upon completion of the Reorganisation, is the Company's wholly owned subsidiary.

The acquisitions of NDP Industries, MSL, RDP Industries and EDP Industries as referred to at note 1 above are fully consolidated in the accounts of Zhang's under purchase method from 1 January 2005, being the date on which control is transferred to Zhang's (note 2.2).

The Financial Information set out in this report is prepared in accordance with HKFRS and have been consistently applied throughout the Relevant Periods. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information 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 Company's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4 below.

2.2 *Consolidation*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Zhang's. 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 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 combined income statements.

Inter-company transactions, balances and unrealised gains on transactions between the companies now comprising the Group 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.

2.3 *Segment reporting*

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

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of paper. 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.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the accounts of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The Financial Information is presented in Renminbi (the "RMB"), which is the Group'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 transaction. 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 combined income statements, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Transaction differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the companies now comprising the Group (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 of the companies now comprising the Group are translated at the closing rate at the date of that balance sheet;

- Income and expenses for each income statement of the companies now comprising the Group are translated at average exchange rates; and

- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the combined income statements as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 combined income statements during the Relevant Periods in which they are incurred.

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

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

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the combined 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 combined balance sheets represent up-front prepayment made for operation leases for land use rights paid and payable to the PRC government authorities. Land use rights are carried at cost and are charged to the combined income statements on a straight-line basis over the respective periods of the rights which range from 10 years to 50 years.

2.8 *Intangible assets*

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 subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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 for the purpose of impairment testing.

2.9 *Impairment of assets*

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

2.10 *Inventories*

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

2.11 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the combined income statements.

2.12 *Cash and cash equivalents*

Cash and cash equivalent includes 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.

2.13 *Borrowings*

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

2.14 *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 accounts. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.15 *Employee benefits*

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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.

(b) *Pension obligations*

The Group participates in a defined contribution scheme administrated by the relevant authority of the PRC.

Contributions to the schemes are calculated as a percentage of employees' salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The Group has no further obligation in connection with staff's retirement benefits.

2.16 ***Provisions***

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

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

2.17 ***Revenue recognition***

Revenue comprises the fair value for the sale of goods and services, net of value-added tax and discount after eliminated sales with the companies now comprising the Group. Revenue is recognised as follows:

(a) *Sales of goods and scrap materials*

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

(b) *Sales of transportation services*

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

(c) *Interest income*

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

(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.

2.18 ***Leases***

The Group is the lessee

Leases where 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 combined income statements on a straight-line basis over the period of the lease.

2.19 ***Government grants***

Grants from the governments 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 included in non-current liabilities as deferred government grants. The deferred government grants will be deducted from the cost of additions of the related assets.

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 risk and price 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.

Risk management is carried out by the Group's finance department (the "Group Finance") under policies approved by the Board of Directors. The Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and liquidity risk.

(a) *Credit risk*

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.

(b) *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 Finance aims to maintain flexibility in funding by keeping committed credit lines available.

(c) *Cash flow and fair value 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 the end of each of the Relevant Periods, RMB1,962,156,000, RMB2,902,499,000, RMB6,199,177,000 and RMB5,298,112,000 of borrowings, respectively, were at fixed rates.

3.2 ***Fair value estimation***

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. 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.

4.1 ***Critical accounting estimates and assumptions***

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.

Estimated impairment of goodwill

The Group has tested whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8.

Had the pre-tax discount rate applied to discounted cash flow been different from the management's estimate, the Group might result in impairment of goodwill.

Had the pre-tax discounted rate been lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

Useful lives of plant and machinery

The Group's management determines the estimated useful lives and related depreciation expenses 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 2003, 2004 and 2005 and 30 September 2005 would be, respectively, an estimated RMB13,055,000, RMB18,288,000, RMB35,447,000 and RMB39,962,000 higher or RMB15,957,000, RMB22,352,000, RMB43,324,000 and RMB48,842,000 lower.

5. Sales

The Group is principally engaged in the manufacture and sales of paper. As the products and services provided by the companies now comprising the Group 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 for the Relevant Periods.

Turnover recognised during the Relevant Periods are as follows:

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales of paper	2,244,817	2,572,460	4,674,588	798,022	1,795,476
Sales of unbleached kraft pulp	—	81,041	150,785	38,638	52,334
	2,244,817	2,653,501	4,825,373	836,660	1,847,810

6. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2002						
Cost	420,725	1,596,710	14,390	44,415	15,472	2,091,712
Accumulated depreciation	(38,659)	(90,331)	(4,086)	(8,523)	—	(141,599)
Net book amount	382,066	1,506,379	10,304	35,892	15,472	1,950,113
Year ended 30 June 2003						
Opening net book amount	382,066	1,506,379	10,304	35,892	15,472	1,950,113
Additions	—	—	9,454	5,959	233,573	248,986
Transfer	12,692	82,736	3,274	6,610	(105,312)	—
Depreciation *(note 19)*	(21,896)	(53,278)	(2,396)	(5,845)	—	(83,415)
Closing net book amount	372,862	1,535,837	20,636	42,616	143,733	2,115,684
At 30 June 2003						
Cost	433,417	1,679,446	27,118	56,984	143,733	2,340,698
Accumulated depreciation	(60,555)	(143,609)	(6,482)	(14,368)	—	(225,014)
Net book amount	372,862	1,535,837	20,636	42,616	143,733	2,115,684
Year ended 30 June 2004						
Opening net book amount	372,862	1,535,837	20,636	42,616	143,733	2,115,684
Additions	23,727	18,038	3,339	10,140	787,716	842,960
Transfer	201,037	46,452	11,335	18,695	(277,519)	—
Disposals *(note 24(a))*	—	—	(181)	—	—	(181)
Depreciation *(note 19)*	(23,620)	(57,559)	(3,395)	(8,957)	—	(93,531)
Closing net book amount	574,006	1,542,768	31,734	62,494	653,930	2,864,932
At 30 June 2004						
Cost	658,181	1,743,936	41,611	85,819	653,930	3,183,477
Accumulated depreciation	(84,175)	(201,168)	(9,877)	(23,325)	—	(318,545)
Net book amount	574,006	1,542,768	31,734	62,494	653,930	2,864,932
Year ended 30 June 2005						
Opening net book amount	574,006	1,542,768	31,734	62,494	653,930	2,864,932
Additions	1,180	858	3,925	8,347	1,996,265	2,010,575
Acquisition of subsidiaries *(note 27)*	313,401	2,081,124	16,574	34,682	496,411	2,942,192
Transfer	263,855	1,159,458	6,346	24,340	(1,453,999)	—
Disposals *(note 24(a))*	—	(5,569)	(64)	(1,724)	—	(7,357)
Depreciation *(note 19)*	(39,564)	(110,864)	(5,680)	(14,274)	—	(170,382)
Closing net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
At 30 June 2005						
Cost	1,248,579	5,051,398	70,030	153,423	1,692,607	8,216,037
Accumulated depreciation	(135,701)	(383,623)	(17,195)	(39,558)	—	(576,077)

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
Three months ended 30 September 2005						
Opening net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
Additions	—	165	3,386	1,608	217,032	222,191
Transfer	74,745	749,214	5,581	2,338	(831,878)	—
Disposals *(note 24(a))*	—	—	(7)	—	—	(7)
Depreciation *(note 19)*	(14,942)	(52,293)	(2,509)	(4,280)	—	(74,024)
Closing net book amount	1,172,681	5,364,861	59,286	113,531	1,077,761	7,788,120
At 30 September 2005						
Cost	1,323,324	5,800,777	78,882	157,369	1,077,761	8,438,113
Accumulated depreciation	(150,643)	(435,916)	(19,596)	(43,838)	—	(649,993)
Net book amount	1,172,681	5,364,861	59,286	113,531	1,077,761	7,788,120

(a) Certain property, plant and equipment of the Group with carrying values of approximately RMB1,564,605,000, RMB1,440,448,000, RMB2,568,993,000 and RMB2,592,726,000 as at 30 June 2003, 2004 and 2005 and 30 September 2005 respectively had been pledged for bank borrowings of the Group (note 16).

(b) Depreciation was expensed in the following category in the combined accounts:

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of goods sold	74,669	77,753	148,009	28,670	60,660
Administration expenses	7,941	11,445	17,763	3,280	7,577
Selling and marketing costs	415	582	1,620	170	618
Other operating expenses	—	—	—	—	6,895
Total depreciation expense *(note 19)*	83,025	89,780	167,392	32,120	75,750

(c) As at 30 September 2005, the Group has constructed certain buildings at cost of RMB13,600,000 and relevant government grants in form of cash has been received and deducted from the cost of additions to buildings above (note 15).

7. Land use rights

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

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

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Opening	131,832	150,550	159,005	607,562
Additions	20,506	10,243	55,582	49,459
Acquisition of subsidiaries *(note 27)*	—	—	397,632	—
Amortisation of prepaid operating lease payments *(note 19)*	(1,788)	(1,788)	(4,657)	(2,762)
	150,550	159,005	607,562	654,259

Bank borrowings are secured on land for the carrying amount of RMB76,917,000, RMB75,142,000, RMB228,098,000 and RMB224,571,000 as at 30 June 2003, 2004 and 2005 and 30 September 2005 respectively (note 16).

8. Intangible asset

Intangible asset as at 30 June 2005 and 30 September 2005 represents goodwill, being the excess of the fair value of the shares of Zhang's issued in consideration of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 1 January 2005 (note 27).

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. 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 2005 and 30 September 2005 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited.

9. Inventories

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
Raw materials	185,309	327,001	669,312	571,412
Finished goods	126,434	239,138	328,862	284,844
	311,743	566,139	998,174	856,256

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories recognised as expense in the cost of goods sold	1,954,283	2,105,683	4,064,869	702,115	1,468,190

Certain inventories of the Group with carrying values of approximately RMB135,500,000, RMB135,500,000, RMB150,000,000 and RMB189,000,000 as at 30 June 2003, 2004 and 2005 and 30 September 2005 respectively had been pledged for bank borrowings of the Group (note 16).

10. Trade and other receivables

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables due from:				
— third parties	312,270	252,714	564,079	729,278
— related parties *(note 28(c))*	769	63,072	19,381	19,439
	313,039	315,786	583,460	748,717
Bills receivable	158,936	131,551	179,883	122,662
Prepayments	71,874	101,172	144,265	162,690
Amounts due from directors *(note (a), note (b) & note 28(c))*	18,131	41,208	500	600
Amounts due from then shareholders *(note (a))*	27,316	48,740	—	—
Amounts due from related parties *(note (a), note (b) & note 28(c))*	378,087	463,044	10,768	46,139
Other receivables	72,210	61,058	78,133	88,013
	1,039,593	1,162,559	997,009	1,168,821

(a) Amounts due from directors, then shareholders and related parties at respective balance sheet date mainly comprise cash advances. The amounts due are unsecured, interest free and repayable on demand.

(b) All the amounts due from directors and related parties as at 30 September 2005 have been settled prior to the listing of the shares of the Company on the Main Board of the Stock Exchange.

The Group's sales to corporate customers of linerboard and high performance corrugating medium are entered into on credit terms around 30 days and sales to corporate customers of coated duplex board with grey back are entered into on credit terms around 30 to 60 days. The ageing analysis of trade receivables due from third parties at respective balance sheet dates is as follows:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
0–30 days	251,048	164,306	367,458	566,749
31–60 days	39,335	33,975	130,929	116,544
61–90 days	11,870	11,475	38,674	34,661
Over 90 days	10,017	42,958	27,018	11,324
	312,270	252,714	564,079	729,278

The Group's sales to related parties are entered into on the same credit terms of sales to corporate customers. The ageing analysis of trade receivables due from related parties at respective balance sheet dates is as follows:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
0–30 days	769	6,193	5,438	11,351
31–60 days	—	2,566	6,413	6,788
61–90 days	—	6,612	786	1,300
Over 90 days	—	47,701	6,744	—
	769	63,072	19,381	19,439

Particulars of amounts due from directors pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of director	30 June			30 September	Maximum amount outstanding during the years ended 30 June			Maximum amount outstanding during the period ended 30 September
	2003	2004	2005	2005	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Cheung	207	207	—	600	207	207	560	600
Mr. Liu	1,578	2,155	—	—	1,578	2,507	2,511	—
Mr. Zhang	16,346	38,846	500	—	16,994	39,875	76,629	500
	18,131	41,208	500	600	18,779	42,589	79,700	1,100

Amounts due from directors, related parties and then shareholders were unsecured, interest free and repayable on demand.

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.

11. Restricted cash

At each of the balance sheet dates of the Relevant Periods, restricted cash comprised:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantee deposits for customs levy for importation of raw materials *(note (a))*	7,942	4,156	—	—
Pledged as securities for bank borrowings *(note (b))*	—	16,600	16,600	16,600
Pledged as securities for banking facilities *(note (c))*	107,183	279,212	642,779	789,588
	115,125	299,968	659,379	806,188

(a) *Guarantee deposits earn interest at floating rates based on daily bank deposit rates.*

(b) *Restricted cash earns interest at a fixing rate of 2.75% per annum.*

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

12. Bank and cash balances

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	137,149	446,890	647,742	355,564
Time deposit	—	—	3,845	3,923
	137,149	446,890	651,587	359,487
Denominated in:				
— RMB	105,587	426,809	594,897	279,105
— US dollars	8,522	3,622	26,200	18,293
— HK dollars	23,040	16,459	29,643	61,302
— EURO	—	—	81	91
— GBP	—	—	432	396
— JPY	—	—	334	300
	137,149	446,890	651,587	359,487

The conversion of Renminbi 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 regulation 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 during the Relevant Periods 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.

13. Combined capital

For the purpose of this report, the combined capital of the Group as at 30 June 2003, 2004 and 2005 and 30 September 2005 represented the issued share capital of Zhang's at the respective dates.

Details of Zhang's share capital are as follows:

	Issued ordinary shares of HK$1 each	Share premium	Total
	RMB'000	RMB'000	RMB'000
At 30 June 2003 and 2004	1,079	—	1,079
Issues of share capital:			
— capitalisation of advances from then shareholders *(note (a))*	63	253,734	253,797
— Business combinations *(note 27)*	170	717,496	717,666
At 30 June 2005 and 30 September 2005	1,312	971,230	972,542

(a) *On 1 January 2005, Zhang's issued 27,014 shares to Ms. Cheung, 27,014 shares to Mr. Liu and 5,101 shares to Ms. Chang for capitalisation of their advances to Zhang's totalling RMB253,797,000.*

14. Other reserves

	Capital reserve	Statutory reserve and enterprise expansion fund	Translation	Total
	RMB'000	RMB'000 *(note (a))*	RMB'000	RMB'000
At 1 July 2002	98,980	—	3,798	102,778
Transfer from net profit	—	35,606	—	35,606
Currency translation differences	—	—	(300)	(300)
At 30 June 2003	98,980	35,606	3,498	138,084
Transfer from net profit	—	14,509	—	14,509
Currency translation differences	—	—	276	276
At 30 June 2004	98,980	50,115	3,774	152,869
Transfer from net profit	—	17,273	—	17,273
Currency translation differences	—	—	(2,354)	(2,354)
At 30 June 2005	98,980	67,388	1,420	167,788
Currency translation differences	—	—	23,387	23,387
At 30 September 2005	98,980	67,388	24,807	191,175

(a) *Statutory reserve and enterprise expansion fund*

In accordance with relevant rules and regulation on foreign investment enterprise established in the PRC, except for Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An"), all the PRC companies now comprising the Group 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 may be distributed to shareholders in the form of bonus issue. In addition, Dongguan Nine Dragons Transportation Company Limited ("Dongguan Transportation") and Nine Dragons Transportation (Taicang) Company Limited ("Taicang Transportation") are required to transfer between 5% and 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory public welfare fund. The statutory public welfare fund is employed for the staff collective welfare facilities.

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

15. Trade and other payables

	30 June			30 September
	2003	**2004**	**2005**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade payables due to:				
— third parties	52,684	146,702	596,960	630,137
— related parties *(note 28(c))*	162,618	238,031	847,770	652,775
	215,302	384,733	1,444,730	1,282,912
Bills payable, secured	126,195	208,829	723,066	893,000
Deposits from customers	12,346	53,202	41,082	54,601
Amounts due to directors *(note (a), note (c) & note 28(c))*	292,954	325,000	—	18,766
Amounts due to then shareholders *(note (a))*	44,321	44,321	—	—
Amounts due to related parties *(note (a) & note 28(c))*	—	6,265	1,063	—
Other payables	111,445	219,984	565,158	575,078
Staff welfare benefit payable	4,437	11,407	25,324	17,524
Accrued expenses	8,717	20,397	29,327	12,644
	815,717	1,274,138	2,829,750	2,854,525

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
Less: Other payables included in non-current liabilities				
Leases payable for land use rights	(15,218)	(9,300)	(15,248)	(14,921)
Deferred government grants *(note (b))*	—	—	—	(35,859)
	(15,218)	(9,300)	(15,248)	(50,780)
	800,499	1,264,838	2,814,502	2,803,745

(a) *Amounts due to directors, then shareholders and related parties at respective balance sheet date mainly comprise cash advances. The amounts due are unsecured, interest free and repayable upon demand.*

(b) *The Group has received grants amounted to RMB49,459,000 from the government authority as assistance to the Group for purchases, construction or otherwise acquisitions of plant and buildings. As at 30 September 2005, the Group has utilised an amount of RMB13,600,000 (note 6(c)) to acquired certain buildings.*

(c) *Amounts due to directors as at 30 September 2005 have been settled prior to the listing of the shares of the Company on the Main Board of the Stock Exchange.*

The ageing analysis of trade payables due to third parties at the respective balance sheet dates is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
0–90 days	45,108	132,424	480,100	438,181
91–180 days	2,082	2,541	20,900	140,862
181–365 days	1,844	8,087	92,310	46,391
Over 365 days	3,650	3,650	3,650	4,703
	52,684	146,702	596,960	630,137

The ageing analysis of trade payables due to related parties at the respective balance sheet dates is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
0–90 days	162,618	238,031	823,987	652,775
91–180 days	—	—	23,783	—
Total	162,618	238,031	847,770	652,775

16. Borrowings

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
Non-current	1,080,946	1,725,482	3,817,280	5,073,067
Current				
— Short term bank borrowings	1,124,260	1,236,764	1,767,563	273,435
— Current portion of long-term bank borrowings	—	—	664,008	657,453
	1,124,260	1,236,764	2,431,571	930,888
Total borrowings	2,205,206	2,962,246	6,248,851	6,003,955

As at 30 June 2003, 2004 and 2005 and 30 September 2005, respective borrowing of RMB1,560,173,000, RMB2,337,830,000, RMB3,565,530,000 and RMB3,563,107,000 are secured by assets of the Group and guarantees given by related parties, which are detailed as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
Borrowings secured by assets of the Group only *(note (a))*	280,500	144,000	1,400,966	1,412,485
Borrowings secured by guarantees given by related parties *(note 28(f))*	495,000	1,456,000	1,304,300	802,500
Borrowings secured by both assets of the Group and guarantee given by related parties *(note (a) & note 28(f))*	784,673	737,830	860,264	1,348,122
	1,560,173	2,337,830	3,565,530	3,563,107

(a) *Details of the Group's assets pledged as securities for borrowings are disclosed in notes 6(a), 7, 9 and 11.*

The maturity of the borrowings is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
Within 1 year	1,124,260	1,236,764	2,431,571	930,888
Between 1 and 2 years	320	428,060	1,195,835	2,718,102
Between 2 and 5 years	1,080,626	1,005,422	2,256,445	2,009,965
Wholly repayable within 5 years	2,205,206	2,670,246	5,883,851	5,658,955
Over 5 years	—	292,000	365,000	345,000
	2,205,206	2,962,246	6,248,851	6,003,955

The effective interest rates at each of the balance sheet dates of the Relevant Periods were as follows:

	30 June			30 September
	2003	2004	2005	2005
Long-term bank borrowings . . .	5.213%	5.238%	5.524%	5.439%
Short-term bank borrowings . . .	4.704%	4.802%	5.242%	5.194%

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

The carrying amounts of all the Group's borrowings during the Relevant Periods are denominated in the following currencies:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	1,325,600	2,316,560	5,191,055	5,460,261
US dollars	879,606	645,686	1,057,796	543,694
	2,205,206	2,962,246	6,248,851	6,003,955

The Group has the following undrawn borrowing facilities:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rate:				
— expiring within one year. .	111,500	271,837	301,979	931,778
— expiring beyond one year .	351,976	478,233	629,005	—
	463,476	750,070	930,984	931,778

17. Deferred income tax

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax liabilities to be recovered after more than 12 months	77,200	103,716	169,747	183,416

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

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year/period	50,390	77,200	103,716	169,747
Acquisition of subsidiaries *(note 27)*	—	—	28,548	—
Recognised in the combined income statements *(note 22)*	26,810	26,516	37,483	13,669
End of the year/period	77,200	103,716	169,747	183,416

Deferred income tax liability

	Accelerated tax depreciation
	RMB'000
At 1 July 2002	50,390
Charged to the combined income statements	26,810
At 30 June 2003	77,200
Charged to the combined income statements	26,516
At 30 June 2004	103,716
Charged to the combined income statements	37,483
Acquisition of subsidiaries *(note 27)*	28,548
At 30 June 2005	169,747
Charged to the combined income statements	13,669
At 30 September 2005	183,416

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

18. Other gains — net

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Transportation	124	691	1,106	176	(66)
Sales of scrap materials	1,404	927	10,378	289	9,158
Sales of electricity	—	376	3,650	241	36,297
Interest income	1,619	3,321	8,988	1,345	3,123
	3,147	5,315	24,122	2,051	48,512

19. Expenses by nature

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

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation of fixed assets *(note 6)*	83,415	93,531	170,382	27,316	74,024
Add: amount absorbed in opening inventories	4,171	4,561	8,312	8,312	11,302
Less: amount absorbed in closing inventories	(4,561)	(8,312)	(11,302)	(3,508)	(9,576)
	83,025	89,780	167,392	32,120	75,750
Employee benefit expense — excluding directors' remuneration *(note 20)*	47,957	89,906	205,331	31,898	68,879
Changes in finished goods	66,108	112,704	89,724	(118,134)	(44,018)
Raw materials and consumables used	1,835,116	1,948,220	3,669,129	627,446	1,344,731
Transportation	23,892	29,434	29,177	5,044	6,955
Advertising costs	144	5	24	20	106
Operating leases					
— Land use rights *(note 7)*	1,788	1,788	4,657	447	2,762
— Buildings	178	176	252	41	54
Auditors' remuneration	125	140	177	60	63
Exchange losses/(gains)	590	1,354	2,390	508	(18,074)

20. Employee benefit expense

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages and salaries	46,627	85,405	193,202	30,062	65,091
Pension costs — statutory pension *(note (a))*	946	3,142	6,932	1,284	2,152
Staff welfare	—	267	2,857	243	407
Medical benefits	162	287	963	70	787
Other allowances and benefits	222	805	1,377	239	442
	47,957	89,906	205,331	31,898	68,879

The above employee benefit expense excluded directors' emoluments, which are disclosed in note 20(b).

(a) *Pensions — defined contribution plans*

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 10%–11% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

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

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Gross scheme contributions	946	3,142	6,932	1,284	2,152

(b) *Directors' emoluments*

The aggregate amounts of emoluments payable to the directors of companies/businesses comprising the Group (before incorporation of the Company) and of the Company (after its incorporation) during the Relevant Periods are as follows:

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries and benefits in kind	50	67	86	30	42

No emoluments were paid to non-executive director and independent non-executive directors during the Relevant Periods.

The remuneration of every Director for the Relevant Periods is set out below:

Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 30 June 2003				
Ms. Cheung	—	—	—	—
Mr. Liu	—	25	—	25
Mr. Zhang	—	25	—	25
	—	50	—	50
Year ended 30 June 2004				
Ms. Cheung	—	—	—	—
Mr. Liu	—	34	—	34
Mr. Zhang	—	33	—	33
	—	67	—	67
Year ended 30 June 2005				
Ms. Cheung	—	—	—	—
Mr. Liu	—	42	—	42
Mr. Zhang	—	44	—	44
	—	86	—	86
Three months ended 30 September 2004 (Unaudited)				
Ms. Cheung	—	—	—	—
Mr. Liu	—	15	—	15
Mr. Zhang	—	15	—	15
	—	30	—	30
Three months ended 30 September 2005				
Ms. Cheung	—	—	—	—
Mr. Liu	—	21	—	21
Mr. Zhang	—	21	—	21
	—	42	—	42

No director received any emolument from the Group as an inducement to join or leave the Group or Compensation for loss of office. No director waived or has agreed to waive any emoluments during the Relevant Periods.

(c) *Five highest paid individuals*

During the Relevant Periods, none of the five highest paid individuals is a director of the Company, whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining five individuals for the Relevant Periods are as follows,

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Pension costs	18	23	24	6	6
Salaries and other benefits	470	636	1,674	377	598
	488	659	1,698	383	604

The emoluments fell within the following bands:

	Number of individuals				
	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004 (Unaudited)	2005
Nil to RMB1,000,000	5	5	5	5	5

(d) During the Relevant Periods, no emolument was paid by the companies now comprising the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

21. Finance costs

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on bank borrowings					
— wholly repayable within five years	69,628	86,117	200,864	32,539	72,004
— not wholly repayable within five years	—	6,145	15,211	4,205	5,373
	69,628	92,262	216,075	36,744	77,377
Less: interest capitalised	(7,551)	(20,454)	(66,674)	(11,837)	(6,119)
	62,077	71,808	149,401	24,907	71,258
Bills discount charge	—	10,501	26,696	4,137	7,934
Other incidental borrowing cost	—	2,517	3,708	769	542
Exchange losses/(gains) on borrowings	34	248	9	(2)	(8,461)
	62,111	85,074	179,814	29,811	71,273

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress for the years ended 30 June 2003, 2004 and 2005 and 30 September 2005 is approximately 5.047%, 5.266%, 5.424% and 5.553% respectively.

22. Income tax expense

	Years ended 30 June			**Three months ended 30 September**	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Current tax					
— Hong Kong profits tax	—	—	—	—	—
— PRC enterprise income tax	4,090	26,254	22,935	2,370	18,946
	4,090	26,254	22,935	2,370	18,946
Deferred income tax *(note 17)*	26,810	26,516	37,483	5,853	13,669
	30,900	52,770	60,418	8,223	32,615

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 now comprising the Group as follows:

	Years ended 30 June			**Three months ended 30 September**	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Profit before taxation	141,407	340,559	378,326	64,936	282,012
Tax calculated at tax rates applicable to respective companies that comprising the Group	38,148	92,797	106,739	18,064	77,226
Effect of tax holidays	(7,531)	(40,040)	(46,281)	(9,786)	(44,628)
Add: Tax losses for which no deferred income tax asset was recognised	283	25	343	—	23
Less: Utilisation of previously unrecognised tax losses	—	(12)	(383)	(55)	(6)
Income tax expense	30,900	52,770	60,418	8,223	32,615

Hong Kong profits tax has not been provided as Zhang's did not have any assessable profits during the Relevant Periods.

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

Dongguan Nine Dragons is qualified as "Advanced Technology Enterprise" by the local government and accounts for its provision for current income tax in its PRC statutory accounts at the rate applicable for the "Advanced Technology Enterprise". In accordance with the relevant PRC tax laws, enterprise qualified as "Advanced Technology Enterprise" in those advanced technological industry development zones approved by the central government is subject to enterprise income tax of 15% and local tax of 3% on the taxable income as reported in its PRC statutory accounts. Foreign investment productive enterprise established in coastal economic development zone is subject to enterprise income tax rate of 24% and local income tax of 3%. As at 30 June 2003, 2004 and 2005 and 30 September 2005 respectively, a provision has been made in this report to account for the difference between the income tax rate applicable for "Advanced Technology Enterprise" and the income tax rate applicable for foreign investment productive enterprise established in coastal economic development zone.

Under PRC income tax law, Dongguan Sea Dragon, Taicang Nine Dragons and Taicang Sea Dragon are qualified as foreign investment production enterprise and are established in coastal economic development zone. Accordingly, they are subject to enterprise income tax of 24% and local income tax of 3% on the taxable income as reported in their statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

Dongguan Transportation and Taicang Transportation are domestic enterprises. Accordingly, they are subject to enterprise income tax of 33% on the taxable income as reported in their statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

ND Xing An is established in a place where enterprises are subject to enterprise income tax of 30% and local income tax of 3% on the taxable income as reported in their statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

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

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

23. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on the combined basis as disclosed in note 1 above.

24. Cash generated from operations

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit for the year/period	110,507	287,789	317,908	56,713	249,397
Adjustments for					
Income tax *(note 22)*	30,900	52,770	60,418	8,223	32,615
Depreciation *(note 19)*	83,025	89,780	167,392	32,120	75,750
Amortisation *(note 7)*	1,788	1,788	4,657	447	2,762
Loss on sale of property, plant and equipment *(note (a))*	—	181	6,875	226	7
Interest income *(note 18)*	(1,619)	(3,321)	(8,988)	(1,345)	(3,123)
Finance costs *(note 21)*	62,111	85,074	179,814	29,811	71,273
	286,712	514,061	728,076	126,195	428,681
Changes in working capital					
Inventories	153,813	(250,645)	35,627	119,605	140,192
Trade receivables and other receivables	(70,222)	(178,352)	104,930	(357,906)	(283,150)
Trade payables and other payables	(269,521)	338,523	470,208	484,714	74,166
Cash generated from operations	100,782	423,587	1,338,841	372,608	359,889

(a) *Loss on sale of property, plant and equipment*

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

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net book amount *(note 6)*	—	181	7,357	791	7
Loss on sale of property, plant and equipment	—	(181)	(6,875)	(226)	(7)
Proceeds from sale of property, plant and equipment	—	—	482	565	—

(b) *Non-cash transactions*

The principal non-cash transactions included:

— issue of shares for business combinations (note 27).

— issue of shares on capitalisation of advances from then shareholders (note 13).

25. Contingencies

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate guarantees for bank borrowings and credit facilities of related parties *(note 28(f))*	592,784	2,664,366	62,000	32,000
Bills of exchange discounted with recourse	19,943	252,941	389,346	447,208
	612,727	2,917,307	451,346	479,208

26. Commitments

(a) *Capital commitments*

Capital expenditure at the end of each Relevant Period but not yet incurred is as follows:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for:				
— Property, plant and equipment	—	339,879	595,586	629,725
Authorised but not contracted for:				
— Property, plant and equipment	937,982	160,733	490,558	375,549
	937,982	500,612	1,086,144	1,005,274

(b) *Operating leases commitments — where the Group is the lessee*

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

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment:				
Not later than one year . . .	149	138	—	1,558
Later than one year and not later than five years. . . .	—	—	—	3,848
Later than five years.	—	—	—	—
	149	138	—	5,406

27. Business combinations

Effective 1 January 2005, the Group acquired 100% of the share capital of NDP Industries, MSL, RDP Industries and EDP Industries.

NDP Industries is an investment holding company and its principal investment is holding 100% equity in Taicang Nine Dragons, which was established on 26 June 2002 in the PRC as a wholly owned foreign enterprise and was established to engage in the manufacture of paper.

MSL is an investment holding company and its principal investment is holding 100% equity in Dongguan Sea Dragon, which was established on 17 April 2002 in the PRC as a wholly owned foreign enterprise and was established to engage in the manufacture of paper.

RDP Industries is an investment holding company and its principal investment is holding 100% equity in Taicang Sea Dragon, which was established on 20 June 2002 in the PRC as a wholly owned foreign enterprise. Prior to 1 January 2005, Taicang Sea Dragon did not engage in the manufacture of paper but holding of certain land use rights and power plants for future paper manufacturing establishment.

EDP Industries is an investment holding company. Since its incorporation to 1 January 2005, EDP Industries has not involved in any business transaction other than issuing shares of US$100 to Mr. Zhang. Accordingly, it has no any material assets or liabilities as at the date of acquisition by the Group.

The acquired business contributed revenues of RMB1,235,909,000 and RMB756,785,000 and profit of RMB25,896,000 and RMB68,277,000 for the six months ended 30 June 2005 and the three months ended 30 September 2005, respectively. If the acquisition had occurred since the date of establishment of NDP Industries, MSL, and RDP Industries, Group turnover for the years ended 30 June 2003 and 2004 would have been increased by RMB2,402,000 and RMB749,441,000 respectively, and profit for the years would have been decreased by RMB2,563,000 and RMB71,247,000 respectively.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration at fair value of shares issued by Zhang's *(note 13)*	717,666
Fair value of net assets acquired	(570,972)
Goodwill *(note 8)*	146,694

The goodwill is attributed to the expected high profitability of the acquired subsidiaries and the significant synergies expected to arise after the Group's acquisition of the subsidiaries.

The fair value of the shares issued by Zhang's at approximately RMB4,459 per share issued was based on the business valuation carried out by Vigers Appraisal & Consulting Limited, the independent valuers.

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

	Fair value	**Acquirees' carrying amount**
	RMB'000	**RMB'000**
Bank and cash balances	128,914	128,914
Restricted cash	210,781	210,781
Property, plant and equipment *(note 6)*	2,942,192	2,942,192
Land use rights *(note 7)*	397,632	307,105
Inventories	464,672	464,672
Receivables	623,469	623,469
Payables	(1,493,055)	(1,493,055)
Borrowings	(2,674,862)	(2,674,862)
Net deferred tax liabilities *(note 17)*	(28,548)	(12,706)
Net assets	571,195	496,510
Minority interests	(223)	
Net assets acquired	570,972	

Cash inflow on acquisition of subsidiaries represents the bank and cash balances in subsidiaries acquired.

There were no acquisitions in the years ended 30 June 2003 and 2004.

28. Related party transactions

Parties are considered to be related if they have the ability, directly and indirectly, to control the parties or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) *Name and relationship with related parties*

Name	Relationship
America Chung Nam Inc. ("ACN")	Company beneficially owned by Ms. Cheung and Mr. Liu
Dongguan Sea Dragon*	Company beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang
Taicang Nine Dragons*	Company beneficially owned by Mr. Zhang
Taicang Sea Dragon*	Company beneficially owned by Mr. Zhang
玖龍包裝(太倉)有限公司 Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging")	Company beneficially owned by Mr. Zhang
東莞天龍紙業有限公司 Dongguan Sky Dragon Paper Industries Company Limited ("Dongguan Sky Dragon")	Company beneficially owned by Mr. Zhang
東莞天金貿易有限公司 Dongguan Tian Jin Trading Company Limited ("Dongguan Tian Jin")	Company beneficially owned by Mr. Zhang

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

(b) *Transactions with related parties*

During the Relevant Periods, the Group had the following significant transactions with related parties. Sales and purchases transactions are negotiated with related parties in a normal course of business with a margin on the same basis with non-related parties.

	Years ended 30 June			Three months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Sales of goods:					
— Taicang Nine Dragons	—	40,782	19,803	10,513	—
— Taicang Packaging	16,015	14,405	35,988	9,960	21,355
	16,015	55,187	55,791	20,473	21,355
Sales of raw materials:					
— Dongguan Sea Dragon	144	2,031	554	282	—
Sales of utilities:					
— Taicang Packaging	—	—	867	—	—
Purchase of direct materials:					
— ACN					
— Recovered paper	999,189	1,210,651	1,888,101	308,472	551,003
— kraft pulp	306,403	365,089	374,414	29,161	60,779
	1,305,592	1,575,740	2,262,515	337,633	611,782
— Taicang Packaging					
— Recovered paper	—	—	1,593	—	1,147
	1,305,592	1,575,740	2,264,108	337,633	612,929

(c) *Balances with related parties*

	30 June 2003 RMB'000	30 June 2004 RMB'000	30 June 2005 RMB'000	30 September 2005 RMB'000
Trade balances due from:				
Trade receivables				
— Taicang Nine Dragons	—	47,568	—	—
— Dongguan Sea Dragon	—	1,758	—	—
— Taicang Packaging	769	13,746	19,381	19,439
	769	63,072	19,381	19,439
Non-trade balances due from:				
Related parties				
Taicang Packaging	463	463	10,604	10,523
Taicang Nine Dragons	71,503	159,391	—	—
Dongguan Sea Dragon	306,121	303,190	—	—
Dongguan Sky Dragon	—	—	164	15,616
Dongguan Tian Jin	—	—	—	20,000
	378,087	463,044	10,768	46,139
Directors				
Ms. Cheung	207	207	—	600
Mr. Liu	1,578	2,155	—	—
Mr. Zhang	16,346	38,846	500	—
	18,131	41,208	500	600
Trade balances due to:				
Trade payables				
— ACN	162,618	222,881	847,240	652,558
— Taicang Nine Dragons	—	15,150	—	—
— Taicang Packaging	—	—	530	217
	162,618	238,031	847,770	652,775
Non-trade balances due to:				
Related parties				
Taicang Nine Dragons	—	6,265	—	—
Taicang Packaging	—	—	1,063	—
	—	6,265	1,063	—
Directors				
Ms. Cheung	211,386	211,386	—	—
Mr. Zhang	81,568	113,614	—	18,766
	292,954	325,000	—	18,766

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

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade balance due from:				
Directors:				
Beginning of the year/period	500	18,131	41,208	500
Cash advances.	18,279	24,458	38,492	600
Cash receipts	(648)	(1,381)	(79,200)	(500)
End of the year/period. . . .	18,131	41,208	500	600
Related parties:				
Beginning of the year/period	41,635	378,087	463,044	10,768
Cash advances.	336,452	87,888	10,305	35,452
Cash receipts	—	(2,931)	—	(81)
Eliminated on consolidation#	—	—	(462,581)	—
End of the year/period. . . .	378,087	463,044	10,768	46,139
Then shareholders:				
Beginning of the year/period	—	27,316	48,740	—
Cash advances.	27,316	21,453	70	—
Cash receipts	—	(29)	(48,810)	—
End of the year/period. . . .	27,316	48,740	—	—
Non-trade balance due to:				
Directors:				
Beginning of the year/period	292,954	292,954	325,000	—
Cash receipts	—	32,046	—	18,766
Cash repayments	—	—	(113,614)	—
Capitalisation of advances for issue of Zhang's shares capital *(note 13)* .	—	—	(211,386)	—
End of the year/period. . . .	292,954	325,000	—	18,766
Related parties:				
Beginning of the year/period	—	—	6,265	1,063
Cash receipts	—	6,265	21,063	—
Cash repayments	—	—	(20,000)	(1,063)
Eliminated on consolidation#	—	—	(6,265)	—
End of the year/period. . . .	—	6,265	1,063	—
Then shareholders:				
Beginning of the year/period	44,321	44,321	44,321	—
Cash repayments	—	—	(1,910)	—
Capitalisation of advances for issue of Zhang's shares capital *(note 13)* .	—	—	(42,411)	—
End of the year/period. . . .	44,321	44,321	—	—

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

(e) *Key management compensation*

	Years ended 30 June			Three months ended 30 September	
	2003	2004	2005	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries	488	659	1,698	383	604
Post-employment benefits	—	—	—	—	—
	488	659	1,698	383	604

(f) *Guarantees*

(i) Guarantees given by related parties for bank borrowings and credit facilities at the respective balance sheet dates are as follows:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
ACN	610,000	749,000	832,500	752,500
ACN together with Ms. Cheung.	168,694	51,270	51,264	50,122
ACN together with Ms. Cheung, Mr. Liu and Ms. Chang	190,100	230,060	160,000	160,000
Dongguan Sea Dragon together with Dongguan Sky Dragon.	115,879	120,000	120,000	120,000
Dongguan Nine Dragons together with Ms. Cheung and Mr. Liu.	—	—	50,000	50,000
Ms. Cheung	65,000	335,000	500,800	529,000
Taicang Nine Dragons	130,000	68,500	—	9,000
ACN together with Dongguan Sea Dragon.	—	480,000	450,000	480,000
Dongguan Sea Dragon	—	160,000	—	—
Total	1,279,673	2,193,830	2,164,564	2,150,622

All the above guarantees have been released by relevant lending banks prior to the listing of the shares of the Company on the Main Board of the Stock Exchange.

(ii) Guarantees given to related parties for bank borrowings and credit facilities at the respective balance sheet dates are as follows:

	30 June			30 September
	2003	2004	2005	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Dongguan Sea Dragon	168,839	997,177	—	—
Taicang Nine Dragons	378,945	1,605,189	—	—
Taicang Packaging# .	45,000	62,000	62,000	32,000
	592,784	2,664,366	62,000	32,000

\# Guarantees for bank borrowings of RMB15,000,000, RMB2,000,000 and RMB15,000,000 will expire in May 2006, December 2008 and June 2009 respectively.

(g) Effective 1 January 2005, Zhang's acquired the issued share capital of NDP Industries, MSL, RDP Industries and EDP Industries from the directors of the Company. Details of the business combinations are disclosed in notes 1 and 27.

III. BALANCE SHEET OF THE COMPANY

The Company was incorporated on 17 August 2005 with an authorised share capital of HK$100,000 divided into 100,000 shares of HK$1.00 each. On 27 September 2005, 100,000 nil-paid shares of HK$1.00 each were issued to Ms. Cheung. On 30 December 2005, every share of HK$1.00 in the Company was sub-divided into 10 Shares of HK$0.10 each and on the same date, the authorised share capital of the Company was increased from HK$100,000 to HK$800,000,000 by the creation of additional 7,999,000,000 shares. The Company has not carried on any business since its date of incorporation.

IV. SUBSEQUENT EVENTS

Subsequent to 30 September 2005 and up to the date of this report, the Group completed the Reorganisation in preparation for a listing of shares of the Company on the Main Board, the details of which are set out in Note 1 of Section II of this report.

V. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 30 September 2005. In addition, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 30 September 2005.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

20 February 2006

The Directors
Nine Dragons Paper (Holdings) Limited
BNP Paribas Peregrine Capital Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information of Nine Dragons Paper Industries Co., Ltd. (hereinafter referred to as "NDP Industries") and its subsidiaries (hereinafter collectively referred to as the "NDP Industries Group") for each of the two years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 20 February 2006 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

NDP Industries was incorporated in the British Virgin Islands (the "BVI") on 6 March 2002 as an International Business Company pursuant to the International Business Companies Act of the BVI and was wholly held by Mr. Zhang Cheng Fei ("Mr. Zhang"). Pursuant to the agreement entered into between Zhang's Enterprises Company Limited ("Zhang's") and Mr. Zhang on 1 January 2005, Zhang's acquired the entire issued share capital of NDP Industries and, accordingly, became the holding company of NDP Industries Group effective on 1 January 2005.

As at 31 December 2004, NDP Industries has direct and indirect interests in the following subsidiaries, all of which are private companies.

Company	Date of incorporation/ establishment	Place of incorporation and operation	Paid-in capital	Attributable equity interests to the NDP Industries	Principal activities/place of operation
Directly held:					
玖龍紙業(太倉)有限公司 Nine Dragons Paper Industries (Taicang) Company Limited*.	26 June 2002	People's Republic of China (the "PRC")	US$37,611,511	100%	Manufacture of paper/PRC
Indirectly held:					
太倉玖龍運輸有限公司 Nine Dragons Transportation (Taicang) Company Limited*	8 January 2004	PRC	RMB2,000,000	90%	Provision for transportation services/PRC

* *The English names of these companies comprising the NDP Industries Group represent the best efforts of the directors of Nine Dragons Paper (Holdings) Limited at translating the Chinese names of these companies as no English names have been registered.*

All companies established in the People's Republic of China (the "PRC") now comprising the Group have adopted 31 December as their financial year end date as required by the PRC statutory reporting requirement. NDP Industries adopts 30 June as its financial year end date since its date of incorporation.

No audited accounts have been prepared for NDP Industries since its date of incorporation as it is not subject to any statutory audit requirement in its jurisdiction of incorporation. The statutory audited accounts of Nine Dragons Paper Industries (Taicang) Company Limited ("Taicang Nine Dragons") and management accounts of Nine Dragons Transportation (Taicang) Company Limited ("Taicang Transportation") were prepared in accordance with accounting rules and regulations of the PRC (the "PRC GAAP"). The statutory audited accounts of Taicang Nine Dragons for the years ended 31 December 2003 and 2004 were audited by 昆山公信會計師事務所有限公司 Kunshan Gongxin Certified Public Accountants Company Limited.

For the purpose of this report, the directors have prepared consolidated accounts of NDP Industries and its subsidiaries in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") for each of the two years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004 (the "HKFRS Accounts"). We have carried out independent audit and independent audit procedures on the HKFRS Accounts in accordance with the Statements of Auditing Standards issued by the Hong

Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA.

The financial information as set out in sections I to V below (the "Financial Information") has been prepared based on the HKFRS Accounts, on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of NDP Industries, at the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of Nine Dragons Paper (Holdings) Limited are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in section II below, give a true and fair view of the state of affairs of the NDP Industries Group as at 30 June 2003 and 2004 and 31 December 2004 and of the results and cash flows of the NDP Industries Group for each of the years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004.

I. ACCOUNTS

(a) Consolidated balance sheets

	Note	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	347,012	1,388,420	1,635,160
Land use rights	7	74,548	73,031	67,831
		421,560	1,461,451	1,702,991
Current assets				
Inventories	8	8,822	294,170	179,572
Trade and other receivables	9	15,620	506,475	516,639
Restricted cash	10	501	6,190	6,060
Bank and cash balances	11	121,637	172,664	84,102
		146,580	979,499	786,373
Total assets		568,140	2,440,950	2,489,364
EQUITY				
Capital and reserves attributable to the equity holders of NDP Industries				
Share capital	12	1	1	321,389
Translation reserves		(18)	(5)	15
Accumulated losses		(2,588)	(22,284)	(17,374)
		(2,605)	(22,288)	304,030
Minority interests		—	200	223
Total equity		(2,605)	(22,088)	304,253
LIABILITIES				
Non-current liabilities				
Borrowings	14	366,945	1,309,489	1,303,558
Deferred income tax liabilities	15	—	421	1,468
		366,945	1,309,910	1,305,026
Current liabilities				
Trade and other payables	13	146,800	785,428	483,085
Borrowings	14	57,000	367,700	397,000
		203,800	1,153,128	880,085
Total Liabilities		570,745	2,463,038	2,185,111
Total equity and liabilities		568,140	2,440,950	2,489,364
Net current liabilities		(57,220)	(173,629)	(93,712)
Total assets less current liabilities		364,340	1,287,822	1,609,279

(b) Consolidated income statements

		Years ended 30 June		Six months ended 31 December	
		2003	2004	2003	2004
	Note	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Sales	5	2,402	380,032	23,788	588,809
Cost of goods sold	17	(3,295)	(333,810)	(27,494)	(516,291)
Gross (loss)/profit		(893)	46,222	(3,706)	72,518
Other gains — net	16	259	4,755	1,501	1,453
Selling and marketing costs	17	(217)	(11,984)	(1,174)	(15,628)
Administrative expenses	17	(1,250)	(21,916)	(10,715)	(13,148)
Operating (loss)/profit		(2,101)	17,077	(14,094)	45,195
Finance costs	19	(487)	(36,352)	(1,290)	(39,215)
(Loss)/profit before income tax		(2,588)	(19,275)	(15,384)	5,980
Income tax expense	20	—	(421)	—	(1,047)
(Loss)/profit for the year/period		(2,588)	(19,696)	(15,384)	4,933
Attributable to:					
Equity holders of NDP Industries		(2,588)	(19,696)	(15,384)	4,910
Minority interests		—	—	—	23
		(2,588)	(19,696)	(15,384)	4,933
(Loss)/earnings per share for (loss)/ profit attributable to the equity holders of NDP Industries during the year/period *(expressed in RMB per share)*					
— basic	25	(25,880)	(196,960)	(153,840)	48,614
— diluted	25	n/a	n/a	n/a	n/a

(c) Consolidated statements of changes in equity

	Attributable to the equity holders of NDP Industries				
	Share capital	Translation reserves	Accumulated losses	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2002	1	(4)	—	—	(3)
Currency translation difference	—	(14)	—	—	(14)
Loss for the year	—	—	(2,588)	—	(2,588)
Balance at 30 June 2003	1	(18)	(2,588)	—	(2,605)
Currency translation difference	—	13	—	—	13
Loss for the year	—	—	(19,696)	—	(19,696)
Capital injection by a minority shareholder	—	—	—	200	200
Balance at 30 June 2004	1	(5)	(22,284)	200	(22,088)
Currency translation difference	—	20	—	—	20
Profit for the period	—	—	4,910	23	4,933
Issue of share capital — capitalisation of advance from an equity holder	321,388	—	—	—	321,388
Balance at 31 December 2004	321,389	15	(17,374)	223	304,253

(d) Consolidated cash flow statements

	Note	Years ended 30 June 2003 RMB'000	Years ended 30 June 2004 RMB'000	Six months ended 31 December 2003 RMB'000	Six months ended 31 December 2004 RMB'000
Cash flows from operating activities					
Net cash (used in)/generated from operations	21	(25,905)	(181,516)	(178,198)	114,080
Interest paid		(4,539)	(52,996)	(19,445)	(41,192)
Net cash (used in)/generated from operating activities		(30,444)	(234,512)	(197,643)	72,888
Cash flows from investing activities					
Purchase of property, plant and equipment		(338,235)	(1,018,146)	(797,076)	(318,000)
Payment of land use rights		(75,285)	—	—	—
Proceeds from sales of property, plant and equipment	21(a)	—	250	—	—
Interest received		1	372	14	887
Sale of a subsidiary, net of cash disposed	21(b)	—	—	—	24,744
Cash advances made to related parties	24(d)	(3,050)	(167,825)	(70,000)	—
Cash advances made to directors	24(d)	—	(87,024)	—	(5,949)
Cash receipts from repayments of cash advances from related parties	24(d)	—	—	—	57,948
Net cash used in investing activities		(416,569)	(1,272,373)	(867,062)	(240,370)
Cash flows from financing activities					
Cash advance from directors	24(d)	44,936	216,567	96,028	70,799
Cash advances from related parties	24(d)	71,966	87,888	54,911	—
Cash repaid to related parties	24(d)	—	—	—	(39,082)
Cash repaid to directors	24(d)	—	—	—	(31,186)
Capital injection by a minority shareholder		—	200	—	—
New loans payable		744,835	2,143,350	889,594	739,790
Repayment of borrowings		(320,890)	(890,106)	(61,300)	(661,421)
Net cash generated from financing activities		540,847	1,557,899	979,233	78,900
Net increase/(decrease) in cash and cash equivalents		93,834	51,014	(85,472)	(88,582)
Cash and cash equivalents at beginning of the year/period	11	27,817	121,637	121,637	172,664
Exchange (losses)/gains on bank and cash balances		(14)	13	10	20
Cash and cash equivalents at end of the year/period	11	121,637	172,664	36,175	84,102

II NOTES TO THE ACCOUNTS

1. Basis of preparation

The Financial Information set out in this report is prepared in accordance with HKFRS, and have been consistently applied throughout the Relevant Periods. The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information 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 NDP Industries Group's accounting policies. The areas involving higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of this Financial Information is set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1. *Consolidation*

The consolidated accounts include the accounts of NDP Industries and all its subsidiaries made up to each of the balance sheet dates of the Relevant Periods.

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 NDP Industries Group.

2.2. *Subsidiaries*

Subsidiaries are all entities over which the NDP Industries 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 NDP Industries Group controls another entity.

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

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

2.3. *Segment reporting*

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

No business segment information of the NDP Industries Group is presented as the NDP Industries Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of paper. The NDP Industries 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 NDP Industries Group. Accordingly, no geographical segment is presented.

2.4. *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the accounts of each of the NDP Industries Group's companies are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the NDP Industries Group'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 transaction. 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 statements, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Transaction differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the companies now comprising the NDP Industries Group (none of which has the currency of a hyperinflationary economy) that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

— Assets and liabilities for each balance sheet of the companies now comprising the NDP Industries Group are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement of the companies now comprising the NDP Industries Group are translated at average exchange rates; and

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statements as part of the gain or loss on sale.

2.5. *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 NDP Industries Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statements during the Relevant Periods in which they are incurred.

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

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

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated 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 consolidated balance sheets represent up-front prepayments made for operating leases for land use rights paid and payable to the PRC government authorities. Land use rights are carried at cost and are charged to the consolidated income statements on a straight-line basis over the respective periods of the right which range from 10 years to 50 years.

2.8. ***Impairment of assets***

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

2.9. ***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.

2.10. ***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 NDP Industries Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statements.

2.11. ***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.

2.12. ***Borrowings***

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

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

2.13. ***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 accounts. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.14. ***Employee benefits***

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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.

(b) *Pension obligations*

The NDP Industries Group participates in a defined contribution scheme administrated by the relevant authority of the PRC.

Contributions to the schemes are calculated as a percentage of employees' salaries. The NDP Industries Group's contributions to the defined contribution retirement scheme are expensed as incurred. The NDP Industries Group has no further obligation in connection with staff's retirement benefits.

2.15. ***Provisions***

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

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

2.16. ***Revenue recognition***

Revenue comprises the fair value for the sale of goods and services, net of value-added tax and discount after eliminated sales with the NDP Industries Group. Revenue is recognised as follows:

(a) *Sales of goods and scrap materials*

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

(b) *Interest income*

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

(c) *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.

2.17. ***Leases***

The NDP Industries Group is the lessee

Leases where 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 consolidated income statements on a straight-line basis over the period of the lease.

3. Financial risk management

3.1. *Financial risk factors*

The NDP Industries Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The NDP Industries Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the NDP Industries Group's financial performance.

Risk management is carried out by the NDP Industries Group's finance department (the "Group Finance") under policies approved by the Board of Directors. The Group Finance identifies, evaluates and hedges financial risks in close co-operation with the NDP Industries Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and liquidity risk.

(a) *Credit risk*

The NDP Industries 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.

(b) *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 Finance aims to maintain flexibility in funding by keeping committed credit lines available.

(c) *Cash flow and fair value interest rate risk*

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

The NDP Industries Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the NDP Industries Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the NDP Industries Group to fair value interest-rate risk. At the end of each of the Relevant Periods, RMB395,000,000, RMB1,588,700,000 and RMB1,612,000,000 of borrowings, respectively, were at fixed rates.

3.2 *Fair value estimation*

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. 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 NDP Industries 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 NDP Industries 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 related to the estimated useful lives of the plant and machinery which are mainly for the manufacture of paper.

The NDP Industries Group's management determines the estimated useful lives and related depreciation expense for its paper producing plant and machinery. 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 those previously estimated, 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 2003, 2004 and 31 December 2004 would be, respectively, an estimated RMBnil, RMB1,167,000 and RMB2,470,000 higher or RMBnil, RMB1,426,000 and RMB3,018,000 lower.

5. Sales

The NDP Industries Group is principally engaged in the manufacture and sales of paper. As the products and services provided by the NDP Industries Group are all related to the manufacture and sales of paper and subject to similar business risks, no segment income statements have been prepared by the NDP Industries Group for the Relevant Periods.

Turnover recognised during the Relevant Periods are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of paper	—	338,321	7,580	549,192
Sales of packaging box	2,402	41,711	16,208	39,617
	2,402	380,032	23,788	588,809

6. Property, plant and equipment

	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 1 July 2002						
Cost	—	—	79	389	3,188	3,656
Accumulated depreciation	—	—	—	—	—	—
Net book amount	—	—	79	389	3,188	3,656
Year ended 30 June 2003						
Opening net book amount	—	—	79	389	3,188	3,656
Additions	3,450	2,523	1,135	2,143	335,222	344,473
Transfer	17,550	37,670	118	1,196	(56,534)	—
Depreciation *(note 17)*	(238)	(651)	(73)	(155)	—	(1,117)
Closing net book amount	20,762	39,542	1,259	3,573	281,876	347,012
At 30 June 2003						
Cost	21,000	40,193	1,332	3,728	281,876	348,129
Accumulated depreciation	(238)	(651)	(73)	(155)	—	(1,117)
Net book amount	20,762	39,542	1,259	3,573	281,876	347,012
Year ended 30 June 2004						
Opening net book amount	20,762	39,542	1,259	3,573	281,876	347,012
Additions	21	85,679	16,749	12,031	950,817	1,065,297
Transfer	283,459	766,070	150	2,667	(1,052,346)	—
Disposals *(note 21)*	—	—	—	(326)	—	(326)
Depreciation *(note 17)*	(5,598)	(15,439)	(1,203)	(1,323)	—	(23,563)
Closing net book amount	298,644	875,852	16,955	16,622	180,347	1,388,420
At 30 June 2004						
Cost	304,480	891,942	18,231	18,056	180,347	1,413,056
Accumulated depreciation	(5,836)	(16,090)	(1,276)	(1,434)	—	(24,636)
Net book amount	298,644	875,852	16,955	16,622	180,347	1,388,420

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 31 December 2004						
Opening net book amount. . .	298,644	875,852	16,955	16,622	180,347	1,388,420
Additions.	—	4,661	826	8,679	319,848	334,014
Transfer	5,781	80,077	—	—	(85,858)	—
Disposal of a subsidiary *(note 21)*	(19,729)	(35,876)	(1,114)	(2,506)	(4,597)	(63,822)
Depreciation *(note 17)*.	(6,088)	(15,332)	(839)	(1,193)	—	(23,452)
Closing net book amount . . .	278,608	909,382	15,828	21,602	409,740	1,635,160
At 31 December 2004						
Cost.	288,961	936,550	17,620	23,616	409,740	1,676,487
Accumulated depreciation. . .	(10,353)	(27,168)	(1,792)	(2,014)	—	(41,327)
Net book amount	278,608	909,382	15,828	21,602	409,740	1,635,160

(a) Certain property, plant and equipment of the NDP Industries Group with carrying values of approximately RMB nil, RMB nil and RMB128,394,000 as at 30 June 2003 and 2004 and 31 December 2004 respectively had been pledged for bank borrowings of the NDP Industries Group (note 14).

(b) Depreciation was expensed in the following category in the consolidated accounts:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of goods sold.	916	17,301	1,597	24,230
Administration expenses.	55	1,463	618	1,676
Selling and marketing costs . . .	52	404	138	272
Total depreciation expense *(note 17)*	1,023	19,168	2,353	26,178

7. Land use rights

The NDP Industries 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 50 years.

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

	30 June 2003	30 June 2004	31 December 2004
	RMB'000	RMB'000	RMB'000
Opening	—	74,548	73,031
Additions	75,285	—	—
Amortisation of prepaid operating lease payments *(note 17)*	(737)	(1,517)	(733)
Disposal of subsidiaries *(note 21)*	—	—	(4,467)
	74,548	73,031	67,831

Bank borrowings are secured on land for the carrying amount of RMB nil, RMB39,328,000 and RMB38,513,000 as at 30 June 2003, 2004 and 31 December 2004 respectively (note 14).

8. Inventories

	30 June 2003	30 June 2004	31 December 2004
	RMB'000	RMB'000	RMB'000
At cost:			
Raw materials	7,524	193,526	131,654
Finished goods	1,298	100,644	47,918
	8,822	294,170	179,572

	Years ended 30 June 2003	Years ended 30 June 2004	Six months ended 31 December 2003	Six months ended 31 December 2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories recognised as expense in the cost of goods sold	3,295	333,810	27,494	516,291

9. Trade and other receivables

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
Trade receivables due from:			
— third parties	3,612	112,531	141,929
— related parties *(note 24(c))*	—	—	16,928
	3,612	112,531	158,857
Bills receivables	105	39,292	70,817
Prepayments	1,804	54,415	59,508
Amounts due from directors *(note (a) & note 24(c))*	—	87,024	92,973
Amounts due from related parties *(note (a) & note 24(c))*	3,050	186,025	120,884
Other receivables	7,049	27,188	13,600
	15,620	506,475	516,639

(a) Amounts due from directors and related parties at respective balance sheet date mainly comprise cash advances. The amounts due are unsecured, interest free and repayable on demand.

The NDP Industries sales to third parties are entered into on credit terms around 30 to 60 days. The ageing analysis of trade receivables due from third parties at respective balance sheet dates is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
0–30 days	877	76,920	95,362
31–60 days	836	29,701	30,673
61–90 days	1,745	2,791	12,524
Over 90 days	154	3,119	3,370
	3,612	112,531	141,929

The NDP Industries sales to related parties are entered into on the same credit terms of sales to third parties. The ageing analysis of trade receivables due from related parties at respective balance sheet dates is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
0–30 days	—	—	6,049
31–60 days	—	—	6,061
61–90 days	—	—	4,197
Over 90 days	—	—	621
	—	—	16,928

Particulars of amounts due from directors pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of director	30 June		31 December	Maximum amount outstanding during the years ended 30 June		Maximum amount outstanding during the period ended 31 December
	2003	2004	2004	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	—	87,024	92,973	—	87,024	92,973

Amounts due from directors and related parties were unsecured, interest free and repayable on demand.

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

Certain bills receivable of the NDP Industries Group with carrying values of approximately RMB nil, RMB11,651,777 and RMB nil as at 30 June 2003, 2004 and 31 December 2004, respectively, had been pledged for bank borrowings of the NDP Industries Group (note 14).

10. Restricted cash

As at 30 June 2003 and 2004 and 31 December 2004, the NDP Industries Group's cash of approximately RMB501,000, RMB6,190,000 and RMB6,060,000, respectively, were deposited in certain banks as guarantee deposits for banking facilities granted to NDP Industries Group.

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

11. Bank and cash balances

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Bank and cash balances denominated in:			
— RMB	67,045	162,384	79,856
— Other currencies	54,592	10,280	4,246
	121,637	172,664	84,102

The conversion of Renminbi 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 regulation of foreign exchange control promulgated by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

12. Share capital

	Authorised ordinary shares of US$1 each		Total
	Number of shares	US$	US$
At 30 June 2003 and 2004 and 31 December 2004	50,000	50,000	50,000

	Issued ordinary shares of US$1 each			Share premium	Total
	Number of shares	US$'000	Equivalent to RMB'000	RMB'000	RMB'000
At 30 June 2003 and 2004	100	—	1	—	1
Shares issued on capitalisation of advance from an equity holder *(note (a))*	100	—	1	321,387	321,388
At 31 December 2004	200	—	2	321,387	321,389

(a) On 31 December 2004, NDP Industries issued 100 shares to Mr. Zhang for capitalisation of his advance of RMB321,388,000 to NDP Industries.

13. Trade and other payables

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
Trade payables due to:			
— third parties	1,849	159,962	187,367
— related parties *(note 24(c))*	769	125,359	113,423
	2,618	285,321	300,790
Bills payable, secured	4,781	4,155	—
Deposit from customers	—	10,805	7,120
Amounts due to directors *(note (a) & note 24(c))*	65,208	281,775	—
Amounts due to related parties *(note (a) & note 24(c))*	71,966	159,854	120,772
Other payables	2,191	37,963	51,879
Staff welfare benefit payables	—	464	796
Accrued expenses	36	5,091	1,728
	146,800	785,428	483,085

(a) Amounts due to directors and related parties at respective balance sheet date mainly comprise cash advances. The amounts due are unsecured, interest free and repayable upon demand.

The ageing analysis of trade payables due to third parties at the respective balance sheet dates is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
0–90 days	1,849	82,199	132,007
91–180 days	—	51,911	55,360
181–365 days	—	25,852	—
	1,849	159,962	187,367

The ageing analysis of trade payables due to related parties at the respective balance sheet dates is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
0–90 days	769	99,583	113,423
91–180 days	—	19,335	—
181–365 days	—	6,441	—
	769	125,359	113,423

14. Borrowings

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Non-current	366,945	1,309,489	1,303,558
Current			
— Short term bank borrowings	54,000	365,700	297,000
— Current portion of long-term bank borrowings	3,000	2,000	100,000
	57,000	367,700	397,000
Total borrowings	423,945	1,677,189	1,700,558

As at 30 June 2003 and 2004 and 31 December 2004, respective borrowing of RMB423,945,000, RMB1,677,189,000 and RMB1,700,558,000 are secured by assets of the NDP Industries Group and guarantees given by related parties, which are detailed as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Borrowings secured by assets of the NDP Industries Group only *(note (a))*	—	10,000	—
Borrowings secured by guarantees given by related parties *(note 24(f))*	423,945	1,632,189	1,567,558
Borrowings secured by both assets of the NDP Industries Group and guarantees given by related parties *(note (a) & note 24(f))*	—	35,000	133,000
	423,945	1,677,189	1,700,558

(a) Details of the assets of NDP Industries Group pledged as securities for borrowings are disclosed in notes 6, 7 and 9.

The maturity of the borrowings is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Within 1 year	57,000	367,700	397,000
Between 1 and 2 years	2,000	206,945	308,558
Between 2 and 5 years	114,945	742,544	800,000
Wholly repayable within 5 years	173,945	1,317,189	1,505,558
Over 5 years	250,000	360,000	195,000
	423,945	1,677,189	1,700,558

The effective interest rates at each of the balance sheet dates of the Relevant Periods were as follows:

	30 June 2003	30 June 2004	31 December 2004
Long-term bank borrowings	4.99%	4.82%	4.85%
Short-term bank borrowings	4.55%	4.33%	5.04%

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

The carrying amounts of the NDP Industries Group's borrowings during the Relevant Periods are denominated in the following currencies:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
RMB	395,000	1,588,700	1,612,000
US dollars	28,945	88,489	88,558
	423,945	1,677,189	1,700,558

The NDP Industries Group has the following undrawn borrowing facilities:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
Floating rate:			
— expiring within one year	—	297,567	454,556
— expiring beyond one year	515,359	447,040	292,313
	515,359	744,607	746,869

15. Deferred income tax

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Deferred income tax liabilities to be recovered after more than 12 months	—	421	1,468

The movement on the deferred income tax liabilities is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Beginning of the year/period	—	—	421
Recognised in the consolidated income statements *(note 20)*	—	421	1,047
End of the year/period	—	421	1,468

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

16. Other gains — net

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of scrap materials	258	1,296	1,484	1,792
Sales of electricity	—	3,087	3	(1,659)
Interest income	1	372	14	887
Miscellaneous	—	—	—	433
	259	4,755	1,501	1,453

17. Expenses by nature

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

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of fixed assets *(note 6)*	1,117	23,563	2,619	23,452
Add: amount absorbed in opening inventories	—	94	94	4,489
Less: amount absorbed in closing inventories	(94)	(4,489)	(360)	(1,763)
	1,023	19,168	2,353	26,178
Staff costs — excluding directors' remuneration *(note 18)*	499	28,171	9,800	19,355
Changes in inventories of finished goods	(1,298)	(99,346)	(6,252)	52,726
Raw materials and consumables used	2,512	272,876	20,965	427,945
Transportation	116	8,669	634	12,204
Operating leases — land use rights *(note 7)*	737	1,517	722	733
Exchange losses	—	31	—	74

18. Employee benefit expense

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries	471	27,497	9,726	18,378
Pension costs — statutory pension *(note (a))*	20	488	56	533
Staff welfare	—	—	—	—
Medical benefits	8	152	18	204
Other allowances and benefits	—	34	—	240
	499	28,171	9,800	19,355

The above employee benefit expense excluded directors' emoluments, which are disclosed in note 18(b).

(a) *Pensions — defined contribution plans*

Employees in the NDP Industries Group are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The PRC subsidiaries contribute 10%–11% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The details of retirement scheme contributions for the employees, which have been dealt with in the income statements of the NDP Industries Group for the Relevant Periods, are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Gross scheme contributions.	20	488	56	533

(b) *Directors' emoluments*

The aggregate amounts of emoluments payable to the directors of the NDP Industries during the Relevant Periods are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries and benefits in kind	—	—	—	—

No director received any emolument from the NDP Industries Group as an inducement to join or leave the NDP Industries Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the Relevant Periods.

(c) *Five highest paid individuals*

During the Relevant Periods, none of the five highest paid individuals is a director of NDP Industries, whose emolument is reflected in the analysis presented above. The emoluments payable to the five individuals for the Relevant Periods are as follows,

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Pension costs	8	60	29	30
Salaries and other benefits	91	689	332	344
	99	749	361	374

The emoluments fell within the following bands:

	Number of individuals			
	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
Nil to RMB1,000,000	5	5	5	5

(d) During the Relevant Periods, no emolument was paid by the companies of the NDP Industries Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the NDP Industries Group or as compensation for loss of office.

19. Finance costs

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings				
— wholly repayable within five years	1,623	23,228	8,423	32,029
— not wholly repayable within five years	2,916	28,340	11,022	5,832
	4,539	51,568	19,445	37,861
Less: interest capitalised	(4,052)	(16,644)	(18,155)	(1,977)
	487	34,924	1,290	35,884
Bills discount charges	—	1,404	—	3,329
Other incidental borrowings costs	—	24	—	2
	487	36,352	1,290	39,215

The capitalization rate applied to funds borrowed generally and used for the development of construction in progress for the years ended 30 June 2003 and 2004 and six months ended 31 December 2003 and 2004 is appropriately 4.99%, 4.82%, 4.82% and 4.85% respectively.

20. Income tax expense

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax *(note 15)*	—	421	—	1,047

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

	Years ended 30 June		Six months ended 31 December	
	2003	**2004**	**2003**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
(Loss)/profit before taxation	(2,588)	(19,275)	(15,384)	5,980
Tax calculated at tax rates applicable to respective companies	(621)	(4,626)	(3,691)	1,435
Effect of tax holidays	—	3,017	2,272	(388)
Tax loss for which no deferred income tax asset was recognised	621	2,030	1,419	—
Income tax expense	—	421	—	1,047

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

Under PRC income tax law, Nine Dragons Paper Industries (Taicang) Company Limited ("Taicang Nine Dragons") and 玖龍包裝(太倉)有限公司 Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging") are qualified as foreign investment production enterprises and are established in coastal economic development zone. Accordingly, Taicang Nine Dragons and Taicang Packaging are subject to enterprise income tax of 24% and local income tax of 3% on the taxable income as reported in the statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

Nine Dragons Transportation (Taicang) Company Limited ("Taicang Transportation") is a domestic enterprise. Accordingly, Taicang Transportation is subject to enterprise income tax of 33% on the taxable income as reported in the statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

In accordance with the relevant applicable tax regulations, Taicang Nine Dragons is entitled to full exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income tax is exempted during the tax holiday periods.

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

21. Cash (used in)/generated from operations

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/profit for the year/period	(2,588)	(19,696)	(15,384)	4,933
Adjustments for				
Income tax *(note 20)*	—	421	—	1,047
Depreciation *(note 17)*.	1,023	19,168	2,353	26,178
Amortisation of land use rights *(note 7)*	737	1,517	722	733
Loss on sale of property, plant and equipment *(note (a))*	—	76	—	—
Interest income *(note 16)*	(1)	(372)	(14)	(887)
Finance costs *(note 19)*	487	36,352	1,290	39,215
	(342)	37,466	(11,033)	71,219
Changes in working capital				
Inventories	(8,820)	(280,953)	(157,266)	92,490
Trade and other receivables	7,407	(241,695)	(115,128)	(91,125)
Trade and other payables	(24,150)	303,666	105,229	41,496
Cash (used in)/generated from operations	(25,905)	(181,516)	(178,198)	114,080

(a) *Loss on sale of property, plant and equipment*

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

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Net book amount *(note 6)*	—	326	—	—
Loss on sale of property, plant and equipment	—	(76)	—	—
Proceeds from sale of property, plant and equipment.	—	250	—	—

(b) *Disposal of subsidiaries*

On 31 December 2004, NDP Industries disposed its entire equity interests in Taicang Packaging and 天龍紙業(太倉)有限公司 Sky Dragon Paper Industries (Taicang) Company Limited ("Taicang Sky Dragon"). Taicang Sky Dragon did not have any assets and liabilities as at 31 December 2004 or business operation since incorporation and its disposal did not have any financial impact on NDP Industries Group.

Details of net assets disposed and results on disposal are as follows:

	RMB'000
Investment	31,186
Consideration on disposal	(31,186)
	—

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

	RMB'000
Bank and cash balances	6,442
Property, plant and equipment *(note 6)*	63,822
Land use rights *(note 7)*	4,467
Inventories	19,382
Receivables	29,092
Payables	(37,019)
Borrowings	(55,000)
Net assets disposed	31,186
Consideration settled in cash	31,186
Bank and cash balances in subsidiary disposed	(6,442)
Cash inflow on disposal	24,744

(c) *Non-cash transactions*

The principal non-cash transactions is capitalisation of advance from an equity holder as discussed in note 12.

22. Contingencies

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Guarantee for bank borrowings and credit facilities granted to related parties *(Note 24 (f))*	130,000	68,500	—
Bills of exchange discounted with recourse	—	99,452	186,107
	130,000	167,952	186,107

23. Capital commitments

Capital expenditure at the end of each Relevant Period but not yet incurred is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
— Property, plant and equipment	114,256	62,809	95,019

24. Related party transactions

Parties are considered to be related if they have the ability, directly and indirectly, to control the parties or exercise significant influence over the NDP Industries Group in making financial and operating decisions, or vice versa, or where the NDP Industries Group and the parties are subject to common control or common significant influence.

(a) *Name and relationship with related parties*

Name	Relationship
American Chung Nam Inc. ("ACN"). . .	Company beneficially owned by Ms. Cheung and Mr. Liu, who are directors and senior management of the NDP Industries Group.
海龍紙業(太倉)有限公司 (Sea Dragon Paper Industries (Taicang) Company Limited)* ("Taicang Sea Dragon")	Company beneficially owned by Mr. Zhang
東莞玖龍紙業有限公司 (Dongguan Nine Dragons Paper Industries Company Limited)* ("Dongguan Nine Dragons")	Company beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang, who are directors and senior management of the NDP Industries Group
玖龍興安漿紙(內蒙古)有限公司 (Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited)* ("ND Xing An")	Company beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang, who are directors and senior management of the NDP Industries Group
東莞海龍紙業有限公司 (Dongguan Sea Dragon Paper Industries Company Limited)* ("Dongguan Sea Dragon")	Company beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang
Sky Dragon Paper Industries Co., Ltd. ("Sky Dragon")	Company beneficially owned by Mr. Zhang

* *The English names of these companies represent the best efforts of the directors of Nine Dragons Paper (Holdings) Limited at translating the Chinese names of these companies as no English names have been registered.*

(b) *Transactions with related parties*

During the Relevant Periods, the NDP Industries Group had the following significant transactions with related parties. Sales and purchases transactions are negotiated with related parties in a normal courses business with a margin on the same basis with non-related parties.

	Years ended 30 June		**Six months ended 31 December**	
	2003	**2004**	**2003**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Sales of goods:				
— Dongguan Sea Dragon	—	—	—	282
Purchase of direct materials:				
— ACN				
— Recovered paper	—	256,033	61,379	233,140
— Kraft pulp	—	87,363	55,115	9,952
	—	343,396	116,494	243,092
— ND Xing An				
— Unbleached kraft pulp	—	12,928	—	6,472
— Dongguan Sea Dragon				
— Recovered paper	—	—	—	2,845
	—	356,324	116,494	252,409
Purchase of finished goods:				
— Dongguan Nine Dragons	16,015	42,259	15,634	18,241

(c) *Balances with related parties*

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Trade balances due from:			
Trade receivables			
— Dongguan Sea Dragon	—	—	335
— Taicang Packaging#	—	—	16,593
	—	—	16,928
Advances to			
— Taicang Packaging#	—	—	379
— ND Xing An	—	15,150	7,578
	—	15,150	7,957
Non-trade balances due from:			
Related parties			
— Dongguan Sea Dragon	—	20,000	10,000
— Taicang Sea Dragon	3,050	144,610	102,927
— Dongguan Nine Dragons	—	6,265	—
	3,050	170,875	112,927
Directors			
— Mr. Zhang	—	87,024	92,973
Trade balances due to:			
— ACN	—	64,045	109,833
— Dongguan Sea Dragon	—	—	2,845
— Dongguan Nine Dragons	769	61,314	745
	769	125,359	113,423
Non-trade balances due to:			
Related parties			
— Dongguan Nine Dragons	71,966	159,854	120,772
Directors			
— Mr. Zhang	65,208	281,775	—
	137,174	441,629	120,772

This entity was disposed by NDP Industries on 31 December 2004.

(d) *Movement of non-trade balances with related parties*

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
Non-trade balances due from:			
Directors:			
Beginning of the year/period	—	—	87,024
Cash advances	—	87,024	5,949
End of the year/period	—	87,024	92,973
Related parties:			
Beginning of the year/period	—	3,050	170,875
Cash advances	3,050	167,825	—
Cash receipts	—	—	(57,948)
End of the year/period	3,050	170,875	112,927
Non-trade balances due to:			
Directors:			
Beginning of the year/period	20,272	65,208	281,775
Cash receipts	44,936	216,567	70,799
Cash repayments	—	—	(31,186)
Capitalisation of advance for issue of share capital *(note 12)*	—	—	(321,388)
End of the year/period	65,208	281,775	—
Related parties:			
Beginning of the year/period	—	71,966	159,854
Cash receipts	71,966	87,888	—
Cash repayments	—	—	(39,082)
End of the year/period	71,966	159,854	120,772

(e) *Key management compensation*

	Years ended 30 June 2003 RMB'000	Years ended 30 June 2004 RMB'000	Six months ended 31 December 2003 RMB'000	Six months ended 31 December 2004 RMB'000
Salaries	99	749	361	374
Post-employment benefits	—	—	—	—
	99	749	361	374

(f) Guarantees given by/to related parties for bank borrowings and credit facilities at the respective balance sheet dates are as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Guarantees given by Dongguan Nine Dragons	423,945	1,667,189	1,700,558
Guarantees given to Dongguan Nine Dragons.	130,000	68,500	—

(g) On 31 December 2004, NDP Industries disposed its entire equity interests in Taicang Packaging and Taicang Sky Dragon to Sky Dragon. Details of the disposal of subsidiaries are disclosed in note 21(b).

25. (Loss)/earnings per share

— *Basic*

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the equity holders of NDP Industries by the weight average number of ordinary shares in issue during the year/period.

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
(Loss)/profit attributable to the equity holders of NDP Industries *(RMB'000)*	(2,588)	(19,696)	(15,384)	4,910
Weighted average number of ordinary shares in issue *(shares)*	100	100	100	101
Basic (loss)/earnings per share *(RMB per share)*	(25,880)	(196,960)	(153,840)	48,614

— *Diluted*

No diluted (loss)/earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the Relevant Periods.

III. BALANCE SHEET OF NDP INDUSTRIES

NDP Industries was incorporated on 6 March 2002 for the purpose of holding investments in its subsidiaries, Taicang Nine Dragons and Taicang Transportation. As at 31 December 2004, the carrying amounts of NDP Industries' investments in subsidiaries was RMB311,292,000, which was mainly financed by the issued share capital of NDP Industries. Saved for the aforesaid investments and issued share capital, NDP Industries did not have other material assets and liabilities as at 31 December 2004.

IV. SUBSEQUENT EVENTS

Effective 1 January 2005, Zhang's acquired 100% equity interests in NDP Industries. Accordingly, Zhang's became the holding company of NDP Industries effective on 1 January 2005.

V. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for NDP Industries or its subsidiaries in respect of any period subsequent to 31 December 2004. In addition, no dividend or distribution has been declared, made or paid by NDP Industries or its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

20 February 2006

The Directors
Nine Dragons Paper (Holdings) Limited
BNP Paribas Peregrine Capital Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information of Millennium Scope Limited (hereinafter referred to as "MSL") and its subsidiary (hereinafter collectively referred to as the "MSL Group") for each of the two years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 20 February 2006 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

MSL was incorporated in the British Virgin Islands (the "BVI") on 21 August 2000 as an International Business Company pursuant to the International Business Companies Act of the BVI and, as at 31 December 2004, was held by Ms. Cheung Yan ("Ms. Cheung"), Mr. Liu Ming Chung ("Mr. Liu") and Mr. Zhang Cheng Fei ("Mr. Zhang") as 14.17%, 14.13% and 71.70%, respectively. Pursuant to the agreement entered into between Zhang's Enterprises Company Limited ("Zhang's") and Ms. Cheung, Mr. Liu and Mr. Zhang on 1 January 2005, Zhang's acquired the entire issued share capital of MSL and, accordingly, became the holding company of MSL Group effective on 1 January 2005.

As at 31 December 2004, MSL has direct interests in the following subsidiary, which is a private company.

Company	Date of incorporation/ establishment	Place of incorporation and operation	Paid-in capital	Attributable equity interests to the MSL Group	Principal activities/place of operation
東莞海龍紙業有限公司 Dongguan Sea Dragon Paper Industries Company Limited*	17 April 2002	People's Republic of China	US$22,439,000	100%	Manufacture of paper/People's Republic of China

* *The English name of the above company represents the best efforts of the directors of Nine Dragons Paper (Holdings) Limited at translating the Chinese name of this company, as no English name has been registered.*

Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon") has adopted 31 December as its financial year end date as required by the PRC statutory reporting requirement. MSL adopts 30 June as its financial year end date since its date of incorporation.

No audited accounts have been prepared for MSL since its date of incorporation as it is not subject to any statutory audit requirement in its jurisdiction of incorporation. The statutory audited accounts of Dongguan Sea Dragon were prepared in accordance with accounting rules and regulations of the PRC (the "PRC GAAP"), and its latest statutory accounts for the year ended 31 December 2004 were audited by 廣東新華會計師事務所有限公司 Guangdong Xinhua Certified Public Accountants Company Limited.

For the purpose of this report, the directors have prepared consolidated accounts of MSL and its subsidiary in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") for each of the two years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004 (the "HKFRS Accounts"). We have carried out independent audit and independent audit procedures on the HKFRS Accounts in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA.

The financial information as set out in sections I to V below (the "Financial Information") has been prepared based on the HKFRS Accounts, on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of MSL at the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of Nine Dragons Paper (Holdings) Limited are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in section II below, give a true and fair view of the state of affairs of the MSL Group as at 30 June 2003 and 2004 and 31 December 2004 and of the results and cash flows of the MSL Group for each of the years ended 30 June 2003 and 2004 and the six months ended 31 December 2003 and 2004.

I ACCOUNTS

(a) Consolidated balance sheets

	Note	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	328,227	1,221,030	1,220,300
Land use rights	7	15,397	123,001	121,857
		343,624	1,344,031	1,342,157
Current assets				
Inventories	8	10,747	323,025	285,072
Trade and other receivables	9	229	155,267	213,911
Restricted cash	10	48,284	57,919	204,721
Bank and cash balances	11	170,759	92,410	43,452
		230,019	628,621	747,156
Total assets		573,643	1,972,652	2,089,313
EQUITY				
Capital and reserves attributable to the equity holders of MSL				
Share capital	12	8	83,002	187,083
Translation reserves		1	2	7
Retained profit/(accumulated losses)		81	(51,470)	(87,540)
Total equity		90	31,534	99,550
LIABILITIES				
Non-current liabilities				
Other payables	13	4,619	12,429	13,702
Borrowings	14	—	794,177	725,718
Deferred income tax liabilities	15	—	4,949	11,238
		4,619	811,555	750,658
Current liabilities				
Trade and other payables	13	400,095	766,472	990,519
Borrowings	14	168,839	363,091	248,586
		568,934	1,129,563	1,239,105
Total liabilities		573,553	1,941,118	1,989,763
Total equity and liabilities		573,643	1,972,652	2,089,313
Net current liabilities		(338,915)	(500,942)	(491,949)
Total assets less current liabilities		4,709	843,089	850,208

(b) Consolidated income statements

		Years ended 30 June		Six months ended 31 December	
		2003	2004	2003	2004
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Sales	5	—	369,409	36,131	462,558
Cost of goods sold	16	—	(363,702)	(47,187)	(455,278)
Gross profit/(loss)		—	5,707	(11,056)	7,280
Interest income		35	66	1	850
Selling and marketing costs	16	—	(2,690)	—	(3,253)
Administrative expenses	16	(10)	(14,378)	(7,863)	(5,455)
Operating profit/(loss)		25	(11,295)	(18,918)	(578)
Finance costs	18	—	(35,307)	(9,249)	(29,203)
Profit/(loss) before income tax		25	(46,602)	(28,167)	(29,781)
Income tax expense	19	—	(4,949)	—	(6,289)
Profit/(loss) for the year/period		25	(51,551)	(28,167)	(36,070)
Attributable to:					
Equity holders of MSL		25	(51,551)	(28,167)	(36,070)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of MSL during the year/period *(expressed in RMB per share)*					
— basic	24	25	(39,655)	(28,139)	(22,488)
— diluted	24	n/a	n/a	n/a	n/a

(c) Consolidated statements of changes in equity

	Attributable to the equity holders of MSL			
	Share capital	Translation reserves	Retained earnings/ accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 30 June 2002	8	—	56	64
Profit for the year	—	—	25	25
Currency translation differences	—	1	—	1
Balance at 30 June 2003	8	1	81	90
Issue of share capital — capitalisation of advance from an equity holder	82,994	—	—	82,994
Loss for the year	—	—	(51,551)	(51,551)
Currency translation differences	—	1	—	1
Balance at 30 June 2004	83,002	2	(51,470)	31,534
Issue of share capital — capitalisation of advance from an equity holder	104,081	—	—	104,081
Loss for the period	—	—	(36,070)	(36,070)
Currency translation differences	—	5	—	5
Balance at 31 December 2004	187,083	7	(87,540)	99,550

(d) Consolidated cash flow statements

	Note	Years ended 30 June 2003 RMB'000	Years ended 30 June 2004 RMB'000	Six months ended 31 December 2003 RMB'000	Six months ended 31 December 2004 RMB'000
Cash flows from operating activities					
Net cash used in operations	20	(54,110)	(114,964)	(13,863)	(73,393)
Interest paid		(1,470)	(39,572)	(13,514)	(29,303)
Net cash used in operating activities		(55,580)	(154,536)	(27,377)	(102,696)
Cash flows from investing activities					
Purchase of property, plant and equipment		(326,757)	(875,838)	(737,907)	(32,213)
Payments for land use rights		—	(40,638)	(40,638)	(13,693)
Interest received		35	66	1	850
Net cash used in investing activities		(326,722)	(916,410)	(778,544)	(45,056)
Cash flows from financing activities					
Cash advances from related parties	23(d)	306,121	22,390	—	179,812
Cash advances from directors	23(d)	78,036	7,098	4,958	101,941
Cash advances repaid to related parties	23(d)	—	(25,321)	(25,321)	—
New loans payable		294,055	2,557,332	1,717,364	330,685
Repayment of borrowings		(125,216)	(1,568,903)	(960,655)	(513,649)
Net cash generated from financing activities		552,996	992,596	736,346	98,789
Net increase/(decrease) in cash and cash equivalents		170,694	(78,350)	(69,575)	(48,963)
Cash and cash equivalents at beginning of the year/period		64	170,759	170,759	92,410
Exchange gains on bank and cash balances		1	1	6	5
Cash and cash equivalents at end of the year/period	11	170,759	92,410	101,190	43,452

II NOTES TO THE ACCOUNTS

1 Basis of preparation

The Financial Information set out in this report is prepared in accordance with HKFRS, and have been consistently applied throughout the Relevant Periods. The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information 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 MSL Group's accounting policies. The areas involving higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this Financial Information is set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1 *Consolidation*

The consolidated accounts include the accounts of MSL and its subsidiary made up to each of the balance sheet dates of the Relevant Periods.

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 MSL Group.

2.2 *Subsidiary*

A subsidiary is an entity over which the MSL 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 MSL Group controls another entity.

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

In the balance sheet of MSL, the investments in subsidiary are stated at cost less provision for impairment losses. The results of subsidiary are accounted by MSL on the basis of dividend received and receivable.

2.3 *Segment reporting*

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

No business segment information of the MSL Group is presented as the MSL Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of paper. The MSL 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 MSL Group. Accordingly, no geographical segment is presented.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the accounts of each of the MSL Group's companies are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the MSL Group'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 transaction. 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 statements, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Transaction differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the companies now comprising the MSL Group (none of which has the currency of a hyperinflationary economy) that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

— Assets and liabilities for each balance sheet of the companies now comprising the MSL Group are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement of the companies now comprising the MSL Group are translated at average exchange rates; and

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statements as part of the gain or loss on sale.

2.5 *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 MSL Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statements during the Relevant Periods in which they are incurred.

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

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

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated 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 consolidated balance sheets represent up-front prepayments made for operating leases for land use rights paid and payable to the PRC government authorities. Land use rights are carried at cost and are charged to the consolidated income statements on a straight-line basis over the respective periods of the right which range from 10 years to 50 years.

2.8 *Impairment of assets*

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

2.9 *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.

2.10 *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 MSL Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statements.

2.11 *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.

2.12 *Borrowings*

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

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

2.13 *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 accounts. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.14 *Employee benefits*

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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.

(b) *Pension obligations*

The MSL Group participates in a defined contribution scheme administrated by the relevant authority of the PRC.

Contributions to the schemes are calculated as a percentage of employees' salaries. The MSL Group's contributions to the defined contribution retirement scheme are expensed as incurred. The MSL Group has no further obligation in connection with staff's retirement benefits.

2.15 *Provisions*

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

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

2.16 ***Revenue recognition***

Revenue comprises the fair value for the sale of goods and services, net of value-added tax and discount after eliminated sales with the MSL Group. Revenue is recognised as follows:

(a) *Sales of goods*

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

(b) *Interest income*

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

2.17 ***Leases***

The MSL Group is the lessee.

Leases where 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 consolidated income statements on a straight-line basis over the period of the lease.

3. Financial risk management

3.1 ***Financial risk factors***

The MSL Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The MSL Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the MSL Group's financial performance.

Risk management is carried out by the MSL Group's finance department (the "Group Finance") under policies approved by the Board of Directors. The Group Finance identifies, evaluates and hedges financial risks in close co-operation with the MSL Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and liquidity risk.

(a) *Credit risk*

The MSL 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.

(b) *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 Finance aims to maintain flexibility in funding by keeping committed credit lines available.

(c) *Cash flow and fair value interest rate risk*

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

The MSL Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the MSL Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the MSL Group to fair value interest-rate risk. At the end of each of the Relevant Periods, RMB99,000,000, RMB810,157,000 and RMB627,193,000 of borrowings, respectively, were at fixed rates.

3.2 *Fair value estimation*

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. 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 MSL 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 MSL 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 related to the estimated useful lives of the plant and machinery which are mainly for the manufacture of paper.

The MSL Group's management determines the estimated useful lives and related depreciation expense for its paper producing plant and machinery. 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 those previously estimated, 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 2003, 2004 and 31 December 2004 would be, respectively, an estimated RMBnil, RMB2,300,000 and RMB4,104,000 higher or RMBnil, RMB2,811,000 and RMB5,016,000 lower.

5 Sales

The MSL Group is principally engaged in the manufacture and sales of paper. Sales represent revenue generated from sales of paper. As the products and services provided by the MSL Group are all related to the manufacture and sales of paper and subject to similar business risks, no segment income statements have been prepared by the MSL Group for the Relevant Periods.

6 Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 30 June 2003						
Opening net book amount	—	—	—	—	—	—
Additions	—	—	—	—	328,227	328,227
Depreciation *(note 16)*	—	—	—	—	—	—
Closing net book amount	—	—	—	—	328,227	328,227
At 30 June 2003						
Cost	—	—	—	—	328,227	328,227
Accumulated depreciation	—	—	—	—	—	—
Net book amount	—	—	—	—	328,227	328,227
Year ended 30 June 2004						
Opening net book amount	—	—	—	—	328,227	328,227
Additions	—	—	724	12,317	905,568	918,609
Transfer	20,000	1,213,795	—	—	(1,233,795)	—
Depreciation *(note 16)*	—	(25,303)	(47)	(456)	—	(25,806)
Closing net book amount	20,000	1,188,492	677	11,861	—	1,221,030
At 30 June 2004						
Cost	20,000	1,213,795	724	12,317	—	1,246,836
Accumulated depreciation	—	(25,303)	(47)	(456)	—	(25,806)
Net book amount	20,000	1,188,492	677	11,861	—	1,221,030
Six months ended 31 December 2004						
Opening net book amount	20,000	1,188,492	677	11,861	—	1,221,030
Additions	—	—	149	1,989	19,435	21,573
Transfer	16,402	3,033	—	—	(19,435)	—
Depreciation *(note 16)*	(1,608)	(19,845)	(81)	(769)	—	(22,303)
Closing net book amount	34,794	1,171,680	745	13,081	—	1,220,300
At 31 December 2004						
Cost	36,402	1,216,828	873	14,306	—	1,268,409
Accumulated depreciation	(1,608)	(45,148)	(128)	(1,225)	—	(48,109)
Net book amount	34,794	1,171,680	745	13,081	—	1,220,300

(a) Certain property, plant and equipment of the MSL Group with carrying values of approximately RMBnil, RMB1,028,321,000, and RMB1,011,419,000 as at 30 June 2003 and 2004 and 31 December 2004 respectively had been pledged for bank borrowings of the MSL Group (note 14).

(b) Depreciation expense was expensed in the following category in the consolidated accounts:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of goods sold	—	18,625	3,330	23,159
Administration expenses	—	31	—	35
Selling and marketing costs	—	100	—	107
Total depreciation expense *(note 16)*	—	18,756	3,330	23,301

7. Land use rights

The MSL 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 50 years.

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

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Opening	—	15,397	123,001
Additions	15,397	108,873	—
Amortisation of prepaid operating lease payments *(note 16)*	—	(1,269)	(1,144)
	15,397	123,001	121,857

8. Inventories

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
At cost:			
Raw materials	10,747	204,042	115,538
Finished goods	—	118,983	169,534
	10,747	323,025	285,072

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Cost of inventories recognised as expense in the cost of goods sold	—	363,702	455,278

9. Trade and other receivables

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Trade receivables due from:			
— third parties	—	68,921	99,020
— related parties *(note 23(c))*	—	—	2,845
	—	68,921	101,865
Bills receivable	—	13,307	16,863
Prepayments	—	26,910	23,889
Amounts due from related parties *(note (a) & note 23(c))*	—	—	22,234
Other receivables	229	46,129	49,060
	229	155,267	213,911

(a) Amounts due from related parties as at 31 December 2004 mainly comprise cash advances. The amounts due are unsecured, interest free and repayable on demand.

The MSL sales to third parties are entered into on credit terms around 30 to 60 days. The ageing analysis of trade receivables due from third parties at respective balance sheet dates is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
0–30 days	—	50,341	64,101
31–60 days	—	12,006	19,111
61–90 days	—	1,276	8,486
Over 90 days	—	5,298	7,322
	—	68,921	99,020

The MSL sales to related parties are entered into on the same credit terms of sales to third parties. The ageing analysis of trade receivables due from related parties at respective balance sheet dates is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
0–30 days	—	—	2,845

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

10. Restricted cash

As at 30 June 2003 and 2004 and 31 December 2004, the MSL Group's cash of approximately RMB48,284,000, RMB57,919,000 and RMB204,721,000, respectively, were deposited in certain banks as guarantee deposits for general banking facilities granted to MSL Group.

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

11. Bank and cash balances

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Bank and cash balances denominated in:			
— RMB	141,679	79,221	31,170
— US dollars	22,227	9,871	9,068
— HK dollars	—	3,318	3,214
— EURO	6,853	—	—
	170,759	92,410	43,452

The conversion of Renminbi 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 regulation of foreign exchange control promulgated by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

12. Share capital

	Authorised ordinary shares of US$1 each		Total
	Number of shares	US$	US$
At 30 June 2003 and 2004 and 31 December 2004	50,000	50,000	50,000

	Issued ordinary shares of US$1 each			Share premium	Total
	Number of shares	US$'000	Equivalent to RMB'000	RMB'000	RMB'000
At 30 June 2003	1,000	1	8	—	8
Issue of share capital — capitalisation of advance from an equity holder *(note a)*	600	—	5	82,989	82,994
At 30 June 2004	1,600	1	13	82,989	83,002
Issue of share capital — capitalisation of advance from an equity holder *(note b)*	700	1	6	104,075	104,081
At 31 December 2004	2,300	2	19	187,064	187,083

(a) On 31 December 2003, MSL issued 100 shares to Mr. Zhang for capitalisation of his advance of RMB42,432,000 to MSL.

On 1 January 2004, MSL issued 250 shares to Ms. Cheung and 250 shares to Mr. Liu for a total consideration of US$4,900,000.

(b) On 31 December 2004, MSL issued 700 shares to Mr. Zhang for capitalisation of his advance of RMB104,081,000 to MSL.

13. Trade and other payables

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Trade payables due to:			
— third parties	—	82,350	98,536
— related parties *(note 23(c))*	—	93,064	58,276
	—	175,414	156,812
Bills payable, secured	—	170,000	248,000
Deposits from customers	—	3,192	11,361
Amounts due to directors *(note (a) & note 23(c))*	78,036	2,140	—
Amounts due to related parties *(note (a) & note 23(c))*	306,121	323,190	493,337
Other payables	20,557	99,289	88,836
Staff welfare benefit payables	—	3,628	4,325
Accrued expenses	—	2,048	1,550
	404,714	778,901	1,004,221
Less: Amount of other payables included in non-current liabilities			
Leases payable for land use rights	(4,619)	(12,429)	(13,702)
	400,095	766,472	990,519

(a) Amounts due to directors and related parties at respective balance sheet date mainly comprise cash advances. The amount due are unsecured, interest free and repayable upon demand.

The ageing analysis of trade payables due to third parties at the respective balance sheet dates is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
0–90 days	—	25,483	97,810
91–180 days	—	44,112	282
181–365 days	—	12,755	356
Over 365 days	—	—	88
	—	82,350	98,536

The ageing analysis of trade payables due to related parties at the respective balance sheet dates is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
0–90 days	—	93,064	58,276

14. Borrowings

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Non-current	—	794,177	725,718
Current — Short term bank borrowings	168,839	363,091	248,586
Total borrowings	168,839	1,157,268	974,304

As at 30 June 2003 and 2004 and 31 December 2004, respective borrowing of RMB168,839,000, RMB997,177,000 and RMB928,718,000 are secured by assets of the MSL Group and guarantees given by related parties, which are detailed as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Borrowings secured by guarantees given by related parties *(note 23(f))*	168,839	300,066	231,607
Borrowings secured by both assets of the MSL Group and guarantees given by related parties *(note (a) & note 23(f))*	—	697,111	697,111
	168,839	997,177	928,718

(a) Details of the assets of MSL Group pledged as securities for borrowings is disclosed in note 6.

The maturity of the borrowings is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Within 1 year	168,839	363,091	248,586
Between 1 and 2 years	—	—	—
Between 2 and 5 years	—	—	708,718
Wholly repayable within 5 years	168,839	363,091	957,304
Over 5 years	—	794,177	17,000
	168,839	1,157,268	974,304

The effective interest rates at each of the balance sheet dates of the Relevant Periods were as follows:

	30 June		31 December
	2003	2004	2004
Long-term bank borrowings	—	4.49%	4.49%
Short-term bank borrowings	4.39%	5.06%	5.31%

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

The carrying amounts of all the MSL Groups' borrowings during the Relevant Periods are denominated in the following currencies:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
RMB	99,000	810,157	627,193
US dollars	69,839	347,111	347,111
	168,839	1,157,268	974,304

The MSL Group has the following undrawn borrowing facilities:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Floating rate:			
— expiring within one year	—	17,000	150,000
— expiring beyond one year	641,161	810,000	579,000
	641,161	827,000	729,000

15. Deferred income tax

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Deferred income tax liabilities to be recovered after more than 12 months	—	4,949	11,238

The movement on the deferred income tax liabilities is as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Beginning of the year/period	—	—	4,949
Recognised in the consolidated income statements *(note 19)*	—	4,949	6,289
End of the year/period	—	4,949	11,238

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

16. Expenses by nature

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

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of fixed assets *(note 6)*	—	25,806	6,032	22,303
Add: amount absorbed in opening inventories	—	—	—	7,050
Less: amount absorbed in closing inventories	—	(7,050)	(2,702)	(6,052)
	—	18,756	3,330	23,301
Staff costs — excluding directors' remuneration *(note 17)*	—	11,217	70	23,314
Changes in finished goods	—	(118,983)	(38,281)	(50,551)
Raw materials and consumables used	—	202,902	64,785	318,691
Transportation	—	125	76	255
Operating leases — land use rights *(note 7)*	—	1,269	—	1,144
Exchange (gains)/losses	—	(145)	—	506

17. Employee benefit expense

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries	—	11,210	70	23,308
Pension costs — statutory pension *(note (a))*	—	5	—	4
Medical benefits	—	1	—	1
Other allowances and benefits	—	1	—	1
	—	11,217	70	23,314

The above employee benefit expenses excluded directors' emoluments, which are disclosed in note 17(b).

(a) *Pensions — defined contribution plans*

Employees in the MSL Group are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The PRC subsidiary contributes 10% - 11% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The details of retirement scheme contributions for the employees, which have been dealt with in the income statements of the MSL Group for the Relevant Periods, are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Gross scheme contributions	—	5	—	4

(b) *Directors' emoluments*

The aggregate amounts of emoluments payable to the directors of the MSL during the Relevant Periods are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries and benefits in kind	—	—	—	—

No director received any emolument from the MSL Group as an inducement to join or leave the MSL Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the Relevant Periods.

(c) *Five highest paid individuals*

During the Relevant Periods, none of the five highest paid individuals is a director of MSL, whose emolument is reflected in the analysis presented above. The emoluments payable to the five individuals for the Relevant Periods are as follows:

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Pension costs	—	9	3	6
Salaries and other benefits	—	100	42	72
	—	109	45	78

The emoluments fell within the following bands:

	Number of individuals			
	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
Nil to RMB1,000,000	—	5	5	5

(d) During the Relevant Periods, no emolument was paid by the companies of the MSL Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the MSL Group or as compensation for loss of office.

18. Finance costs

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings				
— wholly repayable within five years	1,470	18,236	7,707	25,276
— not wholly repayable within five years	—	17,346	5,788	476
	1,470	35,582	13,495	25,752
Less: interest capitalised	(1,470)	(4,265)	(4,265)	—
	—	31,317	9,230	25,752
Bills discount charges	—	3,199	—	3,350
Other incidental borrowing costs	—	791	19	101
	—	35,307	9,249	29,203

The capitalization rate applied to funds borrowed generally and used for the development of construction in progress for the years ended 30 June 2003 and 2004 and six months ended 31 December 2003 and 2004 is approximately 4.39%, 4.49%, 4.49% and nil respectively.

19. Income tax expense

	Years ended 30 June		Six months ended 31 December	
	2003	**2004**	**2003**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred income tax *(note 15)*	—	4,949	—	6,289

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

	Years ended 30 June		Six months ended 31 December	
	2003	**2004**	**2003**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Profit/(loss) before taxation	25	(46,602)	(28,167)	(29,781)
Tax calculated at tax rates applicable to respective companies	—	(12,583)	(7,605)	(8,041)
Effect of tax holidays	—	17,532	7,605	14,330
Income tax expense	—	4,949	—	6,289

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

Under PRC income tax law, Dongguan Sea Dragon is qualified as a foreign investment production enterprise and is established in coastal economic development zone. Accordingly, Dongguan Sea Dragon is subject to enterprise income tax of 24% and local income tax of 3% on the taxable income as reported in the statutory accounts which are prepared using the accounting rules and regulations applicable to PRC enterprises.

In accordance with the relevant applicable tax regulations, Dongguan Sea Dragon is entitled to full exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income tax is exempted during the tax holiday periods.

20. Cash used in operations

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) for the year/period	25	(51,551)	(28,167)	(36,070)
Adjustments for				
Income tax expenses *(note 19)*	—	4,949	—	6,289
Depreciation *(note 16)*	—	18,756	3,330	23,301
Interest income	(35)	(66)	(1)	(850)
Finance costs *(note 18)*	—	35,307	9,249	29,203
Amortisation of land use rights *(note 7)*	—	1,269	—	1,144
	(10)	8,664	(15,589)	23,017
Changes in working capital				
Inventories	(10,747)	(305,228)	(121,035)	36,955
Trade and other receivables	(48,513)	(174,284)	(35,685)	(205,446)
Trade and other payables	5,160	355,884	158,446	72,081
Cash used in operations	(54,110)	(114,964)	(13,863)	(73,393)

(a) *Non-cash transactions*

The principal non-cash transactions included capitalisation of advances from equity holders as discussed in note 12.

(b) *Disposal of a subsidiary*

On 31 December 2004, MSL disposed its entire equity interests in 東莞天龍紙業有限公司 Dongguan Sky Dragon Paper Industries Company Limited ("Dongguan Sky Dragon"). Dongguan Sky Dragon did not have any assets and liabilities as at 31 December 2004 or business operation since incorporation and its disposal did not have any financial impact on MSL Group.

21. Contingencies

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Guarantee for bank borrowings and credit facilities granted to related parties *(note 23(f))*	115,879	280,000	—
Bills of exchange discounted with recourse	19,943	252,941	259,867
	135,822	532,941	259,867

22. Capital commitments

Capital expenditures at the end of each Relevant Periods but not yet incurred is as follows:

	30 June 2003 RMB'000	30 June 2004 RMB'000	31 December 2004 RMB'000
Contracted but not provided for			
— Property, plant and equipment	595,967	—	—
Authorised but not contracted for			
— Property, plant and equipment	77,306	117,534	117,523
	673,273	117,534	117,523

23. Related party transactions

Parties are considered to be related if they have the ability, directly and indirectly, to control the parties or exercise significant influence over the MSL Group in making financial and operating decisions, or vice versa, or where the MSL Group and the parties are subject to common control or common significant influence.

(a) *Name and relationship with related parties*

Name	Relationship
America Chung Nam Inc. ("ACN")	Company beneficially owned by Ms. Cheung and Mr. Liu, who are directors and senior management of the MSL Group
Zhang's Enterprises Company Limited ("Zhang's")	Ms. Cheung, Mr. Liu and Mr. Zhang are the shareholders and directors
東莞玖龍紙業有限公司 (Dongguan Nine Dragons Paper Industries Company Limited)* ("Dongguan Nine Dragons")	Company beneficially owned by Ms. Cheung, Mr. Liu and Mr. Zhang, who are directors and senior management of the MSL Group
玖龍紙業(太倉)有限公司 (Nine Dragons Paper Industries (Taicang) Company Limited)* ("Taicang Nine Dragons")	Company beneficially owned by Mr. Zhang
Sky Dragon Paper Industries Company Limited ("Sky Dragon")	Company beneficially owned by Mr. Zhang

* *The English names of these companies represent the best efforts of the directors of Nine Dragons Paper (Holdings) Limited at translating the Chinese names of these companies, as no English names have been registered.*

(b) *Transactions with related parties*

During the Relevant Periods, the MSL Group had the following significant transactions with related parties. Sales and purchases transactions are negotiated with related parties in a normal courses of business with a margin on the same basis with non-related parties.

	Years ended 30 June		**Six months ended 31 December**	
	2003	**2004**	**2003**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Sales of raw materials:				
— Taicang Nine Dragons	—	—	—	2,845
Purchase of finished goods:				
— Dongguan Nine Dragons	144	2,031	—	554
— Taicang Nine Dragons	—	—	—	282
	144	2,031	—	836
Purchase of direct materials:				
— ACN				
— Recovered paper	—	230,513	28,020	129,919
— Kraft pulp	—	135,299	31,921	24,486
	—	365,812	59,941	154,405

(c) *Balances with related parties*

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Trade balance due from:			
Advance to			
— Zhang's	—	—	22,234
Trade receivables			
— Taicang Nine Dragons	—	—	2,845
	—	—	25,079
Trade balances due to:			
Trade payables			
— ACN	—	91,306	55,273
— Dongguan Nine Dragons	—	1,758	3,003
	—	93,064	58,276
Advance from			
— Taicang Nine Dragons	—	20,000	10,335
Non-trade balances due to:			
Related parties			
— Dongguan Nine Dragons	306,121	303,190	483,002
Directors			
— Mr. Zhang	78,036	2,140	—

(d) *Movement of non-trade balances with related parties*

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Non-trade balances due to:			
Directors:			
Beginning of the year/period	—	78,036	2,140
Cash receipts	78,036	7,098	101,941
Capitalisation of advance for issue of share capital *(note 12)*	—	(82,994)	(104,081)
End of the year/period	78,036	2,140	—
Related parties:			
Beginning of the year/period	—	306,121	303,190
Cash receipts	306,121	22,390	179,812
Cash repayments	—	(25,321)	—
End of the year/period	306,121	303,190	483,002

(e) *Key management compensation*

	Years ended 30 June		Six months ended 31 December	
	2003	2004	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries	—	109	45	78
Post-employment benefits	—	—	—	—
	—	109	45	78

(f) Guarantees given by/to related parties for bank borrowings and credit facilities at the respective balance sheet dates are as follows:

	30 June		31 December
	2003	2004	2004
	RMB'000	RMB'000	RMB'000
Guarantees given by Dongguan Nine Dragons	168,839	997,177	928,718
Guarantees given to Dongguan Nine Dragons	115,879	280,000	—

(g) On 31 December 2004, MSL disposed its entire equity interests in Dongguan Sky Dragon to Sky Dragon. Details of the disposal of subsidiary are disclosed in note 20(b).

24. Earnings/(loss) per share

— *Basic*

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the equity holders of MSL by the weighted average number of ordinary shares in issue during the year/period.

	Years ended 30 June		Six months ended 31 December	
	2003	**2004**	**2003**	**2004**
Profit/(loss) attributable to the equity holders of MSL *(RMB'000)*	25	(51,551)	(28,167)	(36,070)
Weighted average number of ordinary shares in issue *(shares)*	1,000	1,300	1,001	1,604
Basic earnings/(loss) per share *(RMB per share)*	25	(39,655)	(28,139)	(22,488)

— *Diluted*

No diluted earnings/(loss) per share is presented as there were no potential dilutive ordinary shares outstanding during the Relevant Periods.

III. BALANCE SHEET OF MSL

MSL was incorporated on 21 August 2000 for the purpose of holding investment in its subsidiary, Dongguan Sea Dragon. As at 31 December 2004, the carrying amounts of MSL's investment in subsidiary was RMB185,716,000, which was mainly financed by the issued share capital of MSL. Saved for the aforesaid investment and issued share capital, MSL did not have other material assets and liabilities as at 31 December 2004.

IV. SUBSEQUENT EVENTS

Effective 1 January 2005, Zhang's acquired 100% equity interests in MSL. Accordingly, Zhang's became the holding company of MSL effective on 1 January 2005.

V. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for MSL or its subsidiary in respect of any period subsequent to 31 December 2004. In addition, no dividend or distribution has been declared, made or paid by MSL or its subsidiary in respect of any period subsequent to 31 December 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on the combined net tangible assets of the Group as at 30 September 2005, as if they had been taken place on 30 September 2005.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group following the Global Offering. It is based on the audited combined net assets of the Group as at 30 September 2005 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the Accountants' Report.

	Audited combined net assets of the Group as at 30 September 2005	Less: intangible asset	Add: Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000	RMB'000 (Note 2)	RM'000	RMB	HK$
Based on an Offer Price of HK$2.85 per Share	2,587,390	146,694	2,777,369	5,218,065	1.30	1.25
Based on an Offer Price of HK$3.40 per Share	2,587,390	146,694	3,326,280	5,766,976	1.44	1.38

Notes:

(1) The amount represents the audited combined net assets of the Group attributable to equity holders of the Company as at 30 September 2005.

(2) The estimate net proceeds from the Global Offering are based on the indicative Offer Prices of HK$2.85 and HK$3.40 per share respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. Hong Kong dollars are converted into RMB at the rate of HK$1.00 = RMB1.04.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived after the adjustment referred to in the preceding paragraphs and on the basis that 4,000,000,000 Shares were in issue but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2005.

B. UNAUDITED PRO FORMA FORECAST DILUTED EARNINGS PER SHARE

The following unaudited pro forma forecast diluted earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2005. This unaudited pro forma forecast diluted earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of the Group following the Global Offering.

Forecast consolidated profit attributable to equity holders(1)	not less than RMB1,050 million (approximately HK$1,010 million)
Pro forma forecast diluted earnings per Share(2)	approximately RMB0.26 (equivalent to approximately HK$0.25)

Notes:

(1) The forecast consolidated profit attributable to equity holders for the year ending 30 June 2006 has been prepared based on the audited combined results of the Group for the three months ended 30 September 2005, the unaudited management accounts for the two months ended 30 November 2005 and our forecast of the consolidated results of the Group for the seven months ending 30 June 2006 is set out under the section headed "Financial Information — Profit Forecast" in the prospectus. The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix IV to this prospectus.

(2) The calculation of the unaudited pro forma forecast diluted earnings per Share is based on the forecast consolidated profit attributable to equity holders for the year ending 30 June 2006, assuming that the Company had been listed on the Stock Exchange since 1 July 2005 and a total of 4,000,000,000 Shares have been in issue on 1 July 2005. The calculation assumes that the Over-allotment Option will not be exercised and that the Pre-IPO Share Option were exercised in full on 1 July 2005. It is also assumed that all shares under the Pre-IPO Share Option being issued at no consideration. It has not taken into account the impact of average market price of the Shares for the year ending 30 June 2006 on the computation of the number of dilutive potential shares.

C. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is text of a letter received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the principles set out in the Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

The Directors
Nine Dragons Paper (Holdings) Limited

20 February 2006

Dear Sirs

We report on the unaudited pro forma financial information of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages III-1 to III-2 under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Diluted Earnings Per Share" in Appendix III of the Company's prospectus dated 20 February 2006 in connection with the placing and public offer of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the placing and public offer might have affected the relevant financial information of the Group.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to the principles set out in Technical Release 18/98 "Pro Forma Financial Information — Guidance for the preparers under the Listing Rules" issued by the Institute of Chartered Accountants in England and Wales.

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the principles set out in the Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages III-1 to III-2 for illustrative purpose only and, because of its nature, it may not be indicative of:

— the financial position of the Group as at 30 September 2005 or any future date, or

— the earnings per share of the Group for the year ending 30 June 2006 or any future periods.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The forecast consolidated net profit after tax attributable to equity holders of the Company for the year ending 30 June 2006 is set out in the section headed "Financial Information — Profit Forecast".

A. BASES

The Directors have prepared the forecast of consolidated net profit after tax attributable to equity holders of the Company for the year ending 30 June 2006 on the basis of the results shown in the audited accounts of the Group for the three months ended 30 September 2005 and the unaudited management accounts of the Group for the two months ended 30 November 2005 and a forecast of the results of the Group for the remaining seven months ending 30 June 2006. The Directors are not aware of any extraordinary items which have arisen during the year ended 30 June 2006. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarized in Appendix I to the prospectus.

B. ASSUMPTIONS

The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in China, Hong Kong, or any other country or territory in which the Group currently operates or which are otherwise material to the Group's business;
- there will be no changes in legislation, regulations or rules in China, Hong Kong or any other country or territory in which the Group operates or with which the Group has arrangements or agreements, which materially adversely affect its business;
- there will be no material change in the bases or rates of taxation in China or any other country or territory in which the Group operates, except as otherwise disclosed in this prospectus;
- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing;
- there will be no material fluctuations in coal prices and power tariff setting that will have a material adverse effect on the Group's business; and
- there will be no material fluctuations in raw material prices, including prices of recovered paper, kraft pulp and chemicals.

C. LETTERS

The following are texts of letters received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, and the Joint Sponsors in connection with the project forecast and for the purpose of incorporating in this prospectus.

(i) Letter from reporting accountants

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

The Directors
Nine Dragons Paper (Holdings) Limited

BNP Paribas Peregrine Capital Limited
Merrill Lynch Far East Limited

20 February 2006

Dear Sirs

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ending 30 June 2006 (the "Profit Forecast") as set out in the subsection headed "Profit forecast" in the section headed "Financial information" in the prospectus of the Company dated 20 February 2006 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Group for the three months ended 30 September 2005, the unaudited combined results based on management accounts of the Group for the two months ended 30 November 2005, and a forecast of the combined results of the Group for the remaining seven months ending 30 June 2006 on the basis that the current Group structure had been in existence throughout the whole financial year ending 30 June 2006.

In our opinion, the Profit Forecast, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors of the Company as set out on page IV-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our Accountants' Report dated 20 February 2006, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(ii) Letter from the Joint Sponsors

BNP PARIBAS PEREGRINE **Merrill Lynch Far East Limited**

20 February 2006

The Directors
Nine Dragons Paper (Holdings) Limited
3129–3140, 31st Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity holders of Nine Dragons Paper (Holdings) Limited and its subsidiaries (together the "Group") for the year ending 30 June 2006 (the "Profit Forecast") as set out in the prospectus of the Company dated 20 February 2006.

The Profit Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Group for the three months ended 30 September 2005 and unaudited combined results based on management accounts of the Group for the two months ended 30 November 2005 and a forecast of the combined results of the Group for the remaining seven months ending 30 June 2006.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 20 February 2006 addressed to you and us from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations reviewed by PricewaterhouseCoopers, we have formed the opinion that the Profit Forecast, for which you as directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
BNP Paribas Peregrine Capital Limited
Wiley O'Yang
Executive Director

For and on behalf of
Merrill Lynch Far East Limited
Wang Bing
Director

The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 31 December 2005.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10th Floor
The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

VIGERS
威格斯

20 February 2006

The Directors
Nine Dragons Paper (Holdings) Limited
3129–3140, 31/F
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") in the People's Republic of China ("the PRC") and in the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 December 2005 for the purpose of incorporation in the prospectus.

Our valuation is our opinion of the market value of the property interest which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests in Group I, which are held by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the properties and the buildings and structures standing on the land respectively. The sum of the two results represents the market value of the properties as a whole. In the valuation of the land portions, reference has been made to the standard land prices in the relevant cities and the sales evidences as available to us in the locality. Due to the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for properties in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business or of the whole entity.

The property in Group II, which is rented by the Company in Hong Kong, has no commercial value either due to the prohibition against assignment of the property or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the owners sell the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interests at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interests. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us.

In undertaking our valuation of the properties in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Jingtian & Gongcheng.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, development plan, construction costs, identification of the properties and other relevant matters. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

Unless otherwise stated, the exchange rate used in valuing the property interests in the PRC as at the date of valuation was HK$1 = RMB1.04. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc(e-com)
Executive Director

Note: Raymond K.K. Ho, Chartered Surveyor, *MRICS, MHKIS* has over nineteen years' experience in undertaking valuations of properties in Hong Kong and Macau and has over twelve years' experience in the valuation of properties in the PRC. Mr. Ho has been working with Vigers Group since 1989.

SUMMARY OF VALUATION

Group I — Property Interests Held and Occupied by the Group in the PRC

	Property	Market Value as at 31 December, 2005	Interests in the Property Attributable to the Group	Market Value Attributable to the Group as at 31 December, 2005
1.	Land, various buildings and structures located at Maér Village, Machong Town, Dongguan City, Guangdong Province, the PRC	RMB1,010,000,000	100%	RMB1,010,000,000 (equivalent to HK$971,153,846)
2.	Land, various buildings and structures located at Masi Village, Machong Town, Dongguan City, Guangdong Province, the PRC	RMB78,000,000	100%	RMB78,000,000 (equivalent to HK$75,000,000)
3.	A factory complex located at Bin Jiang Dai Road, Yiqiao Village, Fuqiao Town, Taicang Gang District, Taicang City, Jiangsu Province, the PRC	RMB862,000,000	100%	RMB862,000,000 (equivalent to HK$828,846,154)
4.	Land, various buildings and structures located at Yang Lin Tang North, Yi Qian Road East, Bin Jiang Dai Road West, Fuqiao Town, Taicang Gang District, Taicang City, Jiangsu Province, the PRC	RMB426,000,000	100%	RMB426,000,000 (equivalent to HK$409,615,385)
5.	A factory complex located at Xiang Yang Bang, Zha Lan Tun City, Inner Mongolia Autonomous Region, the PRC	RMB85,900,000	55%	RMB47,245,000 (equivalent to HK$45,427,885)
	Sub Total:	RMB2,461,900,000		RMB2,423,245,000 (equivalent to HK$2,330,043,269)

Group II — Property Interests Rented by the Group in Hong Kong

Property	Market Value as at 31 December, 2005	Interests in the Property Attributable to the Group	Market Value Attributable to the Group as at 31 December, 2005
6. Rooms 3129 to 3140 on 31st Floor Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong	No Commercial Value	100%	No Commercial Value
Sub Total:	Nil		Nil
Grand Total:	RMB2,461,900,000		RMB2,423,245,000 (equivalent to HK$2,330,043,269)

VALUATION CERTIFICATE

Group I — Property Interests Held and Occupied by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value as at 31 December 2005
1. Land, various buildings and structures located at Maér Village, Machong Town, Dongguan City, Guangdong Province, the PRC.	The property comprises 14 parcels of land having an aggregate site area of approximately 774,504.9 sq.m., together with 52 buildings and associated structures erected thereon. The buildings mainly include workshops, warehouses, office buildings, dormitories and power plants having a total gross floor area of approximately 323,354 sq.m. (detailed breakdown is set out in Note 4 below). The associated structures mainly comprise roads, fencing walls and yards. The buildings and structures were completed in between 1997 and 2005. The property is held under land use rights for a term of 50 years expiring on various dates between 7 January 2048 and 30 March 2055.	The property is occupied by the Group as a paper manufacturing factory complex.	RMB1,010,000,000 (equivalent to HK$971,153,846)

Notes:

1. Pursuant to 14 State-owned Land Use Rights Certificates, the land use rights of the lots having a total site area of approximately 774,504.9 sq.m. have been granted to 東莞玖龍紙業有限公司 (Dongguan Nine Dragons Paper Industries Co., Ltd., referred hereinafter as "Dongguan Nine Dragons"). Further details are set out as follows:

	State-owned Land Use Rights Certificate	Site Area (sq. m.)	Year Term	User
1.	Dong Fu Guo Yong (1999) Zi Di Te No. 58*	65,516	50 years expiring on 7 January 2048	Industrial
2.	Dong Fu Guo Yong (1998) Zi Di Te No. 391	9,999	50 years expiring on 24 September 2048	Pump house
3.	Dong Fu Guo Yong (1998) Zi Di Te No. 392	6,667	50 years expiring on 24 September 2048	Associated dormitories
4.	Dong Fu Guo Yong (2000) Zi Di Te No. 41	5,435	50 years expiring on 28 December 2048	Industrial
5.	Dong Fu Guo Yong (2000) Zi Di Te No. 72	16,534	50 years expiring on 19 December 2048	Industrial
6.	Dong Fu Guo Yong (1999) Zi Di Te No. 282 (1)*	73,239	50 years expiring on 19 April 2049	Industrial
7.	Dong Fu Guo Yong (1999) Zi Di Te No. 282 (2)*	64,697	50 years expiring on 19 April 2049	Industrial
8.	Dong Fu Guo Yong (2005) Di Te No. 171	120,000	50 years expiring on 22 September 2053	Industrial
9.	Dong Fu Guo Yong (2005) Di Te No. 906–1#	53,182.8	50 years expiring on 30 March 2055	Industrial
10.	Dong Fu Guo Yong (2005) Di Te No. 906–2	35,901.1	50 years expiring on 30 March 2055	Industrial
11.	Dong Fu Guo Yong (2005) Di Te No. 906–3	105,874	50 years expiring on 30 March 2055	Industrial
12.	Dong Fu Guo Yong (2005) Di Te No. 955	32,041	50 years expiring on 30 March 2055	Industrial
13.	Dong Fu Guo Yong (2005) Di Te No. 956	154,733	50 years expiring on 30 March 2055	Industrial
14.	Dong Fu Guo Yong (2005) Di Te No. 957	30,686	50 years expiring on 18 March 2055	Industrial
	Total:	774,504.9		

* subject to mortgage

\# subject to mortgage together with the construction being erected thereon

2. Pursuant to 11 State-owned Land Use Rights Grant Contracts entered into between Land Bureau of Dongguan City and Dongguan Nine Dragons on various dates between 29 December 1997 to 31 March 2005, the land use rights of the land lots having a total site area of approximately 774,782 sq.m. were agreed to be granted to Dongguan Nine Dragons for industrial use at a total consideration of RMB22,418,990.

3. Our valuation does not include the value of the land use rights of a land lot having an area of about 20,000 sq.m. which Dongguan Nine Dragons is applying for the assignment of the land use rights from the Land Bureau of Dongguan City.

4. Pursuant to 52 Realty Title Certificates, the ownership of 52 buildings with a total gross floor area of approximately 323,354.25 sq.m. is vested in Dongguan Nine Dragons.

Further details of the buildings from the certificates are as follows:

Building Ownership Certificate	**No. of Storey**	**Gross Floor Area (sq.m.)**
1. Yue Fang Di Zheng Zi No. 2277052*	2	3,983.2
2. Yue Fang Di Zheng Zi No. 2277053*	3	8,712.81
3. Yue Fang Di Zheng Zi No. 2277054*	3	2,088.42
4. Yue Fang Di Zheng Zi No. 2277055*	1	582
5. Yue Fang Di Zheng Zi No. 2277056*	2	3,244.2
6. Yue Fang Di Zheng Zi No. 2277057*	2	4,442.8
7. Yue Fang Di Zheng Zi No. 2277058*	2	4,104
8. Yue Fang Di Zheng Zi No. 2277059*	2	3,622.6
9. Yue Fang Di Zheng Zi No. 2277060*	1	23,625
10. Yue Fang Di Zheng Zi No. 2277061*	2	906
11. Yue Fang Di Zheng Zi No. 2277062*	1	1,758
12. Yue Fang Di Zheng Zi No. 2277063*	6	5,912.4
13. Yue Fang Di Zheng Zi No. 2287430	7	2,108.4
14. Yue Fang Di Zheng Zi No. 2287431	7	5,090.31
15. Yue Fang Di Zheng Zi No. 2420387	7	4,900
16. Yue Fang Di Zheng Zi No. 3020591*	3	897.75
17. Yue Fang Di Zheng Zi No. 3020592*	2	5,760
18. Yue Fang Di Zheng Zi No. 3020593*	2	3,216
19. Yue Fang Di Zheng Zi No. 3020594*	6	9,802
20. Yue Fang Di Zheng Zi No. 3020595*	2	5,604.6
21. Yue Fang Di Zheng Zi No. 3020596*	2	4,020
22. Yue Fang Di Zheng Zi No. 3020597*	2	3,564
23. Yue Fang Di Zheng Zi No. C1729892	5	15,501.67
24. Yue Fang Di Zheng Zi No. C1729893	4	10,148.37
25. Yue Fang Di Zheng Zi No. C2892427	1	2,835
26. Yue Fang Di Zheng Zi No. C2892428	2	14,541.5
27. Yue Fang Di Zheng Zi No. C2892429	2	4,068.5
28. Yue Fang Di Zheng Zi No. C2892430	2	4,365.48
29. Yue Fang Di Zheng Zi No. C2892431	2	5,227.2
30. Yue Fang Di Zheng Zi No. C2892432	2	6,712.2
31. Yue Fang Di Zheng Zi No. C2892433	2	3,610.5
32. Yue Fang Di Zheng Zi No. C2892434	2	7,065
33. Yue Fang Di Zheng Zi No. C1981107	5	11,413.19
34. Yue Fang Di Zheng Zi No. C1981108	3	1,920
35. Yue Fang Di Zheng Zi No. C1981109	7	3,080.7
36. Yue Fang Di Zheng Zi No. C1981110	7	2,737.14
37. Yue Fang Di Zheng Zi No. C1981111#	3	5,369.125
38. Yue Fang Di Zheng Zi No. C1981112#	2	2,943.26
39. Yue Fang Di Zheng Zi No. C1981113	12	14,524.7544

Building Ownership Certificate	No. of Storey	Gross Floor Area (sq.m.)
40. Yue Fang Di Zheng Zi No. C1981114	12	11,760.12
41. Yue Fang Di Zheng Zi No. C1981120	1	4,605.3
42. Yue Fang Di Zheng Zi No. C1981126	2	7,219.56
43. Yue Fang Di Zheng Zi No. C1981127	3	5,037.75
44. Yue Fang Di Zheng Zi No. C1981128	3	4,464
45. Yue Fang Di Zheng Zi No. C1981129	12	6,063.84
46. Yue Fang Di Zheng Zi No. C1981130	1	4,950
47. Yue Fang Di Zheng Zi No. C1981131	1	2,952
48. Yue Fang Di Zheng Zi No. C1981132	1	2,816
49. Yue Fang Di Zheng Zi No. C1981133	1	2,432
50. Yue Fang Di Zheng Zi No. C1981136	2	15,509
51. Yue Fang Di Zheng Zi No. C1981137	2	27,144.6
52. Yue Fang Di Zheng Zi No. C1981139#	1	4,392
Total		323,354.25

* subject to mortgage

\# the lot on which the buildings are erected is subject to mortgage

5. According to a Building Tenancy Agreement entered into between Dongguan Nine Dragons and Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon") on 15 December 2005, Dongguan Nine Dragons agreed to lease buildings having a total area of 92,953.48 sq.m. free of rental charge to Dongguan Sea Dragon for a term of 5 years for production workshops and office use.

6. According to a Building Tenancy Agreement entered into between Dongguan Nine Dragons and Dongguan Land Dragon Paper Industries Company Limited ("Dongguan Land Dragon") on 15 December 2005, Dongguan Nine Dragons agreed to lease buildings having a total area of 300 sq.m. free of rental charge to Dongguan Land Dragon for a term of 5 years for office use.

7. According to a Building Tenancy Agreement entered into between Dongguan Nine Dragons and Dongguan Nine Dragons Transportation Company Limited ("Dongguan Transportation") on 15 December 2005, Dongguan Nine Dragons agreed to lease buildings having a total area of 300 sq.m. free of rental charge to Dongguan Transportation for a term of 1 year for office use.

8. The PRC legal opinion states, inter alia, as follows:

(a) Dongguan Nine Dragons has been legally and effectively granted via assignment the land use rights of the 14 land lots (hereinafter referred to as "the Land"). Dongguan Nine Dragons is the sole owner of the land use rights of the Land and is entitled to use the Land in accordance with the designated use within the granted year term.

(b) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, all the land premium related to the grant of the land use rights of the Land had been fully settled. The current use and occupancy of the Land by Dongguan Nine Dragons has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

(c) Land lots held under Dong Fu Guo Yong (1999) Zi Di Te Nos.282(1), 282(2) and 58 are subject to a mortgage in favour of Bank of China Guangdong Province Branch. Land lot held under Dong Fu Guo Yong (2005) Di Te No. 906-1 is subject to a mortgage in favour of Bank of China (Hong Kong) Ltd. Since the buildings erected on land lot held under Dong Fu Guo Yong (1999) Zi Di Te No. 282(1) is subject to a mortgage in favour of Bank of China Guangdong Province Branch and Bank of China Dongguan Branch, the land lot is also mortgaged in favour of Bank of China Guangdong Province Branch and Bank of China Dongguan Branch. These land lots cannot be transferred or disposed of without written consent from the mortgagee. These land lots are not subject to any further third party's interest. For the remaining 10 land lots, Dongguan Nine Dragons has the legal right to occupy, use, lease, assign, mortgage or dispose of them within their granted year term and they are not subject to any third party's interest.

(d) For a land lot having an area of approximately 20,000 sq.m. for which Dongguan Nine Dragons was applying for the assignment of the land use rights from the Land Bureau of Dongguan City, no practical legal impediment on the application is found. Subject to the entering into of a land use rights grant contract, payment of land premium and issuance of a land use rights certificate, Dongguan Nine Dragons will have the legal right to occupy, use, lease, mortgage, assign or dispose of the land within the granted year term.

(e) There are site area discrepancies found between those stated in the State-owned Land Use Rights Certificates and the corresponding State-owned Land Use Rights Grant Contracts as follows:

State-owned Land Use Rights Certificate	Site Area stated in the Land Use Rights Certificate (sq.m.)	Site Area stated in the corresponding State-owned Land Use Rights Grant Contracts (sq.m.)	Site Area Difference (sq.m.)
1. Dong Fu Guo Yong (1999) Zi Di Te No. 58	65,516	65,333	183
2. Dong Fu Guo Yong (1999) Zi Di Te No. 282 (1) & (2)	137,936	137,420	516
3. Dong Fu Guo Yong (2005) Di Te No. 955	32,041	32,000	41
4. Dong Fu Guo Yong (2005) Di Te No. 956	154,733	154,728	5

The Land Bureau of Dongguan City is entitled to charge premium for the additional area based on the unit rate stipulated in the relevant State-owned Land Use Rights Grant Contracts.

(f) Dongguan Nine Dragons legally and effectively owns, and is the sole owner of, the 52 buildings. Dongguan Nine Dragons is entitled to use and occupy the buildings in accordance with the law.

(g) The buildings held under 12 Realty Title Certificates Yue Fang Di Zheng Zi Nos. 2277052 to 2277063 are subject to a mortgage in favour of Bank of China Guangdong Province Branch. The buildings held under 7 Realty Title Certificates Yue Fang Di Zheng Zi Nos. 3020591 to 3020597 are subject to a mortgage in favour of Bank of China Guangdong Province Branch and Bank of China Dongguan Branch. The properties cannot be transferred or disposed of without written consent from the mortgagee. They are not subject to any further third party's interest.

(h) There are 3 buildings erected on land lots which are subject to mortgage. Dongguan Nine Dragons is entitled to occupy and use these buildings; mortgage on the remainder of the total value of these buildings and the underlying land lot; lease these buildings with the mortgagee being informed; and assign these buildings subject to a written confirmation of the mortgagee. These 3 buildings are not subject to any further third party's interest.

(i) Other than those buildings mentioned in (g) and (h) above, Dongguan Nine Dragons has the legal right to occupy, use, lease, assign, mortgage or dispose of the remaining buildings. Apart from the tenancy agreements stated in Notes 5, 6 and 7 above, they are not subject to any third party's interest.

(j) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, the current use and occupancy of the buildings by Dongguan Nine Dragons has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

(k) According to a Mortgage on Construction Work in Progress, the construction works together with the underlying land lot held under Dong Fu Guo Yong (2005) Di Te No. 906-1 are subject to a mortgage in favour of Bank of China (Hong Kong) Ltd. The property cannot be transferred, or disposed of without written consent from the mortgagee. They are not subject to any further third party's interest.

(l) The tenancy agreements (stated in Notes 5, 6 and 7 above) have not been registered with the relevant local administrative office in the PRC. However, this will not affect the effect of the agreements and Dongguan Nine Dragons will not be fined by the relevant administrative office. The tenancy agreements are legal and effective.

9. Our valuation does not include certain construction works in progress. According to the information provided by the Company, there are certain items of construction in progress on the site. They include mainly two workshops and a warehouse having a design construction floor area of about 33,330 sq.m. with Construction Planning Permit and Construction Works Commencement Permits granted and an office building of about 30,000 sq.m. with application on the relevant construction permits in progress. As at 31 December 2005, the incurred construction cost and the remaining cost to completion on the two workshops and warehouse were about RMB89,000,000 and RMB17,000,000 respectively and on the office building were RMB6,430,000 and RMB30,140,000 respectively.

10. According to the Company, Dongguan Nine Dragons, Dongguan Land Dragon and Dongguan Sea Dragon are wholly owned subsidiaries of the Company and Dongguan Transportation is a 90% owned subsidiary of the Company.

	Property	Description and Tenure	Particulars of occupancy	Market Value as at 31 December 2005
2.	Land, various buildings and structures located at Masi Village, Machong Town, Dongguan City, Guangdong Province, the PRC	The property comprises a parcel of land with a site area of approximately 127,879 sq.m., together with 6 buildings erected thereon. The buildings have a total gross floor area of approximately 30,870 sq.m. and were completed in about 2005. The property is held under land use rights for a term of 50 years expiring on 30 March 2055.	The property is occupied by the Group as warehouse.	RMB78,000,000 (equivalent to HK$75,000,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate Dong Fu Guo Yong (2005) Di Te No. 954, the land use rights of the lot having a site area of approximately 127,879 sq.m. have been granted to 東莞海龍紙業有限公司 (Dongguan Sea Dragon Paper Industries Company Limited, referred hereinafter as "Dongguan Sea Dragon") for a term of 50 years expiring on 30 March 2055 for industrial use.

2. Pursuant to a State-owned Land Use Rights Grant Contract Dong Guo Tu Zi Chu Rang He (2005) No. 83 entered into between the Land Bureau of Dongguan City and Dongguan Sea Dragon on 31 March 2005, the land use rights of the land lots having a total area of approximately 127,879.2 sq.m. were agreed to be granted to Dongguan Sea Dragon for industrial use at a consideration of RMB3,836,376.

3. Pursuant to 6 Realty Title Certificates Yue Fang Di Zheng Zi Di Nos. C1981140 to C1981145, the ownership of six buildings with a total gross floor area of approximately 30,870 sq.m. is vested in Dongguan Sea Dragon. Further details of the buildings from the certificates are as follows:

Building Ownership Certificate	No. of Storey	Gross Floor Area (sq.m.)
1. Yue Fang Di Zheng Zi No. C191140	1	5,910
2. Yue Fang Di Zheng Zi No. C191141	1	3,240
3. Yue Fang Di Zheng Zi No. C191142	1	5,910
4. Yue Fang Di Zheng Zi No. C191143	1	4,500
5. Yue Fang Di Zheng Zi No. C191144	1	5,910
6. Yue Fang Di Zheng Zi No. C191145	1	5,400

4. The PRC legal opinion states, inter alia, as follows:

    (a) Dongguan Sea Dragon has been legally and effectively granted via assignment the land use rights of the land lot (hereinafter referred to as "the Land"). Dongguan Sea Dragon is the sole owner of the land use rights of the Land and is entitled to use the Land in accordance with the designated use within the granted year term.

    (b) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, all the land premium related to the grant of the land use rights of the Land had been fully settled. The current use and occupancy of the Land by Dongguan Sea Dragon has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

    (c) Dongguan Sea Dragon has the legal right to occupy, use, lease, assign, mortgage or dispose of the Land within its granted year term and it is not subject to any third party's interest.

    (d) Dongguan Sea Dragon legally and effectively owns, and is the sole owner of, the 6 buildings. Dongguan Sea Dragon is entitled to use and occupy the buildings in accordance with the law. Dongguan Sea Dragon has the legal right to occupy, use, lease, assign, mortgage or dispose of the buildings and they are not subject to any third party's interest.

    (e) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, the current use and occupancy of the buildings by Dongguan Sea Dragon has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

5. According to the Company, Dongguan Sea Dragon is a wholly owned subsidiary of the Company.

Property	Description and Tenure	Particulars of occupancy	Market Value as at 31 December 2005
3. A factory complex located at Bin Jiang Dai Road, Yiqiao Village, Fuqiao Town, Taicang Gang District, Taicang City, Jiangsu Province, the PRC.	The property comprises nine parcels of land having a total site area of approximately 963,877.3 sq.m. together with the buildings and structures erected thereon. The buildings and structures mainly include workshops, warehouses, office buildings, dormitories, power plants and pier. The buildings have a total gross floor area of approximately 173,777.28 sq.m. (detailed breakdown is set out in Note 3 below). They were completed in between 2003 to 2005. The property is held under land use rights for a term of 50 years expiring on 27 June 2052.	The property is occupied by the Group for industrial and ancillary use.	RMB862,000,000 (equivalent to HK$828,846,154)

Notes:

1. Pursuant to nine State-owned Land Use Rights Certificates Tai Guo Yong (2002) Zi Nos. 07016001, 07016002, 07016004, 07046005, 07046006, 07046007, 07016008, 07046009 and 07046010, the land use rights of the lots having a total site area of approximately 963,877.3 sq.m. have been granted to 玖龍紙業(太倉)有限公司 (Nine Dragons Paper Industries (Taicang) Company Limited, referred hereinafter as "Taicang Nine Dragons") for a term of 50 years commencing from 28 June 2002 for industrial use. Further details are set out as follows:

	State-owned Land Use Rights Certificate	**Site Area (sq.m.)**
1.	Tai Guo Yong (2002) Zi No. 07016001	94,563.8
2.	Tai Guo Yong (2002) Zi No. 07016002	54,291
3.	Tai Guo Yong (2002) Zi No. 07016004	29,430
4.	Tai Guo Yong (2002) Zi No. 07046005	139,361.7
5.	Tai Guo Yong (2002) Zi No. 07046006	164,216.4
6.	Tai Guo Yong (2002) Zi No. 07046007	74,812.3
7.	Tai Guo Yong (2002) Zi No. 07016008	110,104.6
8.	Tai Guo Yong (2002) Zi No. 07046009	161,262
9.	Tai Guo Yong (2002) Zi No. 07046010	135,835.5
	Total:	963,877.3

2. Pursuant to two State-owned Land Use Rights Grant Contracts Tai Tu Chu He (2002) Zi Nos. 11 and 11-1 entered into between Land Bureau of Taicang City and Taicang Nine Dragons on 28 March 2002, the land use rights of the land lots having a total site area of approximately 1,025,207 sq.m. were agreed to be granted to Taicang Nine Dragons for industrial use at a unit rate of RMB120 per sq.m. and a total consideration of RMB123,024,840. (As informed by the Company, the land use rights certificate for an area of approximately 61,324.9 sq.m. of the 1,025,207 sq.m. had later not been granted to the Group.)

3. Pursuant to a Building Ownership Certificate Tai Fang Quan Zheng Fu Qiao Zi No. 00001002 and the verification of the Company, the ownership of 38 buildings having a total gross floor area of approximately 173,777.28 sq.m. is vested in Taicang Nine Dragons. Further details of the buildings from the certificate are as follows:

Building Name (Named according to the information provided by the Company)	**No. of storey**	**Year of completion**	**Gross Floor Area (sq.m.)**
Dust Collection Room	1	2003	202.76
Clean Water Room	5	2004	2,645.28
Office Building	6	2003	12,584.47
Canteen	2	2003	2,618.61
Freezer Room	1	2003	309.92
Finished Goods Godown (Phase I)	1	2003	2,910.97
Maintenance Workshop	1	2003	5,652.75
Paste Model Room	1	2003	2,497.52
10KV Electricity Distribution Room	2	2003	822.06
110KV Voltage Station	2	2003	1,131.96
Central Pump Station	1	2004	461.18
Main factory of electricity plant	3	2004	12,988.28
Paper Workshop (Phase I)	3	2003	34,659.95

Building Name (Named according to the information provided by the Company)	No. of storey	Year of completion	Gross Floor Area (sq.m.)
Oil Pump Station	1	2003	125.70
PM8 Finished Goods Godown	1	2004	5,777.84
PM8 Waste Paper Treatment Workshop	2	2005	6,142.92
PM8 Material-Accrescence Workshop	1	2005	5,454.27
PM8 Paper-producing Workshop	2	2005	23,893.78
Material-Accrescence Workshop (Phase I)	1	2003	12,976.50
Staff Quarters No. 1	6	2003	4,859.52
Staff Quarters No. 2	6	2003	6,111.06
Staff Quarters No. 4	6	2004	8,020.09
Sewage Water Treatment Room	1	2003	787.00
Sewage Water Dehydration Room	1	2003	616.07
Control Room in Sewage Water Treatment Zone	1	2003	133.26
Electricity Distribution Room in Sewage Water Treatment Zone	1	2003	69.50
Composite Building in Sewage Water Treatment Zone	1	2003	270.24
Transportation Station No. 1	1	2003	881.16
Coal-Drying Shed	1	2004	5,840.43
Well Pump Station	1	2003	581.53
Chemical Liquid Workshop No. 1	1	2003	498.72
Chemical Liquid Workshop No. 2	1	2003	1,255.93
Staff Quarters No. 3	3	2004	3,697.59
Motor Vehicle Repairing Workshop	2	2004	1,384.53
Model Pressing Workshop	2	2004	4,101.37
Transportation Station No. 2	1	2003	171.32
Air Compressor Room	1	2003	231.72
Dam	1	2005	409.52
Total:			173,777.28

4. According to a tenancy agreement entered into between Taicang Nine Dragons (the lessor) and Sea Dragon Paper Industries (Taicang) Company Limited (the lessee), the land having an area of approximately 164,216.4 sq.m. held under State-owned Land Use Rights Certificate Tai Guo Yong (2002) Zi No. 07046006 has been leased to the lessee for power plant building purpose for a term expiring on 27 June 2052 free of rental charges.

5. According to another tenancy agreement entered into between Taicang Nine Dragons (the lessor) and Nine Dragons Transportation (Taicang) Company Limited (the lessee), Staff Quarters No. 2 together with the land to its south have been leased to the lessee for a term of three years commencing from 1 January 2004 at a monthly rent of RMB10,000.

6. The PRC legal opinion states, inter alia, as follows:

   (a) Taicang Nine Dragons has been legally and effectively granted via assignment the land use rights of the 9 land lots (hereinafter referred to as "the Land"). Taicang Nine Dragons is the sole owner of the land use rights of the Land and is entitled to use the Land in accordance with the designated use within the granted year term.

(b) According to confirmation note issued by the Land Bureau of Taicang Gang Gang Qu, all the land premium related to the grant of the land use rights of the Land had been fully settled. The current use and occupancy of the Land by Taicang Nine Dragons has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

(c) Land lots held under Tai Guo Yong (2002) Nos. 07016004, 07046007, 07046010 are subject to a mortgage in favour of China Agricultural Bank Taicang City Branch. Two portions of the lot held under Tai Guo Yong (2002) No. 07046009 each having a site area of about 80,631 sq.m. are respectively subject to a mortgage in favour of China Agricultural Bank Taicang City Branch and a mortgage in favour of Jiaotong Bank Shanghai Jiadian Branch. Land lot held under Tai Guo Yong (2002) No. 07016002 is subject to a mortgage in favour of Jiaotong Bank Shanghai Jiadian Branch. Land lot held under Tai Guo Yong (2002) No. 07016001 is subject to a mortgage in favour of China Agricultural Bank Taicang City Branch. These 6 land lots cannot be transferred or disposed of without written consent from the mortgagee. These 6 land lots are not subject to any further third party's interest. For the remaining 3 land lots, Taicang Nine Dragons has the legal right to occupy, use, lease, assign, mortgage or dispose of them within their granted year term. Apart from the tenancy agreement stated in Note 4, they are not subject to any third party's interest.

(d) Taicang Nine Dragons legally and effectively owns, and is the sole owner of, the 38 buildings. Taicang Nine Dragons is entitled to use and occupy the buildings in accordance with the law.

(e) There are 18 buildings that are erected on the land lots which are subject to various mortgages. Taicang Nine Dragons is entitled to occupy and use these buildings; mortgage on the remainder of the total value of these buildings and underlying land lot; lease these buildings with the mortgagee being informed; and assign these buildings, subject to a written confirmation of the mortgagee. These 18 buildings are not subject to any further third party's interest. For the remaining buildings, Taicang Nine Dragons has the legal right to occupy, use, lease, assign, mortgage or dispose of them. Apart from the tenancy agreement stated in Note 5, they are not subject to any third party's interest.

(f) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, the current use and occupancy of the buildings by Taicang Nine Dragons has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

(g) The tenancy agreement stated in Note 5 has not been registered with relevant local administrative office in the PRC. However, this will not affect the effect of the agreement and its rental income and Taicang Nine Dragons will not be fined by the relevant administrative office. The tenancy agreement stated in Note 4 is in the course of registration with the land administrative bureau. The tenancy agreements are legal and effective.

7. According to the Company, Taicang Nine Dragons and Sea Dragon Paper Industries (Taicang) Company Limited are wholly owned subsidiaries of the Company, and Nine Dragons Transportation (Taicang) Co., Ltd. is a 90%-owned subsidiary of the Company.

Property	Description and Tenure	Particulars of occupancy	Market Value as at 31 December 2005
4. Land, various buildings and structures located at Yang Lin Tang North, Yi Qian Road East, Bin Jiang Dai Road West, Fuqiao Town, Taicang Gang District, Taicang City, Jiangsu Province, the PRC.	The property comprises six parcels of land having a total site area of approximately 1,596,973.5 sq.m. plus a parcel of land leased from Taicang Nine Dragons having a site area of approximately 164,216.4 sq.m. (see Note 5) together with two buildings and various structures erected thereon. The buildings have a total gross floor area of approximately 13,345.67 sq.m. and were completed in 2005. The property is held under land use rights for a term of 50 years expiring between 23 November 2053 and 20 January 2054.	The property is occupied by the Group for industrial use.	RMB426,000,000 (equivalent to HK$409,615,385)

Notes:

1. Pursuant to six State-owned Land Use Rights Certificates Tai Guo Yong (2004) Zi Nos. 507000007 to 507000012, the land use rights of the lots having a total site area of approximately 1,596,973.5 sq.m. have been granted to 海龍紙業(太倉)有限公司 (Sea Dragon Paper Industries (Taicang) Company Limited, referred hereinafter as "Taicang Sea Dragon") for industrial use. Further details are set out as follows:

State-owned Land Use Rights Certificate	Site Area (sq.m.)	Year Term Expiry Date
1. Tai Guo Yong (2004) Zi No. 507000007*	202,429.4	23 November 2053
2. Tai Guo Yong (2004) Zi No. 507000008*	66,997.7	20 January 2054
3. Tai Guo Yong (2004) Zi No. 507000009*	348,301.6	20 January 2054
4. Tai Guo Yong (2004) Zi No. 507000010*	139,572.1	20 January 2054
5. Tai Guo Yong (2004) Zi No. 507000011*	336,879.1	20 January 2054
6. Tai Guo Yong (2004) Zi No. 507000012*	502,793.6	20 January 2054
Total:	1,596,973.5	

* subject to mortgage

2. Pursuant to 4 State-owned Land Use Rights Grant Contracts Tai Tu Rang He (2003) Nos. 24, 222, 267 and 268 entered into between Land Bureau of Taicang City and Taicang Nine Dragons on various dates between 10 February 2003 to 18 July 2003, the land use rights of the lots having a total site area of approximately 1,596,973.4 sq.m. were agreed to be granted to Taicang Nine Dragons for industrial use at a total consideration of RMB207,606,541.2.

3. Pursuant to a Building Ownership Certificate Tai Fang Quan Zheng Fu Qiao Zi No. 00001003, the ownership of two buildings having a total gross floor area of approximately 13,345.67 is vested in Taicang Sea Dragon.

4. The PRC legal opinion states, inter alia, as follows:

   (a) According to a confirmation issued by the Land Bureau of Taicang Gang Gang Qu, all rights and liabilities relating to the land use rights of the six land lots (hereinafter referred to as "the Land") originally granted to Taicang Nine Dragons via the four State-owned Land Use Rights Grant Contracts have been assumed by Taicang Sea Dragon and Taicang Sea Dragon has fully settled all the land premium related to the grant of the land use rights of the Land.

   (b) Taicang Sea Dragon has been legally and effectively granted via assignment the land use rights of the Land. Taicang Sea Dragon is the sole owner of the land use rights of the Land and is entitled to use the Land in accordance with the designated use within the granted year term. The current use and occupancy of the Land by Taicang Sea Dragon has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

   (c) The six land lots are subject to a mortgage in favour of China Bank of Commerce Taicang City Branch and cannot be transferred or disposed of without written consent from the mortgagee. They are not subject to any further third party's interest.

   (d) Taicang Sea Dragon legally and effectively owns, and is the sole owner of, the 2 buildings. Taicang Sea Dragon is entitled to use and occupy them in accordance with the law. Taicang Sea Dragon has the legal right to occupy, use, lease, assign, mortgage or dispose of the buildings and they are not subject to any third party's interest.

   (e) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, the current use and occupancy of the buildings by Taicang Sea Dragon has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

5. Our valuation does not include the value of the land use rights of the land having a site area of approximately 164,216.4 sq.m. leased from Taicang Nine Dragons. Instead, its value has been included in the valuation of Property 3.

6. Our valuation does not include certain construction works in progress. According to the information provided by the Company, there are certain miscellaneous items of ancillary structure of construction in progress (including cooling tower, roads, electricity supply system and the like) on the site. As at 31 December 2005, the incurred construction cost and the remaining cost to completion on the items were about RMB29,400,000 and RMB4,740,000 respectively.

7. According to the Company, Taicang Sea Dragon is a wholly owned subsidiary of the Company.

Property	Description and Tenure	Particulars of occupancy	Market Value as at 31 December 2005
5. A factory complex located at Xiang Yang Bang, Zha Lan Tun City, Inner Mongolia Autonomous Region, the PRC.	The property comprises 4 parcels of land having a total site area of approximately 492,956.7 sq.m. together with buildings and structures erected thereon. The buildings mainly include workshops, warehouses, office buildings, dormitories and various structures having a total gross floor area of approximately 95,818.5 sq.m. (detailed breakdown is set out in Note 3 below). They were completed in between 1969 to 2004. The property is held under land use rights for various terms expiring between 14 August 2045 and 14 August 2055.	The property is occupied by the Group as paper manufacturing factory.	RMB85,900,000 (equivalent to HK$82,596,154) 55% Interests in the Property Attributable to the Group RMB47,245,000 (equivalent to HK$45,427,885)

Notes:

1. Pursuant to 4 State-owned Land Use Rights Certificates Za Guo Yong (2005) Zi Nos. 04319-1(1), 07019-1(1), 07020-1-2(1) and 04303-1(1), the land use rights of the lots having a total site area of approximately 492,956.7 sq.m. have been granted to 玖龍興安漿紙(內蒙古)有限公司 (Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited, referred hereinafter as "ND Xing An"), for industrial or commercial use. Further details are as follows:

State-owned Land Use Rights Certificate	Site Area (sq. m.)	Year Term	Use
1. Za Guo Yong (2005) Zi No. 04319-1(1)	5,467.3	40 years expiring on 14 August 2045	commercial
2. Za Guo Yong (2005) Zi No. 07019-1(1)	2,027.3	50 years expiring on 14 August 2055	industrial
3. Za Guo Yong (2005) Zi No. 07020-1-2(1)	485,357.1	50 years expiring on 14 August 2055	industrial
4. Za Guo Yong (2005) Zi No. 04303-1(1)	105.0	50 years expiring on 14 August 2055	industrial
Total:	492,956.7		

2. Pursuant to 4 State-owned Land Use Rights Grant Contracts entered into between Land Bureau of Inner Mongolia Zha Lan Tun City and ND Xing An on 15 August 2005, the land use rights of the land lots having a total site area of approximately 492,956.8 sq.m. were agreed to be granted to ND Xing An for industrial/commercial use at a total consideration of RMB49,458,620.04.

3. Pursuant to 15 Building Ownership Certificates, the ownership of 61 buildings with a total gross floor area of approximately 95,818.5 sq.m. is vested in ND Xing An. Further details of the buildings from the certificates are set out as follows:

	Building Ownership Certificate	No. of Blocks	Gross Floor Area (sq.m.)
1.	Fang Quan Zheng Zi No. 037353	2	1,395
2.	Fang Quan Zheng Zi No. 037354	5	11,250
3.	Fang Quan Zheng Zi No. 037355	6	18,063
4.	Fang Quan Zheng Zi No. 037356	5	2,079
5.	Fang Quan Zheng Zi No. 037357	7	4,849
6.	Fang Quan Zheng Zi No. 037358	5	26,697
7.	Fang Quan Zheng Zi No. 037359	5	2,828
8.	Fang Quan Zheng Zi No. 037360	3	4,464
9.	Fang Quan Zheng Zi No. 037361	2	998
10.	Fang Quan Zheng Zi No. 037362	5	1,200
11.	Fang Quan Zheng Zi No. 037363	3	1,878.5
12.	Fang Quan Zheng Zi No. 037364	6	1,097
13.	Fang Quan Zheng Zi No. 037365	3	9,462
14.	Fang Quan Zheng Zi No. 037367	3	2,058
15.	Fang Quan Zheng Zi No. 038089	1	7,500
	Total:	61	95,818.5

4. The PRC legal opinion states, inter alia, as follows:

(a) ND Xing An has been legally and effectively granted via assignment the land use rights of the 4 land lots (hereinafter referred to as "the Land"). ND Xing An is the sole owner of the land use rights of the Land and is entitled to use the Land in accordance with the designated use within the granted year term.

(b) ND Xing An has the legal right to occupy, use, lease, assign, mortgage or dispose of the Land within its granted year term and they are not subject to any third party's interest.

(c) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, ND Xing An had fully settled all the land premium related to the grant of the land use rights of the Land. The current use and occupancy of the Land by ND Xing An has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

(d) ND Xing An legally and effectively owns, and is the sole owner of, the 61 buildings. ND Xing An is entitled to use and occupy the buildings in accordance with the law. ND Xing An has the legal right to occupy, use, lease, assign, mortgage or dispose of the buildings and they are not subject to any third party's interest.

(e) According to the confirmation given by the Company and the appropriate verification of the PRC legal adviser, the current use and occupancy of the buildings by ND Xing An has not violated the relevant law in the PRC nor is subject to any resumption, legal proceeding, dispute or onerous encumbrances.

5. According to the Company, ND Xing An is an equity joint venture, which is 55% indirectly owned by the Company.

Group II — Property Interests Rented by the Group in Hong Kong

Property	Description	Particulars of occupancy	Market Value as at 31 December 2005
6. Rooms 3129 to 3140 on 31st Floor Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong	The property comprises an office unit having a lettable area of about 4,004 sq.ft. on the 31st floor of a 48-storey plus 2 basement levels office/ commercial development completed in 1980.	The property is rented by the Company from an independent third party for a term of three years commencing on 25 October 2005 at a monthly rental of HK$120,120 exclusive of service and management charges and rates. The property is currently occupied by the Group as office.	No commercial value

Note:

According to the record at the Land Registry, the current registered owner of the property is Speedway Assets Limited, an independent third party.

Set out below is a summary of certain provisions of the memorandum of association of the Company (the "Memorandum of Association") and the Bye-laws and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 12 February 2006 which will take effect upon listing of the shares on the Stock Exchange. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any of its subsidiaries*

Save in respect of the approval of the Executive Committee (as defined in paragraph (b)), there are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in five percent (5%) or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) *Retirement, appointment and removal*

At each annual general meeting, all the Directors shall retire from office but shall be eligible for re-election at the meeting.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by the board or the Executive Committee (as defined in paragraph (b)) or an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that if removal is by way of an ordinary resolution of the Company, the notice of any general meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Executive Committee

Unless otherwise determined by all the Directors, the Board shall establish an executive committee (the "**Executive Committee**") which shall have responsibility 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 the executive Directors but the Executive Committee shall not at any time consist of more than 4 executive Directors. 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. A list of the members of the Executive Committee from time to time appointed by the Board shall be maintained by the Secretary on behalf of the Company.

Unless otherwise determined by all the Directors, the Company shall not carry out, conduct or engage in, or enter into any agreement in respect of, any of the activities or transactions described below, without the approval in writing of three-fourths of the members of the Executive Committee:

(i) (a) any incurrence of indebtedness, making of loan or advance of money to any person (other than a subsidiary of the Company) or the giving of any guarantee in respect of the indebtedness of any person (other than a subsidiary of the Company) or the entering into any contract or arrangement to effect any of the foregoing;

(b) any incurrence of indebtedness, making of loan or advance of money to a subsidiary of the Company or the giving of any guarantee in respect of, in each case, the indebtedness of any subsidiary of the Company, in each case, in an amount in excess of HK$2,000,000 or the entering into any contract or arrangement to effect any of the foregoing;

(ii) any purchase or acquisition of any business or assets or any shares or interests in any company or carry out any transaction of an investment nature, in each case, having a value in excess of HK$2,000,000 or the entering into any contract or arrangement to effect any of the foregoing;

(iii) the creation or any attempt to create or having outstanding any encumbrances on or over any of the assets of the Company or the entering into any contract or arrangement to effect any of the foregoing;

(iv) (a) any disposal of any interest in any subsidiary or associated company of the Company or the entering into any contract or arrangement to effect the foregoing or entering into any onerous or material contracts of or incur any obligations of a material nature or which may result in any material change in the nature or scope or operation of the Company;

(b) subject to paragraph (a) above, any disposal of any part of any of the other assets of the Company having a value in excess of HK$2,000,000 or the entering into any contract or arrangement to effect the foregoing;

(v) any issuance or allotment of shares and/or other securities of the Company to any person save pursuant to the exercise of the option(s) granted under the share option scheme(s) adopted by the Company or granting any new options to acquire shares of the Company save under the share option scheme(s) adopted by the Company or any purchase or redemption or reduction of or increase in the issued or paid up capital of the Company; and

(vi) the appointment or removal of any member of the senior management of the Company and/or its subsidiary.

Unless otherwise determined by all the Directors, the Executive Committee shall have the right to remove any Director of the Company with the approval in writing of three-fourths of the members of the Executive Committee.

Any Executive Committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

All acts done by the Executive Committee in conformity with such regulations, and in fulfillment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of the Executive Committee, and charge such remuneration to the current expenses of the Company.

Unless otherwise provided, the meetings and proceedings of the Executive Committee shall be governed by the provisions contained in the Bye-laws for regulating the meetings and proceedings of the Directors (mutatis mutandis) so far as the same are applicable.

(c) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(d) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(e) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(f) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(g) Voting rights (generally and on a poll) and rights to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Bye-laws) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five percent (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(h) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(i) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(k) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(l) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(m) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(p) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

(q) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of $10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(r) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(u) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17 August 2005. The Company has established a place of business in Hong Kong at 3129–3140, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong and is registered in Hong Kong under Part XI of the Companies Ordinance, with Ms. Cheung Yan of Flat A, 7th Floor, Belgravia, 3 Macdonnell Road, Central, Hong Kong appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in Bermuda, it operates subject to the Companies Act and to its constitution, which comprises a memorandum of association and the Bye-laws. A summary of various provisions of the constitution of the Company and relevant aspects of the Companies Act is set out in Appendix VI to this prospectus.

2. Change in share capital

The authorised share capital of the Company as at the date of its incorporation was HK$100,000 divided into 100,000 shares of HK$1.00 each. On 27 September 2005, 100,000 nil-paid shares of HK$1.00 each were issued to Ms. Cheung. On 30 December 2005, every share of HK$1.00 in the Company was sub-divided into 10 Shares of HK$0.10 each. On the same date, the said 100,000 nil-paid shares of HK$1.00 each which following the sub-division became 1,000,000 Shares were transferred to Best Result and the authorized share capital of the Company was increased from HK$100,000 to HK$800,000,000 by the creation of additional 7,999,000,000 Shares.

Assuming that the Global Offering becomes unconditional and the Shares are issued but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the authorized share capital of the Company will be HK$800,000,000 divided into 8,000,000,000 Shares and the issued share capital of the Company will be HK$400,000,000 divided into 4,000,000,000 Shares fully paid or credited as fully paid, with 4,000,000,000 Shares remaining unissued. Apart from the issue of Shares under the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme, there is no present intention to issue any part of the authorized but unissued share capital of the Company and without the prior approval of the members in general meeting, no issue of Shares will be made within 12 months from the Listing Date which would effectively alter the control of the Company.

Save as aforesaid and as mentioned in the paragraph headed "Resolutions in writing of the sole shareholder of the Company passed on 30 December 2005" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions of the shareholder(s) of the Company

(a) *Resolutions in writing of the sole shareholder of the Company passed on 30 December 2005*

Pursuant to the resolutions in writing passed by the sole shareholder of the Company on 30 December 2005:

(i) every share of HK$1.00 in the share capital of the Company was subdivided into 10 Shares of HK$0.10 each;

(ii) the authorised share capital of the Company was increased from HK$100,000 to HK$800,000,000 by the creation of an additional 7,999,000,000 Shares; and

(iii) the Directors were authorized to issue 2,985,800,000 Shares to Best Result, credited as fully paid, at the direction of Ms. Cheung, Mr. Liu and Mr. Zhang and 13,200,000 Shares to Max Dragon, credited as fully paid, at the direction of Ms. Chang and to credit as fully paid the 1,000,000 nil-paid Shares held by Best Result in consideration for the transfer of the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang to the Company.

(b) *Resolutions in writing of all the shareholders of the Company passed on 12 February 2006*

Pursuant to the resolutions in writing passed by all the shareholders of the Company on 12 February 2006:

(i) the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in "D. Other Information — 3. Summary of the principal terms of the Pre-IPO Share Option Scheme" in this Appendix, adopted by the Company on 1 January 2006 were confirmed, ratified and approved and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;

(ii) conditional upon the satisfaction of the conditions as stated in "Structure and Conditions of the Global Offering — Conditions of the Global Offering":

(a) the Global Offering was approved and the Directors were authorised to allot and issue the new Shares in the Global Offering;

(b) the Over-allotment Option was approved and the Directors were authorised to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option; and

(c) the rules of the Share Option Scheme, the principal terms of which are set out in "D. Other Information — 1. Share Option Scheme" in this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of options granted under the Share Option Scheme;

(iii) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws or pursuant to the grant of options under the Share Option Scheme, the Pre-IPO Share Option Scheme or other arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (excluding any Shares which may fall to be issued upon exercise of the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(iv) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (excluding any Shares which may fall to be issued upon exercise of the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and

(v) the general unconditional mandate mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above.

4. Acquisitions and disposals

The NDP Group has conducted the following acquisitions and disposals during the Trade Record Period:

(a) Effective 31 December 2004, NDP Industries transferred 100% interest in the equity capital of Taicang Packaging to Sky Dragon Paper Industries Co., Ltd. for a cash consideration of RMB31,186,163.76;

(b) Effective 31 December 2004, River Dragon Paper Industries Co., Ltd. transferred 100% interest in the equity capital of Sky Dragon Paper Industries (Taicang) Company Limited to Sky Dragon Paper Industries Co., Ltd. for a cash consideration of US$1.00;

(c) Effective 31 December 2004, MSL transferred 100% interest in the equity capital of Dongguan Sky Dragon Paper Industries Company Limited to Sky Dragon Paper Industries Co., Ltd. for a cash consideration of US$1.00;

(d) Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of NDP Industries from Mr. Zhang for an aggregate consideration of RMB295 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 69,315 shares to Mr. Zhang;

(e) Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of MSL from Ms. Cheung, Mr. Liu and Mr. Zhang for an aggregate consideration of RMB255 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 7,430 shares to Ms. Cheung and 7,400 shares to Mr. Liu and 37,551 shares to Mr. Zhang;

(f) Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of River Dragon Paper Industries Co., Ltd. from Mr. Zhang for an aggregate consideration of RMB167 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 39,239 shares to Mr. Zhang; and

(g) Effective 1 January 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of Emperor Dragon Paper Industries Co., Ltd. from Mr. Zhang for a cash consideration of RMB1.00.

5. Formation of NDP (BVI) as an investment holding company

NDP (BVI) was incorporated in the British Virgin Islands on 13 June 2005. On 10 August 2005, 1 fully-paid share was transferred to Ms. Cheung. On 4 November 2005, NDP (BVI) acquired the entire issued share capital of Zhang's Enterprises Company Limited from its then existing shareholders, namely Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang for approximately RMB2,386.7 million satisfied by the issue by NDP (BVI) of 3,690 shares to Ms. Cheung, 3,689 shares to Mr. Liu, 1,935 shares to Mr. Zhang and 685 shares to Ms. Chang, in each case, credited as fully paid. On 10 December 2005, 641 shares of NDP (BVI) were transferred from Ms. Chang to Mr. Zhang at a cash consideration of RMB162.9 million. At all times after such acquisition, NDP (BVI)'s only asset has been its ownership of all the issued shares of Zhang's Enterprises Company Limited. NDP (BVI) was formed for the purposes of facilitating future expansion and internal restructuring of the Group.

6. Reorganisation

The Company and the NDP Group underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. Based on the overall conditions of the capital markets and the capital needs of the underlying businesses of the companies comprising the Group, and pursuant to the reorganisation, on 30 December 2005, the Company acquired the entire issued share capital of NDP (BVI) from Ms. Cheung, Mr. Liu, Mr. Zhang and Ms. Chang for approximately RMB2,386.7 million satisfied by the issue by the Company of 2,985,800,000 Shares to Best Result, credited as fully paid, at the direction of Ms. Cheung, Mr. Liu and Mr. Zhang and 13,200,000 Shares to Max Dragon, credited as fully paid, at the direction of Ms. Chang and the crediting as fully paid of the 1,000,000 nil-paid Shares then held by Best Result.

7. Information relating to our subsidiaries

The Company's subsidiaries are referred to in the Accountants' Reports, the text of which is set out in Appendices I, IIA and IIB to this prospectus. The following sets out the changes to the share capital made by the subsidiaries of the Company within the two years preceding the date of this prospectus:

(a) ***Dongguan Nine Dragons***

(i) On 31 December 2004, the registered capital of Dongguan Nine Dragons was increased from US$125,664,000 to US$147,344,000, which was solely held by Zhang's Enterprises Company Limited, representing 100% of the registered capital of Dongguan Nine Dragons; and

(ii) On 9 March 2005, the registered capital of Dongguan Nine Dragons was increased from US$147,344,000 to US$164,024,000, which was solely held by Zhang's Enterprises Company Limited, representing 100% of the registered capital of Dongguan Nine Dragons.

(b) ***ND Xing An***

(i) On 16 February 2004, ND Xing An was established in the PRC with a registered capital of RMB163,640,000, of which RMB73,640,000 was held by China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) and RMB90,000,000 was held by Dongguan Nine Dragons, representing 45% and 55% of the registered capital of ND Xing An, respectively.

(c) ***Taicang Nine Dragons***

(i) On 19 November 2004, the registered capital of Taicang Nine Dragons was increased from US$53,000,000 to US$86,200,000, which was solely held by NDP Industries, representing 100% of the registered capital of Taicang Nine Dragons; and

(ii) On 23 August 2005, the registered capital of Taicang Nine Dragons was increased from US$86,200,000 to US$99,570,000, which was solely held by NPD Industries, representing 100% of the registered capital of Taicang Nine Dragons.

(d) ***Taicang Transportation***

(i) On 8 January 2004, Taicang Transportation was established in the PRC with a registered capital of RMB2,000,000, of which RMB1,800,000 was held by Taicang Nine Dragons and RMB200,000 was held by Mr. Zhang, representing 90% and 10% of the registered capital of Taicang Transportation, respectively.

(e) ***Dongguan Land Dragon***

(i) On 28 January 2005, Dongguan Land Dragon was established in the PRC with a registered capital of US$32,680,000, which was solely held by Emperor Dragon Paper Industries Co., Ltd., representing 100% of the registered capital of Dongguan Land Dragon; and

(ii) On 28 September 2005, the registered capital of Dongguan Land Dragon was increased from US$32,680,000 to US$56,040,000, which was solely held by Emperor Dragon Paper Industries Co., Ltd., representing 100% of the registered capital of Dongguan Land Dragon.

(f) ***Dongguan Sea Dragon***

(i) On 2 September 2004, the registered capital of Dongguan Sea Dragon was increased from US$50,000,000 to US$100,300,000, which was solely held by MSL, representing 100% of the registered capital of Dongguan Sea Dragon.

(g) ***Zhang's Enterprises Company Limited***

(i) On 1 January 2005, the authorised share capital of Zhang's Enterprises Company Limited was increased from HK$1,000,000 to HK$2,000,000;

(ii) On 1 January 2005, 27,014 shares, 27,014 shares and 5,101 shares of Zhang's Enterprises Company Limited, credited as fully paid, were issued and allotted to Ms. Cheung, Mr. Liu and Ms. Chang respectively pursuant to capitalisation of shareholders' loan in the aggregate of RMB253 million;

(iii) On 1 January 2005, a total of 146,105 shares of Zhang's Enterprises Company Limited, credited as fully paid, were issued and allotted to Mr. Zhang to satisfy the consideration for the acquisition by Zhang's Enterprise Company Limited of Mr. Zhang's entire interests in NDP Industries, MSL and River Dragon Paper Industries Co., Ltd. The consideration for such acquisitions was determined with reference to the fair value of the acquired companies and Zhang's Enterprises

Company Limited as at 31 December 2004 based on the business valuation carried out by an independent valuer. Following such acquisitions, Mr. Zhang's interest in Zhang's Enterprises Company Limited was increased from 8.50% to 19.35%;

(iv) On 1 January 2005, 7,430 shares and 7,400 shares of Zhang's Enterprises Company Limited, credited as fully paid, were issued and allotted to Ms. Cheung and Mr. Liu respectively to satisfy the consideration for the acquisition by Zhang's Enterprises Company Limited of the entire interests held by Ms. Cheung and Mr. Liu in MSL; and

(v) Immediately after completion of the issue and allotment of shares by Zhang's Enterprises Company Limited mentioned above, the 1,220,064 fully-paid issued shares of Zhang's Enterprises Company Limited were held as to 450,244 shares by Ms. Cheung, as to 450,114 shares by Mr. Liu, as to 236,105 shares by Mr. Zhang and as to 83,601 shares by Ms. Chang, representing approximately 36.9%, 36.9%, 19.35% and 6.85% of the entire issued share capital of Zhang's Enterprises Company Limited.

(h) ***NDP Industries***

(i) On 31 December 2004, 100 shares of NDP Industries, credited as fully paid, were issued and allotted to Mr. Zhang pursuant to capitalisation of shareholder's loan of US$38,852,181.29.

(i) ***MSL***

(i) On 1 January 2004, 250 shares of MSL, credited as fully paid, were issued and allotted to each of Ms. Cheung and Mr. Liu; and

(ii) On 31 December 2004, 700 shares of MSL, credited as fully paid, were issued and allotted to Mr. Zhang pursuant to capitalisation of shareholder's loan of US$12,408,024. Immediately after completion of such issue and allotment of shares by MSL, the 2,300 fully-paid issued shares of MSL were held as to 1,649 shares by Mr. Zhang, as to 326 shares by Ms. Cheung and as to 325 shares by Mr. Liu, representing approximately 71.70%, 14.17% and 14.13% of the entire issued share capital of MSL.

(j) ***River Dragon Paper Industries Co., Ltd.***

(i) On 31 December 2004, 100 shares of River Dragon Paper Industries Co., Ltd., credited as fully paid, were issued and allotted to Mr. Zhang pursuant to capitalisation of shareholder's loan of US$11,201,203.12.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

8. Repurchase by the Company of Shares

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(*Note:* Pursuant to a resolution passed by the shareholders of the Company on 12 February 2006, a general unconditional mandate (the "Buyback Mandate") was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein (excluding any Shares which may fall to be issued upon exercise of the Over-allotment Option), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by an applicable law or the Bye-laws of the Company to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.)

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Bye-laws of the Company and the laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market.

Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) ***Funding of repurchases***

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Bye-laws and the applicable laws of Bermuda.

It is presently proposed that any repurchase of Shares would be made out of capital paid up on the repurchased Shares, funds of the Company which would otherwise be available for dividend or distribution and, in case of the premium payable on such repurchase, from funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account before the Shares are repurchased.

The Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) ***Share capital***

Exercise in full of the Buyback Mandate, on the basis of 4,000,000,000 Shares in issue immediately after the listing of the Shares without taking into account the over-allotment of Shares, could accordingly result in up to 400,000,000 Shares being repurchased by the Company during the period prior to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-laws to be held; or

(iii) the revocation or variation of the Buyback Mandate by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first.

(e) *General*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

No connected person (as defined in the Listing Rules) has notified the Company that he or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 400,000,000 Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding of Best Result, a controlling shareholder of the Company, will be increased to 83% of the issued share capital of the Company immediately following the full exercise of the Buyback Mandate. Save as aforesaid, the Directors are not aware of any consequences of the repurchases which would give rise under the Code. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. However, the Directors do not propose to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) a sale and purchase agreement dated 1 January 2005 entered into between Mr. Zhang and Zhang's Enterprises Company Limited for the transfer of the entire issued share capital of NDP Industries from Mr. Zhang to Zhang's Enterprises Company Limited at a consideration of RMB295 million;

(b) a sale and purchase agreement dated 1 January 2005 entered into among Ms. Cheung, Mr. Liu, Mr. Zhang and Zhang's Enterprises Company Limited for the transfer of the entire issued share capital of MSL from Ms. Cheung, Mr. Liu and Mr. Zhang to Zhang's Enterprises Company Limited at an aggregate consideration of RMB255 million;

(c) a sale and purchase agreement dated 1 January 2005 entered into between Mr. Zhang and Zhang's Enterprises Company Limited for the transfer of the entire issued share capital of River Dragon Paper Industries Co., Ltd. from Mr. Zhang to Zhang's Enterprises Company Limited at a consideration of RMB167 million;

(d) a sale and purchase agreement dated 1 January 2005 entered into between Mr. Zhang and Zhang's Enterprises Company Limited for the transfer of the entire issued share capital of Emperor Dragon Paper Industries Co., Ltd. from Mr. Zhang to Zhang's Enterprises Company Limited at a consideration of RMB1.00;

(e) a transfer agreement dated 25 July 2005 entered into between MSL and Sky Dragon Paper Industries Co., Ltd. for the transfer of the 100% shareholding interest in Dongguan Sky Dragon Paper Industries Company Limited (東莞天龍紙業有限公司) from MSL to Sky Dragon Paper Industries Co., Ltd. for a consideration of US$1.00;

(f) a transfer agreement dated 28 August 2005 entered into between NDP Industries and Sky Dragon Paper Industries Co., Ltd. for the transfer of the 100% shareholding interest in Taicang Packaging from NDP Industries to Sky Dragon Paper Industries Co., Ltd. for a consideration of RMB31,186,163.76;

(g) a transfer agreement dated 28 August 2005 entered into between River Dragon Paper Industries Co., Ltd. and Sky Dragon Paper Industries Co., Ltd. for the transfer of the 100% shareholding interest in Sky Dragon

Paper Industries (Taicang) Company Limited (天龍紙業(太倉)有限公司) from River Dragon Paper Industries Co., Ltd. to Sky Dragon Paper Industries Co., Ltd. for a consideration of US$1.00;

(h) an instrument of transfer and bought and sold notes dated 4 November 2005 whereby Ms. Cheung transferred 450,244 shares in Zhang's Enterprises Company Limited to NDP (BVI) at a consideration of RMB880,760,598 which was satisfied by the issue and allotment of 3,690 shares of NDP (BVI);

(i) an instrument of transfer and bought and sold notes dated 4 November 2005 whereby Mr. Liu transferred 450,114 shares in Zhang's Enterprises Company Limited to NDP (BVI) at a consideration of RMB880,506,294 which was satisfied by the issue and allotment of 3,689 shares of NDP (BVI);

(j) an instrument of transfer and bought and sold notes dated 4 November 2005 whereby Mr. Zhang transferred 236,105 shares in Zhang's Enterprises Company Limited to NDP (BVI) at a consideration of RMB461,865,080 which was satisfied by the issue and allotment of 1,935 shares of NDP (BVI);

(k) an instrument of transfer and bought and sold notes dated 4 November 2005 whereby Ms. Chang transferred 83,601 shares in Zhang's Enterprises Company Limited to NDP (BVI) at a consideration of RMB163,539,029 which was satisfied by the issue and allotment of 685 shares of NDP (BVI);

(l) an instrument of transfer dated 10 December 2005 whereby Ms. Chang transferred 641 shares in NDP (BVI) to Mr. Zhang at a consideration of RMB162,944,974.38;

(m) an instrument of transfer dated 30 December 2005 whereby Ms. Cheung transferred 3,691 shares in NDP (BVI) to the Company at a consideration of RMB880,760,598 which was satisfied by the issue and allotment of 1,106,300,000 shares in the Company credited as fully paid to Best Result and the crediting as fully paid of the 1,000,000 nil-paid shares in the Company held by Best Result;

(n) an instrument of transfer dated 30 December 2005 whereby Mr. Liu transferred 3,689 shares in NDP (BVI) to the Company at a consideration of RMB880,506,294 which was satisfied by the issue and allotment of 1,106,700,000 shares in the Company credited as fully paid to Best Result;

(o) an instrument of transfer dated 30 December 2005 whereby Mr. Zhang transferred 2,576 shares in NDP (BVI) to the Company at a consideration of RMB624,810,054.38 which was satisfied by the issue and allotment of 772,800,000 shares in the Company credited as fully paid to Best Result;

(p) an instrument of transfer dated 30 December 2005 whereby Ms. Chang transferred 44 shares in NDP (BVI) to the Company at a consideration of RMB594,054.62 which was satisfied by the issue and allotment of 13,200,000 shares in the Company credited as fully paid to Max Dragon;

(q) a corporate placing agreement dated 8 February 2006 entered into between the Company, the Joint Global Coordinators and Ample Glory Limited, further details of which are set out in "The Corporate Investors";

(r) a corporate placing agreement dated 12 February 2006 entered into between the Company, the Joint Global Coordinators and Bestfull Limited, further details of which are set out in "The Corporate Investors";

(s) a corporate placing agreement dated 12 February 2006 entered into between the Company, the Joint Global Coordinators and Chow Tai Fook Nominee Ltd., further details of which are set out in "The Corporate Investors";

(t) the deed of warranties dated 12 February 2006 given by Ms. Cheung, Mr. Liu and Mr. Zhang in favour of the Company containing representations and warranties given relating to the sale and purchase of shares in NDP (BVI);

(u) the deed of indemnity dated 12 February 2006 given by Ms. Cheung, Mr. Liu and Mr. Zhang in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, amongst others, Hong Kong estate duty, and other taxation referred to in "D. Other Information — 4. Estate duty and tax indemnity" in this Appendix; and

(v) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) *Trademarks*

(i) As of the Latest Practicable Date, the Group owned or had registered (as the case may be) the following trademarks:

Trademark	Registration No.	Class	Principal Products or Services Covered	Expiry Date	Place of Registration
. . .	3279479	16	packaging paper	20 September 2014	PRC
. . .	3067767	16	paper; kraftlinerboard; white top linerboard; corrugating medium; white paperboard; linerboard; packaging paper; coated duplex board with grey back	20 June 2013	PRC
. . .	610371	1	paper pulp	19 September 2012	PRC
. . .	628303	16	brown paper; cement paper; copperplate paper; cotton paper; relief printing coated paper; flexo printing coated paper; packaging paper; cement bag	29 January 2013	PRC

(ii) As of the Latest Practicable Date, the Group had applied for registration of the following trademarks:

Trademark	Application date	Application number	Class *(Notes)*	Place of registration
	1 December 2005	300539677	1	Hong Kong
	1 December 2005	300539677	16	Hong Kong
	1 December 2005	300539686	1	Hong Kong
	1 December 2005	300539686	16	Hong Kong
	1 December 2005	300539695	1	Hong Kong
	1 December 2005	300539695	16	Hong Kong

Trademark	Application date	Application number	Class *(Notes)*	Place of registration
	2 December 2005	004758827	EN-1	European Union
	2 December 2005	004758827	EN-16	European Union
	1 December 2005	004757829	EN-1	European Union
	1 December 2005	004757829	EN-16	European Union
	2 December 2005	004758629	EN-1	European Union
	2 December 2005	004758629	EN-16	European Union
	24 January 2006	78797962	IC001	U.S.A.
	24 January 2006	78797962	IC016	U.S.A.
	24 January 2006	78797954	IC001	U.S.A.
	24 January 2006	78797954	IC016	U.S.A.
	24 January 2006	78797943	IC001	U.S.A.
	24 January 2006	78797943	IC016	U.S.A.

Notes:

Class 1: Paper pulp; wood pulp; pulp for use in the manufacture of paper; pulp for use in the manufacture of board; cellulose pulp for the manufacture of paper; pulp for use in papermaking; unbleached kraft pulp

Class 16: Paper, cardboard and goods made from these materials, not included in other classes; printing paper, copying paper; copying paper, packing paper, wrapping paper, containerboard, cardboard for packaging, cardboard articles, cardboard tubes, cardboard for cartons, kraftliner board, testlinerboard, white top linerboard, wood pulp board (stationary); wood pulp paper; containers of pulp for the shipping and storing of goods, coated duplex board with grey back used as packaging material; packaging paperboard; packaging containerboard; plastic materials for wrapping and packaging (not included in other classes); plastic bubble packs for wrapping and packaging; bags made of paper for packaging; bags of plastic for packaging; cardboard materials for use in packaging; containers of card for packaging; containers of paper for packaging; packaging boxes/cartons/containers, made of paper, card or cardboard; high performance corrugating medium

Class EN-1: Paper pulp; wood pulp; pulp for use in the manufacture of paper; pulp for use in the manufacture of board; cellulose pulp for the manufacture of paper; pulp for use in papermaking; unbleached kraft pulp

Class EN-16: Paper, cardboard and goods made from these materials, not included in other classes; printing paper, copying paper, packing paper, wrapping paper, containerboard, cardboard for packaging, cardboard articles, cardboard tubes, cardboard for cartons, liner board made from unbleached wood pulp and recovered paper, liner board made from recovered paper, bleached liner board, wood pulp board (stationery); wood pulp paper; containers of pulp for the shipping and storing of goods, coated duplex board with grey back used as packaging material; packaging paperboard; packaging containerboard; plastic materials for wrapping and packaging (not included in other classes); plastic bubble packs for wrapping and packaging; bags made of paper for packaging; bags of plastic for packaging; cardboard materials for use in packaging; containers of card for packaging; containers of paper for packaging; packaging boxes/cartons/containers made of paper card or cardboard; high performance corrugated packing materials

Class IC 001: Paper pulp; wood pulp; pulp for use in the manufacture of paper; pulp for use in the manufacture of board; cellulose pulp for the manufacture of paper; pulp for use in papermaking; unbleached kraft pulp

Class IC 016: Printing paper; copying paper; packing paper; wrapping paper; cardboard paper; cardboard tubes; cardboard for cartons; liner board made from unbleached wood pulp and recovered paper; liner board made from recovered paper; bleached liner board; containerboard; wood pulp board (stationary); wood pulp paper; coated duplex board with grey back used as packaging material; packaging paperboard; packaging containerboard; plastic bubble packs for wrapping and packaging; bags made of paper for packaging; bags of plastic for packaging; cardboard materials for use in packaging; containers of card for packaging; containers of paper for packaging; packaging boxes/cartons/containers, made of paper, card or cardboard; packaging material made of paper, card or cardboard; high performance corrugated packing materials

(b) ***Domain Name***

As of the Latest Practicable Date, the Group had registered the following domain name:

Domain Name	Date of Registration	Expiry Date	Place of Registration
www.ndpaper.com	5 December 1999	5 December 2015	USA

Information contained in the above website does not form part of this prospectus. Save as disclosed above, there are no other trademarks or other intellectual property rights which are material in relation to the business of the Group.

C. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of interests — interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations*

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the interests or short positions of Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, once the Shares are listed are as follows:

(i) *Interests and short positions in the Shares:*

Name of Director	Capacity	Number and Class of Securities *(Note 1)*	Approximate Percentage of Shareholding
Ms. Cheung	Interest in controlled corporation *(Note 2)*	2,986,800,000 Shares (L)	74.7%
Ms. Cheung	Interest in controlled corporation *(Note 3)*	150,000,000 Shares (S)	3.8%
Mr. Liu . . .	Interest in controlled corporation *(Note 2)*	2,986,800,000 Shares (L)	74.7%
Mr. Liu . . .	Interest in controlled corporation *(Note 3)*	150,000,000 Shares (S)	3.8%

Notes:

1. The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.

2. 2,986,800,000 Shares will be owned by Best Result immediately following completion of the Global Offering. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006

QuickGRAT, and as to approximately 37.1% by Ms. Cheung and her spouse Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust. 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.

3. Best Result has entered into a stock borrowing arrangement with Merrill Lynch Far East Limited pursuant to which Best Result agreed to lend up to 150,000,000 Shares to Merrill Lynch Far East Limited.

(ii) *Interests and short positions in underlying Shares of equity derivatives of the Company:*

Name of Director	**Capacity**	**Description of equity derivatives**	**Number of Underlying Shares** *(Note 1)*
Ms. Cheung . .	Beneficial owner	Share option *(Note 2)*	16,923,315 Shares (L)
Ms. Cheung . .	Family interest	Share option *(Note 3)*	16,914,184 Shares (L)
Mr. Liu.	Beneficial owner	Share option *(Note 2)*	16,914,184 Shares (L)
Mr. Liu.	Family interest	Share option *(Note 3)*	16,923,315 Shares (L)
Mr. Zhang . . .	Beneficial owner	Share option *(Note 2)*	11,814,821 Shares (L)
Ms. Tam Wai Chu, Maria .	Beneficial owner	Share option *(Note 2)*	1,166,670 Shares (L)
Mr. Chung Shui Ming, Timpson . . .	Beneficial owner	Share option *(Note 2)*	1,166,670 Shares (L)
Dr. Cheng Chi Pang	Beneficial owner	Share option *(Note 2)*	1,166,670 Shares (L)

Notes:

1. The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.

2. The share options were granted under the Pre-IPO Share Option Scheme.

3. Ms. Cheung and Mr. Liu were granted options under the Pre-IPO Share Option Scheme to subscribe for 16,923,315 Shares and 16,914,184 Shares respectively. Mr. Liu is the spouse of Ms. Cheung. Therefore, pursuant to Part XV of the SFO, Ms. Cheung is deemed to be interested in the Shares subject to the share option granted to Mr. Liu and Mr. Liu is deemed to be interested in the Shares subject to the share option granted to Ms. Cheung.

(iii) *Interests and short positions in securities of associated corporations:*

Name of Director	Name of Associated Corporation	Capacity	Number and Class of Securities *(Note 1)*	Approximate Percentage of Shareholding
Ms. Cheung . . .	Best Result	Beneficiary of a trust	37,073 ordinary shares (L)	37.073%
Mr. Liu.	Best Result	Beneficiary of a trust	37,053 ordinary shares (L)	37.053%
Mr. Zhang	Best Result	Beneficiary of a trust	25,874 ordinary shares (L)	25.874%

Note: The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.

(b) *Particulars of Service Contracts*

Each of Ms. Cheung, Mr. Liu and Mr. Zhang has entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than six months' notice in writing served by either party on the other. Mr. Wang Hai Ying has entered into a service contract with the Company for a term of one year commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other.

Each of the executive Directors is entitled to the respective basic salaries set out below (subject to an annual increment after each completed year of service at the rate to be determined at the discretion of the Board) and a discretionary bonus as the Board may in its discretion determine having regard to the performance of the relevant executive Director and the operating results of the Group in respect of the financial year of the Company in question. An executive Director may not vote on any resolution of the Directors regarding the amount of the bonus payable to him or her. Furthermore, the executive Directors are entitled to staff dormitory accommodation in the PRC and reasonable medical expenses as provided under the Group's medical benefits scheme. Each of Ms. Cheung, Mr. Liu and Mr. Zhang is entitled to use a company car which is, in the opinion of the Board, suitable to his or her position, and be reimbursed all reasonable expenses incurred in relation to the company car (including fuel, maintenance and insurance). Furthermore, each of Ms. Cheung and Mr. Liu is entitled to occupy a property rented by the Company in Hong Kong as his or her residence which is, in the opinion of the Board, suitable to his or her position and be reimbursed all reasonable fees properly incurred in relation to such property (including management fees, water and electricity fees and other miscellaneous items).

Each of the non-executive Director and the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year commencing from the Listing Date. The non-executive Director will not be entitled to remuneration of any kind and each of the independent non-executive Directors is entitled the respective annual fees set out below. The appointments are subject to the provisions of retirement and rotation of Directors under the Bye-laws.

(c) *Directors' remuneration*

The current basic annual salaries of the Directors are as follows:

Name of Director	Annualised director's fee approximate (HK$)
Executive Directors	
Ms Cheung	1,730,769
Mr. Liu	3,076,923
Mr. Zhang	2,884,615
Mr. Wang Hai Ying	438,462
Independent non-executive Directors	
Ms. Tam Wai Chu, Maria	480,000
Mr. Chung Shui Ming, Timpson	480,000
Dr. Cheng Chi Pang	480,000
Mr. Wang Hong Bo	230,770

Under the arrangement currently in force, the aggregate amount of emoluments payable by the Group to the Directors for the year ending 30 June 2006 will be approximately HK$9,274,231.

Further details of the terms of the above service contracts are set out in "C. Further Information About The Directors And Substantial Shareholders — 1. Directors — (b) Particulars of service contracts" in this Appendix.

2. Substantial Shareholders

(a) So far as the Directors are aware, immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Global Offering or pursuant to the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, the following persons (not being a Director or a chief executive of the Company) will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Name	Capacity	Class and number of securities	Approximate Percentage of Shareholding
Best Result	Beneficial owner	2,986,800,000 Shares (L)	74.7%
HSBC Bank USA, National Association	Trustee of YC 2006 QuickGRAT	2,986,800,000 Shares (L)	74.7%
Bank of The West .	Trustee of MCL Living Trust	2,986,800,000 Shares (L)	74.7%

Note: The letter "L" denotes the person's long position in such securities.

(b) So far as the Directors are aware, immediately following completion of the Global Offering, the following persons will be directly or indirectly interested in 10% or more of the nominal value of a member of the Group (other than the Company):

Name	Name of the Group Member	Capacity	Approximate Percentage of Shareholding
Mr. Bi Ke Zhong (畢克忠) *(Note 1)*	Dongguan Transportation	Beneficial owner	10%
Mr. Bi Ke Zhong (畢克忠) *(Note 1)*	Taicang Transportation	Beneficial owner	10%
China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) *(Note 2)*	ND Xing An	Beneficial owner	45%

Notes:

1. Mr. Bi Ke Zhong (畢克忠) is an Independent Third Party.

2. China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) is an Independent Third Party.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as otherwise disclosed in this prospectus:

(a) none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

(b) none of the Directors or experts referred to under the heading "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors or experts referred to under the heading "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of

Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(f) none of the experts referred to under the heading "Consents of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Share Option Scheme

(a) ***Purpose***

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to the Group. The Share Option Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) ***Who may join***

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:

(aa) contribution to the development and performance of the Group;

(bb) quality of work performed for the Group;

(cc) initiative and commitment in performing his/her duties; and

(dd) length of service or contribution to the Group.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) ***Maximum number of Shares***

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 400,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (q) below whether by way of consolidation, subdivision or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(d) ***Maximum number of options to any one individual***

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant 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:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the

Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine.

(e) ***Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will 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, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(f) ***Granting options to connected persons***

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Company proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value in excess of HK$5 million, based on the closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

(i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;

(iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(iv) the information required under Rule 2.17 of the Listing Rules.

(g) ***Restrictions on the times of grant of options***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspaper. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) ***Time of exercise of option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(j) ***Performance target***

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised. The Board has the absolute discretion to determine the scope and particulars of the performance targets (if any) to be imposed on each grantee on a case-by-case basis.

(k) ***Rights on takeover***

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(l) ***Rights on winding-up***

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanies by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(m) ***Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(n) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(o) ***Effect of alterations to capital***

In the event of any capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes (the "Supplemental Guidance").

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplementary Guidance) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alteration. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(p) ***Expiry of option***

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the expiry of any of the periods referred to in paragraphs (k) or (l);

(iii) the date on which the scheme of arrangement of the Company referred to in paragraph (m) becomes effective;

(iv) the date of commencement of the winding-up of the Company in accordance with the Companies Act;

(v) the date on which the grantee ceases to be an Eligible Participant for any reason including his or her death, ill-health, injury, disability, resignation or dismissal, or by reason of the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (r) below.

(q) ***Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and

(ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(r) ***Cancellation of Options***

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(s) ***Termination of the Share Option Scheme***

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(t) ***Administration of the Board***

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(u) ***Condition of the Share Option Scheme***

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any options which may be granted which may be granted thereunder and the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme.

(v) ***Disclosure in annual and interim reports***

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/ period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(w) ***Present status of the Share Option Scheme***

As at the Latest Practicable Date, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

(x) ***Value of all options that can be granted under the Share Option Scheme***

The Directors consider that it is not appropriate or helpful to the Shareholders to state the value of all options that can be granted pursuant to the Share Option Scheme as if they had been granted at the Latest Practicable Date. The Directors believe that any statement regarding the value of the options as at the Latest Practicable Date will not be meaningful to the Shareholders, since the options to be granted shall not be assignable, and no holder of the option shall, in any way, sell, transfer, charge, mortgage or create any interest (legal or beneficial) in favour of any third party over or in relation to any option.

In addition, the calculation of the value of the options is based on a number of variables such as the exercise price, the exercise period, interest rate, expected volatility and other relevant variables. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

2. Pre-IPO Share Option Scheme

(a) ***Summary of terms***

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain employees, executives or officers of the Group made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The principal terms of the Pre-IPO 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 Share Option Scheme except that:

(i) the exercise price per Share is a price representing a 10% discount on the Offer Price;

(ii) the total number of Shares subject to the Pre-IPO Share Option Scheme is 100,000,000 Shares, equivalent to approximately 2.5% of the issued share capital of the Company upon completion of the Global Offering, but excluding all Shares which may fall to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme, the Share Option Scheme and the Over-allotment Option; and

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

Each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) up to 20% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the 1st anniversary of the date on which the relevant option was so granted to him/her at 1 January 2006 ("Grant Date") and ending on the 2nd 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 2nd anniversary of the Grant Date and ending on the 3rd 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 3rd 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-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

(b) *Outstanding options*

As at the date of this prospectus, options to subscribe for an aggregate of 100,000,000 Shares at an exercise price representing a 10% discount on the Offer Price have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. A total of 207 eligible participants have been granted options under the Pre-IPO Share Option Scheme. The Directors have been granted options under the Pre-IPO Share Option Scheme to subscribe for a total of 49,152,330 Shares, representing approximately 1.23% of the issued share capital of the Company upon completion of the Global Offering, but excluding all Shares which may fall to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme, the Share Option Scheme and the Over-allotment Option.

Below is a list of grantees under the Pre-IPO Share Option Scheme:

Name of Grantees	Address	Number of Shares Under the Options Granted
Directors		
Ms. Cheung . . .	Flat A, 7th Floor, Belgravia 3 Macdonnell Road, Central Hong Kong	16,923,315
Mr. Liu.	Flat A, 7th Floor, Belgravia 3 Macdonnell Road, Central Hong Kong	16,914,184
Mr. Zhang	No. 12 Guangma Road Mayong Town, Dongguan Guangdong Province, PRC	11,814,821
Ms. Tam Wai Chu, Maria . .	3rd Floor, 52A Macdonnell Road Central, Hong Kong	1,166,670
Mr. Chung Shui Ming, Timpson	2A, 6th Floor, 12 May Road Hong Kong	1,166,670
Dr. Cheng Chi Pang	Flat A, 22nd Floor, Glory Heights 52 Lyttelton Road, Hong Kong	1,166,670
	Sub-total: 6 grantees	**49,152,330**
Senior Management		
Mr. Liu Wen Wen	Room 1001, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	5,000,000
Mr. Xia You Liang	Room 202, Unit 3 No. 1 Building, Nine Dragons Paper Industries (Taicang) Co., Ltd. Jiulong Road Port Development Zone Taicang City Jiangsu Province, PRC	3,334,000

Name of Grantees	Address	Number of Shares Under the Options Granted
Mr. Lee Gil Ro.	Room 902, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	1,667,000
Mr. Law Wang Chak, Waltery	Flat E, 19th Floor, Tower 1 The Victoria Towers 188 Canton Road Tsimshatsui, Kowloon, Hong Kong	4,334,000
Mr. Chu Xin Qi	Room 501, Unit 1 No. 1 Building, Nine Dragons Paper Industries (Taicang) Co., Ltd. Jiulong Road Port Development Zone Taicang City Jiangsu Province, PRC	1,334,000
Mr. Zhang Du Ling.	Room 901, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	2,334,000
Mr. Huang Tie Min	Room 1003, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	2,000,000
Mr. Zhong Hong Xiang	Room 502, Unit 1, No. 1 Building Nine Dragons Paper Industries (Taicang) Co., Ltd., Jiulong Road Port Development Zone Taicang City Jiangsu Province, PRC	1,667,000

Name of Grantees	Address	Number of Shares Under the Options Granted
Mr. Cheng Jun .	Room 503, No. 33 Jianshe Liu Malu Dongshan District Guangzhou, Guangdong Province PRC	1,334,000
Mr. Zhou Guo Wei	Room 803, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	1,667,000
Mr. Zeng Yun. .	Room 1101, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	1,667,000
Mr. Xia Ying Hua	Room 402, Unit 2, No. 1 Building Nine Dragons Paper Industries (Taicang) Co., Ltd., Jiulong Road Port Development Zone Taicang City, Jiangsu Province, PRC	1,000,000
Mr. Wang Xiang Ge.	Room 702, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	1,000,000
	Sub-total: 13 grantees	**28,338,000**

Names of Grantees	Address	Number of Shares Under the Options Granted
Other grantees whose entitlement is comparable to that of the Directors or senior management		
Mr. Jiang Lianxu	Room 601, No. 6 Staff Dormitory Dongguan Nine Dragons Paper Industries Co., Ltd. Xinsha Port Industry Zone Mayong Town, Dongguan Guangdong Province, 523147, PRC	1,000,000
Mr. Luo Huiqiang	Zhongxing Road Shenzhen, Guangdong Province, PRC	1,334,000
	Sub-total: 2 grantees	**2,334,000**
Other 186 grantees whose options would entitle each of them to subscribe for less than 1,000,000 Shares		20,175,670
	Total: 207 grantees	**100,000,000**

The total number of shares subject to the options granted under the Pre-IPO Share Option Scheme is 100,000,000 Shares, representing approximately 2.5% of the issued share capital of the Company upon completion of the Global Offering (excluding all Shares which may fall to be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme, the Share Option Scheme and the Over-allotment Option), or approximately 2.4% of the enlarged issued share capital of the Company upon full exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme on completion of the Global Offering (excluding all Shares which may fall to be issued upon the exercise of the options granted or to be granted under the Share Option Scheme and the Over-allotment Option). In addition, assuming full exercise of the outstanding options granted under the Pre-IPO Share Option Scheme, the earnings per Share will be reduced by approximately 2.4%.

The Company has applied for (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under paragraph 27 of Appendix 1A to the Listing Rules; and (ii) a waiver from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance, and the Stock Exchange and the SFC have respectively granted the waivers to the Company on the conditions that:

(a) the full details of the options granted by the Company under the Pre-IPO Share Option Scheme to each of the grantees who is (i) a director of the Company; (ii) one of the senior management of the Group; or (iii) other employee of the Group entitling him or her to subscribe for 1,000,000 or more Shares, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance and paragraph 27 of Appendix IA to the Listing Rules (as the case may be) are disclosed in this prospectus;

(b) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme to employees other than those referred to in (a) above, the following details are disclosed in this prospectus:

  (i) the aggregate number of grantees and the number of shares subject to the options;

  (ii) the consideration paid for the grant of the options; and

  (iii) the exercise period and the exercise price for the options;

(c) a full list of all the grantees (including the persons referred to in point (a) above) who have been granted options to subscribe for shares under the Pre-IPO Share Option Scheme containing all the details as required under paragraph 27 of Appendix IA to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance (as the case may be) will be made available for public inspection in accordance with the paragraph headed "Documents available for inspection" in Appendix VIII to this prospectus;

(d) the dilution effect and impact on earnings per share upon full exercise of the options conditionally granted under the Pre-IPO Share Option Scheme are disclosed in this prospectus; and

(e) the aggregate number of shares subject to the outstanding options granted by the Company under the Pre-IPO Share Option Scheme and the percentage of the Company's issued share capital of which such number represents are disclosed in this prospectus.

Save and except as set out above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

3. Summary of the principal terms of the Pre-IPO Share Option Scheme

(a) *Purpose*

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to the Group. The Pre-IPO Share Option Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price set out in paragraph (d) below to:

(i) any full-time or part-time employees or potential employees, executives or officers of the Company or any of its subsidiaries; and

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) ***Maximum number of Shares***

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 100,000,000 Shares.

(d) ***Price of Shares***

The subscription price of a Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be, subject to adjustment, a price representing a 10% discount on the Offer Price.

(e) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(f) ***Time of exercise of option and duration of the Pre-IPO Share Option Scheme***

Each of the grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her option in the following manner:

(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 1st anniversary of the date on which the option is offered to the grantee (the "Grant Date") and ending on the 2nd 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 from the expiry of the 2nd anniversary of the Grant Date and ending on the 3rd 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 from the expiry of the 3rd 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-IPO Share Option Scheme.

(g) ***Rights on takeover***

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(h) ***Rights on winding-up***

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(i) ***Rights on compromise or arrangement between the Company and its members or creditors***

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(j) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(k) ***Effect of alterations to capital***

In the event of capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to pre-IPO share option schemes (the "Supplemental Guidance").

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplementary Guidance for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(l) ***Expiry of option***

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the expiry of any of the periods referred to in paragraphs (g) or (h);

(iii) the date on which the scheme of arrangement of the Company referred to in paragraph (i) becomes effective;

(iv) the date of commencement of the winding-up of the Company in accordance with the Companies Act;

(v) the date on which the grantee ceases to be an Eligible Participant for any reason including his death, ill-health, injury, disability, resignation or dismissal, or by reason of the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (e) above or the options are cancelled in accordance with paragraph (n) below.

(m) ***Alteration of the Pre-IPO Share Option Scheme***

The Pre-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Pre-IPO Share Option Scheme.

(n) ***Cancellation of Options***

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(o) ***Termination of the Pre-IPO Share Option Scheme***

The Company may by resolution in general meeting or the Board at any time terminate the Pre-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(p) ***Administration of the Board***

The Pre-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(q) *Condition of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Pre-IPO Share Option Scheme.

(r) *Disclosure in annual and interim reports*

The Company will disclose details of the Pre-IPO Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

4. Estate duty and tax indemnity

Ms. Cheung, Mr. Liu and Mr. Zhang (collectively, the "Indemnifiers") have entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (u) of "B. Further Information About The Business — 1. Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which any member of the Group might be liable by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of the Group on or before the date on which the Global Offering becomes unconditional (the "Effective Date").

The deed of indemnity also contain indemnities given jointly and severally by the Indemnifiers in respect of taxation resulting from income, profits or gains earned, accrued or received on or before the Effective Date which might be payable by any member of the Group. In particular, the Indemnifiers have agreed to indemnify the Group against any surtaxes and penalties imposed on the Group relating to any enterprise income tax liability for any period up to and including the fiscal year ending 30 June 2006 as a result of the central tax authority having determined that any member of the Group is subject to a higher enterprise income tax rate.

The Indemnifiers will, however, not be liable under the deed of indemnity:

(i) to the extent that provision has been made for such taxation in the audited accounts of any member of the Group up to 30 September 2005; or

(ii) to the extent that the liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) other than any such act, omission or transaction:

(aa) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 30 September 2005; or

(bb) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 September 2005 or pursuant to any statement of intention made in this prospectus; or

(cc) consisting of any member of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

(iii) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of the Group up to 30 September 2005 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(iv) the taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the Effective Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

See "Risk Factors — Risk Relating to the Group — The Group may be subject to additional substantial enterprise income tax liabilities if the central tax authority determines that the Group should be subject to a higher enterprise income tax rate than the rate currently assessed by the local tax authority".

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Bermuda, Hong Kong, BVI or PRC.

5. Litigation

The Group is not currently involved in any material litigation or legal proceedings which could be expected to have a material adverse effect on its business or operations. See "Business — Legal Proceedings".

6. Sponsors

The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Pre-IPO Share Option Scheme, the Share Option Scheme and the exercise of the Over-allotment Option).

BNP Paribas Peregrine Capital Limited is not considered independent from the Company pursuant to Rule 3A.07(3) of the Listing Rules because BNP Paribas Jersey Trust Corporation Limited, being a member of the sponsor group, is a connected person of the Company.

7. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US$5,627 and are payable by the Company.

8. Promoters

The promoters of the Company are Ms. Cheung and Mr. Liu. Saved as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to such promoter in connection with the Global Offering and the related transactions described in this prospectus.

9. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Bermuda*

Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise any rights attaching to them.

10. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice that are contained in this prospectus:

Name	Qualifications
BNP Paribas Peregrine Capital Limited	Licensed corporation holding a licence under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Merrill Lynch Far East Limited . .	Deemed licensed under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) as defined under the SFO
PricewaterhouseCoopers	Certified public accountants
Jingtian & Gongcheng	PRC legal advisers
Conyers Dill & Pearman	Bermuda attorneys-at-law
Vigers Appraisal & Consulting Limited	Professional valuers

11. Consents of experts

Each of the Joint Sponsors, PricewaterhouseCoopers, Jingtian & Gongcheng, Conyers Dill & Pearman and Vigers Appraisal & Consulting Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

12. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

13. Waivers from compliance with the Listing Rules and the Companies Ordinance

(a) *Connected transactions*

Members of the Group have entered and are expected to enter into certain transactions which would constitute non-exempt continuing connected transactions for the Company under the Listing Rules after the listing of the Shares on the Stock Exchange. The Company has applied to the Stock Exchange for a waiver from strict compliance with the shareholders' approval and/or announcement requirements set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such waiver are set out in "Business — Continuing Connected Transactions — (C) Waivers from the Stock Exchange in respect of the continuing connected transaction".

(b) *Pre-IPO Share Option Scheme*

The Company has adopted the Pre-IPO Share Option Scheme and has granted options under such scheme. In this connection, the Company has applied for a waiver from the Stock Exchange from strict compliance with the disclosure requirements in respect of these options under paragraph 27 of Appendix 1A to the Listing Rules. The Company has also applied for a waiver from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance. Further details of such waivers are set out in "D. Other Information — 2. Pre-IPO Share Option Scheme — (b) Outstanding options".

(c) *Over-allotment Option*

In order to facilitate the settlement of over-allocations in the International Placing, Merrill Lynch Far East Limited may borrow up to 150,000,000 Shares from Best Result, equivalent to the maximum number of Shares to be offered on a full exercise of the Over-allotment Option, under the stock borrowing agreement signed between them. An application on behalf of the Company and Best Result has been made to the Stock Exchange for a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, in order to allow Best Result to enter into and perform its obligations under the stock borrowing agreement.

14. Miscellaneous

(a) Save as otherwise disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

(b) Save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries;

(c) None of the persons named in the sub-paragraph headed "11. Consents of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;

(d) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 30 September 2005 (being the date to which the latest audited combined financial statements of the Group were made up);

(e) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;

(f) Subject to compliance with the Companies Act, the principal register of members of the Company will be maintained in Bermuda by Butterfield Fund Services (Bermuda) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company's share register in Hong Kong and may not be lodged in Bermuda. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;

(g) No company within the Group is presently listed on any stock exchange or traded on any trading system; and

(h) The Directors have been advised that, the use of a Chinese name by the Company for identification purposes only does not contravene the Companies Act.

15. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **PINK** application forms, the written consents referred to in "D. Other Information — 11. Consents of experts" in Appendix VII to this prospectus and copies of the material contracts referred to in "B. Further Information About The Business — 1. Summary of material contracts" in Appendix VII to this prospectus. A copy of this prospectus, together with related Application Forms, has also been filed with the Registrar of Companies in Bermuda.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at 39th Floor, Two International Financial Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including 6 March 2006:

(a) the memorandum of association and the Bye-laws;

(b) the Accountants' Reports prepared by PricewaterhouseCoopers, the text of which is set out in Appendices I, IIA and IIB to this prospectus;

(c) the audited financial statements of each of the companies comprising the Group for the Track Record Period (or for the period since their respective dates of incorporation where it is shorter) (if any);

(d) the letter on unaudited pro forma financial information prepared by PricewaterhouseCoopers, the text of which is set out in Appendix III to this prospectus;

(e) the letter relating to profit forecast, the text of which is set out in Appendix IV to this prospectus;

(f) the letter, summary of valuation and valuation certificates relating to the property interests of the Group prepared by Vigers, the texts of which are set out in Appendix V to this prospectus;

(g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Bermuda company law as referred to at the end of Appendix VI to this prospectus;

(h) the Companies Act;

(i) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme;

(j) the material contracts referred to in "B. Further Information About The Business — 1. Summary of material contracts" in Appendix VII to this prospectus;

(k) the service contracts referred to in the paragraph headed "C. Further Information About The Directors And Substantial Shareholders — 1. Directors — (b) Particulars of Service Contracts" in Appendix VII to this prospectus;

(l) the written consents referred to in the paragraph headed "D. Other Information — 11. Consents of experts" in Appendix VII to this prospectus; and

(m) a list of all the grantees of the options granted by the Company under the Pre-IPO Share Option Scheme providing information required under paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10(a) of Part 1 of the Third Schedule to the Companies Ordinance.