玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2689

ANNUAL REPORT 2007/08

* *For identification purposes only*

MAIN PRODUCTS

Kraftlinerboard

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

Testlinerboard

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

White Top Linerboard

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

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 product under the "Nine Dragons" brand.

Coated Duplex Board

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung *(Deputy Chairman and Chief Executive Officer)*
Mr. Zhang Cheng Fei *(Deputy Chief Executive Officer)*
Mr. Zhang Yuanfu
Ms. Gao Jing

Non-Executive Director
Mr. Lau Chun Shun

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

EXECUTIVE COMMITTEE
Ms. Cheung Yan *(Chairlady)*
Mr. Liu Ming Chung
Mr. Zhang Cheng Fei

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

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

AUTHORISED REPRESENTATIVES
Mr. Zhang Cheng Fei
Ms. Cheng Wai Chu, Judy *ACS, ACIS*

QUALIFIED ACCOUNTANT
Mr. Zhang Yuanfu

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

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AUDITORS
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LEGAL ADVISERS
Conyers Dill & Pearman (Bermuda)
Jun He Law Offices (PRC)
Sidley Austin (Hong Kong)

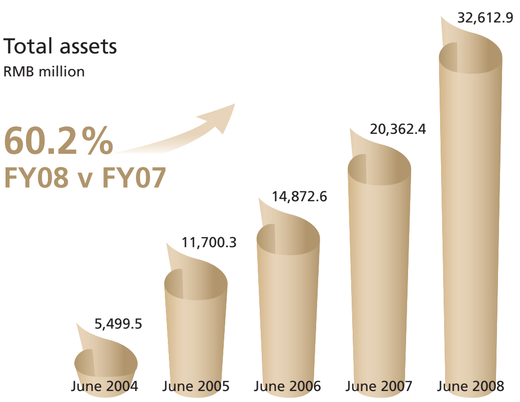
PRINCIPAL BANKERS
Agricultural Bank of China
Bank of China Limited
Bank of China (Hong Kong) Limited
China Merchants Bank

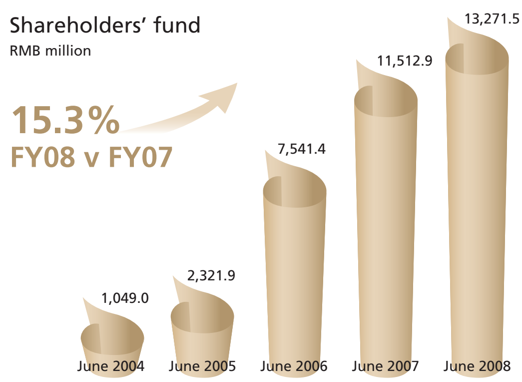
FINANCIAL HIGHLIGHTS

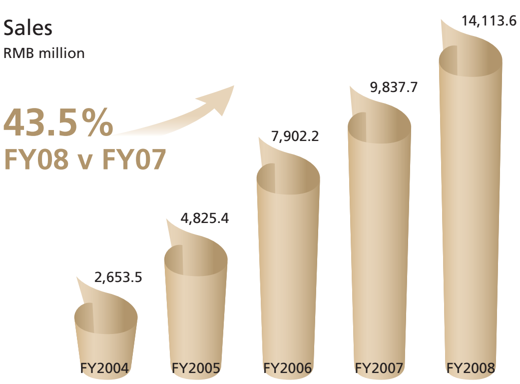
For the year ended 30 June	2008	2007	Change
Operating results (RMB million)			
Sales	14,113.6	9,837.7	43.5%
Gross profit	2,872.3	2,528.9	13.6%
Operating profit	2,265.9	2,293.4	(1.2%)
Profit before taxation	2,164.0	2,162.0	0.1%
Profit attributable to Company's equity holders	1,876.9	2,003.4	(6.3%)
Financial position (RMB million)			
Cash generated from operations	1,395.8	756.1	84.6%
Net debt	12,729.4	4,883.8	160.6%
Shareholders' funds	13,271.5	11,512.9	15.3%
Per share data (RMB cents)			
Earnings per share — basic	43.54	47.94	(9.2%)
Earnings per share — diluted	42.49	47.03	(9.7%)
Dividend per share			
— Interim	1.68	1.60	5.0%
— Final	3.50	10.00	(65.0%)
Other data (RMB million)			
Capital expenditures	10,046.2	5,760.1	74.4%
Key ratios (%)			
Gross profit margin	20.4	25.7	(5.3 pts)
Operating profit margin	16.1	23.3	(7.2 pts)
Net profit margin	13.3	20.4	(7.1 pts)
EBITDA/ratio (*)	20.9	27.6	(6.7 pts)
Return on capital employed	7.1	12.0	(4.9 pts)

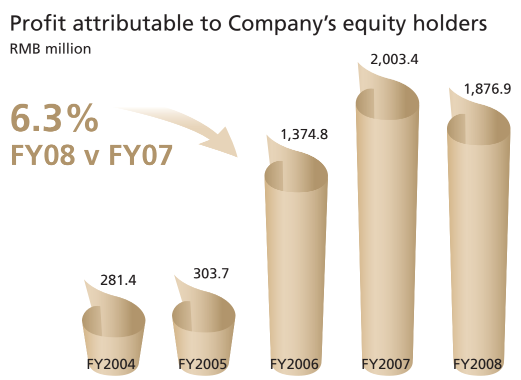
- Group revenue increased by 43.5% to RMB14,113.6 million
- Profit for the year decreased by 7.7% to RMB1,900.8 million
- Net profit margin less 7.1% points to 13.3%

* EBITDA was restated. Restated calculation method on page 34.









HIGHLIGHTS OF THE YEAR

DECEMBER 2007

Completed the acquisition of Sichuan Qian Wei Baiya Paper Co. Ltd. for development of high value specialty paper

APRIL 2008

Issuance of US$300 million 7.875% senior notes due 2013

MAY 2008

Acquired 60% in Cheng Yang Paper Mill Co., Ltd., a Vietnam factory which principally engages in the production of various kinds of industrial papers, including kraft paper, testliner and medium paper in Vietnam

Completed the acquisition of Sichuan Rui Song Paper Co. Ltd. for development of high value specialty paper

JUNE 2008

Revised and increased annual caps for continuing connected transactions from HKSE

PM18 and PM19 in Dongguan, and PM20 and PM21 in Taicang commenced production


DIVERSIFICATION

CHAIRLADY'S STATEMENT

Dear Shareholders,

I am delighted to present to you the Annual Report of ND Paper for the year ended 30 June 2008.

FY2008 is a challenging year for us. The world economy and China's packaging paperboard manufacturing industry have been subject to repercussions from the sub-prime crisis in the United States of America, Renminbi appreciation, the snowstorm in central and southern China, the earthquake in the Sichuan Province that accentuated a negative overtone on the macroeconomic environment and together with substantial increases in prices of commodities (including thermal coal and crude oil) and the volatility of recovered paper prices. Leveraging its core competencies, ND Paper has been able to flexibly adjust its strategies to accommodate the rapidly changing market and meet the challenges from the operating environment. During the year under review, the Group had been seeking geographical diversity in its expansion as it was reinforcing its well-balanced blueprint for development of its paperboard manufacturing business. Meanwhile, we widened our product range, improved our product quality and expanded reasonably our capacities. We enlarged our scale of operation to boost our cost-competitiveness. These efforts established a firm footing for securing our position as the largest packaging paper manufacturer in Asia, making ourselves fully prepared to embrace imminent economic recovery.

Thanks to the hard work from all members of our staff, the Group achieved total revenue of RMB14,113.6 million, representing an increase of approximately 43.5% as compared with the last financial year. Gross profit was approximately RMB2,872.3 million, up 13.6% from the last financial year. Despite revenue is significantly higher than that of the previous financial year, the gross margin narrowed to 20.4% as a result of the slowdown in world economy, rising commodity costs and the erratic volatilities in recovered paper prices. The profit attributable to equity holders of the Company was RMB1,876.9 million. Earnings per share were RMB0.44.

Despite this less-than-favourable market environment, as a note of thank to the support of shareholders for ND Paper over the years, the Board of Directors proposed payment of a final dividend of RMB3.50 cents per share. Including the interim dividend of RMB1.68 cents already paid, the total payout for the year was RMB5.18 cents. Dividend payout ratio was about 12%.

IMPLEMENTATION OF LONG-TERM GROWTH STARTEGIES AND DIVERSIFICATION, GETTING PREPARED FOR THE MARKET CONSOLIDATION

The world economy has started to show signs of slowing down in 2008 due to the deepening impact from the sub-prime crisis in the US. This, when added to the effect of natural disasters, high volatility in commodity prices and rapid deterioration of the general economic environment has inflicted considerable impact on the packaging paperboard manufacturing industry in China. As the industry leader, ND Paper stays vigilant to the rapid changes in the operating environment. We maintain close scrutiny to factors including demand-supply dynamics, diverse needs of customers and new government policies. We develop appropriate measures to accommodate the market consolidation and manage our risks. ND Paper's competitive edge does not rest on a single market or a single product, but on its ability to implement diversified strategies, including use of its access export markets to adjust the domestic/export sales proportions. Thanks to the economies of scale we achieved, we have been able to maintain sustainable development and long-term growth in terms of our business scope and scale of operation in a slackening economic environment.

(1) Expanding containerboard production capacity in a flexible way to match industry consolidation and better economies of scale

The demand for containerboard continues to grow despite the slowing world economy. Thanks to its leading market position, ND Paper saw sustaining strength in its customer orders. Market demand stayed to be strong, as the utilization rate of our existing and newly added paper machines continued to rise while our inventory were maintained at reasonable levels. Meanwhile, the PRC Government intensified enactment of its environmental protection laws and launched policies that accelerated elimination of small paper making mills which failed to meet the requirements under the new policies or with inferior production technologies. According to industry statistics of China's paper manufacturing sector, against a backdrop of increasing capacities for the industry as whole, 2007 saw a reduction in number of paper manufacturing enterprises with an annual revenue of RMB5 million or above by 376 from 2006, indicating continuing industry consolidation. The pace of consolidation was speeding up as in the first four months of 2008, about 139 paper making enterprises were closed. Large plants with capacities of 300,000 tpa or higher are set to benefit from this trend of rapid industry consolidation and absorb market shares released by closure of small-scale capacities.

Capitalizing on the growing demand for containerboard, we initiated a detailed plan in as early as FY2006 to improve our economies of scale and strengthen our cost-competitiveness. We have been monitoring closely the demand-supply dynamics in the market and adjusted our portfolio of capacities to accommodate the consolidation in the industry. During the year under review, we adhered to our original plan to increase capacities in the Dongguan and Taicang bases while building new paper machines and ancillary infrastructural facilities in the Chongqing and Tianjin bases. Until the end of June 2008, ND Paper's total design capacity of packaging paperboard in China reached 6.95 million tpa.

(2) Well-balanced geographical coverage in China, ready to expand into Asia

Already the largest player of its kind in Asia, ND Paper is now the only packaging paperboard manufacturer with production bases located in four key economic regions in China and in Vietnam. This comprehensive geographical coverage enables the Group to satisfy demand for containerboard from all regions and complement the demand and supply among the regions, effectively reducing the risk of single market concentration.

In addition to Dongguan and Taicang, during the year ND Paper has established its third base in Chongqing. Production in this new base already commenced in August 2008 with an initial capacity for the first year aggregating 0.8 million tpa. Foundation work and infrastructure preparation for our fourth production base in Tianjin has been progressing smoothly. This new base is scheduled to commence production in June 2009 with an initial capacity of 0.8 million tpa. This Tianjin base will serve customers in northern and northeastern China. At the moment, demand in these regions is mainly met by small-scale capacities with limited supply. This market landscape favours large-scale packaging paperboard manufacturers. The Tianjin base is well-connected to major transportation infrastructure. It has direct access to a supplementary rail nearby for transportation of coal, raw materials and finished products. It is 30km away from the Tianjin Port that provides ocean-bound transportation support. There is also ample high quality supply of water to support production in the Tianjin base.

We stay vigilant to opportunities in other regions in Asia of good potential in addition to satisfying the escalating demand in our domestic market. In May 2008, we acquired 60% equity interest of a paper mill in Vietnam – Cheng Yang Paper Mill Co. Ltd. We have decided to hold back our plan to expand capacity there in light of the prevailing volatility in the Vietnamese economy. However, we are still sanguine about the potential of the market in Vietnam in the long run. We believe that this investment in Vietnam can help establish a strong foundation for ND Paper for its expansion into overseas markets. We shall revive the plan as soon as the economy there recovers and initiate our expansion into Asia.

(3) Improving resilience to market risks by broadening product range and client mix

ND Paper has long been putting customers in the highest priority and offering a comprehensive product range to provide customers in different industries with a wide array of choices accommodating their specific needs. China's continuing economic growth will drive the development of the consumer market. Participants in this industry constitute a major target group that we shall concentrate our effort to tap. During the year, we proactively broadened our product range to launch light weight high performance corrugating medium product series in June 2008 using two newly installed high-speed paper machines. This series is fully compliant to the "3R" principles – Reduce, Reuse, Recycle – and comes on the top of our three major packaging paper product categories, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board. In addition, we commenced production of light weight linerboard and launched it in the market in 2008. Products that are of high quality and compliant with environmental protection principles are well received by customers with encouraging order flow. As small-scale paper mills are yet to catch up with new technologies and facilities (such as large-scale high-speed paper machines), new product launches not only replace traditional products, but also help accelerate industry consolidation.

ND Paper is also exploring into other high value, high return products to improve its product mix. During the year, we acquired high value specialty paper (primarily for production of electric insulating paper and capacity tissue paper) project in Leshan, Sichuan; wood and bamboo pulp projects and plan to pursue production of liquid packaging paper products (such as aseptic and non-aseptic liquid packaging board, other coated packaging board, food packaging board, cup stock and other high end packaging paper). However, as the world economy is slowing down, we have decided to concentrate our resources in the existing businesses and hold back our production plans on high value specialty paper and liquid paper packaging products until a better timing.

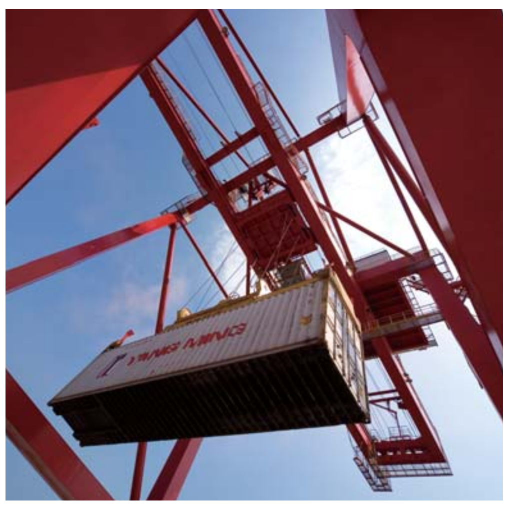
(4) Tightening cost control and expanding raw material sourcing

During the year under review, commodity prices, including thermal coal, rose more than 60% while recovered paper prices remained very volatile, inflicting impact on the packaging paperboard manufacturing industry and putting pressure on the Group's gross margin. Despite having implemented appropriate measures to mitigate risks inherent in escalating cost pressure, we had been able to pass on only some of the rises in costs to customers, their capacity of absorbing price increases was protracted in light of the worsening economic environment. Working in parallel, we are developing new manufacturing methods that enable us to use lower-cost raw materials without sacrificing product quality in order to strengthen our competitiveness, while minimizing the impact on our gross margin.

On sourcing of raw materials, ND Paper had been during the year proactively expanding its channels from which it sources recovered paper to reduce its reliance on a single supplier. We sourced high quality recovered paper from a wider array of geographical locations globally (including the US, Europe, Australia and Japan, etc.). We shall also increase the proportion of high quality recovered paper procured from the domestic market in China in an effort to alleviate pressure arising from volatile recovered paper prices in the international market. ND Paper has established a long-term target of diversifying into upstream and resource business and in the process of identifying pulp production projects to secure stable supplies of pulp at competitive costs, ultimately building a fully-integrated enterprise from forestry, pulp to paper.

(5) Adhering to environmental protection principle and "people-based" principle

In the recent years, the PRC Government has been strengthening the country's education on environmental protection to increase the awareness of its people in this area. This, when coupled with the increasingly stringent requirement for environmental protection year after year, reaffirms the PRC Government's determination in strengthening its environmental protection efforts. As an industry leader, ND Paper strives to stay close to its philosophy of "No Environment, No Paper" by observing strictly to the highest environmental protection standards through deployment of raw materials, production facilities, technologies and production processes that not only meet but exceed the most stringent requirements. During the year, we invested in new facilities for monitoring processing and disposal of sewage, solid wastes, exhaust fumes and noise. We launched products that comply with "3R" principle to reinforce our value towards protecting the environment. We envisage the PRC Government to tighten the country's laws on environmental protection further. We shall



continue to implement high environmental protection standards and maximize our use of recovered paper as raw materials through reforms in technology. We strive to establish ourselves as a role model on protection of the environment in the industry.

ND Paper adheres strictly to its "People-based" principle and put strong emphasis on building relationship with staff members and on human resources development. During the year, we strengthened our mutual-trust based relationship with our staff. We provide them with the protection they deserve under the new Labour Contract Law and an ideal working environment as we worked closely with relevant government departments and labour associations. We received high recognition from relevant government departments and labour associations in the areas of human resource management principles and compliance with applicable labour laws. In terms of human resources development, we proactively invite international professional managers to join our team and strengthen our management. We strive to boost loyalty among staff members by providing them a pleasant working and living environment and opportunities to polish up their capabilities through internal staff training programmes. These efforts help them release their potential at work to contribute to creation of better value for shareholders.

OUTLOOK

As the world economy will continue to be surrounded by uncertainties, inflicting unprecedented difficulties and challenges on the operating environment of China's paper making industry. ND Paper is well-prepared and ready to embrace these challenges as it developed a three-pronged strategy:

First, keep capital expenditure under stringent control and maintain adequate cash flow

— adjust downwards the capital expenditure budget for 2009 to RMB2.2 billion from originally planned RMB3.0 billion;

— completed the 2.4 million tpa capacity expansion plan in 2008 and secure delivery of capacities of 0.8 million tonnes for the Tianjin base before June 2009 with total capacity reaching over 8.7 million tonnes by 2009, while postponing other capacity expansion plans to 2010 or 2011 and beyond.

Second, strengthen internal control and upgrade core competencies

— concentrate our efforts in strengthening control on costs and sales risks to maintain our profitability at reasonable levels in light of the unfavourable market environment.

Third, reform our management structure and polish up ourselves

— reform and adjust our management structure by recruiting international high-calibre professional managers; combine their management experiences with our unique management philosophy and extensive technologies. ND Paper management sees the current economic difficulties as an opportunity to polish up ourselves and we will capture this opportunity to become a strong industry leader.

As the world economy continues to be in doldrums, the consolidation within the industry is accelerating to a stage where the process is facing bottlenecks. Full of confidence and without fear, we see the current difficulties as an opportunity to polish up ourselves. We proactively reform and upgrade our internal management, exercise stringent costs control, as well as enhance production automation continuously. We are progressing into a higher level leveraging our proven track record, regional strength, strong market share and wide geographical coverage achieved in the last decade. ND Paper will emerge unscathed by the difficult environment due to its strong management capability, unique business philosophy as an industry leader. Leveraging on our large-scale capacity of over 8.7 million tonnes, we are preparing ourselves for embracing opportunities in the economic recovery ahead to create enormous returns for shareholders and perpetuate ND Paper into a century-old enterprise.

APPRECIATION

It has been 10 years now since ND Paper commenced production from its first paper machine. I would like to take this opportunity to extend my regards and appreciation to our management and staff for their whole-hearted devotion to the Group's development. Thanks to their diligent work, we have been able to sustain our development during the last exceptionally challenging year. I would also express my sincere appreciation to various governments, labour associations, shareholders, investors, bankers and business partners for their ardent support. We look forward to continuing to share with all of them our accomplishments in the future.

Cheung Yan
Chairlady

Hong Kong, 10 October 2008

CHIEF EXECUTIVE OFFICER'S OPERATION REVIEW AND OUTLOOK

Dear Shareholders,

I am delighted to share with you our results for the year ended 30 June 2008. The slowdown in the world economy and the impact from the macroeconomic landscape posed unprecedented challenges to the operating environment. During the year, the Group adopted prudent and pragmatic strategies to reinforce development of its core businesses while consistently expanded its product range and upgrade product quality. We rearranged and appropriated production capacities flexibly in accordance with changes in the market in order to continue benefits of economy of scale. We strived to achieve better diversity in terms of our geographical coverage to further leverage our competitiveness as the largest packaging paperboard manufacturer in Asia.

REVIEW OF OPERATIONS

During the period under review, the Group saw its revenue grew 43.5% year-on-year to RMB14,113.6 million while gross profit stood at RMB2,872.3 million. Profit attributable to the Company's equity holders was RMB1,876.9 million, translating into basic earnings per share of RMB0.44.

As at 30 June 2008, ND Paper's total production capacity in packaging paperboard reached 7.05 million tpa, an increase of 56.7% as compared to that as at 30 June 2007, of which 3.80 million tpa was attributed to linerboard, 2.30 million tpa to high performance corrugating medium and 0.95 million tpa to coated duplex board. This operating scale has made the Group Asia's largest containerboard manufacturer by production capacity. During the year under review, sales volume of packaging paperboard products rose 30.3% from the last corresponding year to about 4.3 million tonnes, bringing in revenue aggregating RMB13,901.8 million. Gross margin narrowed 5.3 percentage points from the same period last year to 20.4% due to the various unfavourable factors such as the slow down of global economic growth, the steep increases of more than 60% in commodity costs (including coal) and the erratic volatility of recovered paper prices. The Group adjusted its proportion of domestic sales from 57.7% in FY2007 to 61.6% due to constantly increasing domestic demand.

The Group enjoys a stable supply of recovered paper. Apart from sourcing high quality recovered paper from various markets around the world (including the US, Europe, Australia and Japan, etc.), the Group increased the proportion of high-quality recovered paper procured domestically in China. We believe this could help mitigate risk inherent in the highly volatile imported recovered paper prices. This can also help accelerate closure of small-capacity paper mills, a development which is in line with the PRC Government policy objectives and will in due course increase the supply of recovered product from the domestic market.

In light of the impact on our costs resulting from the volatile raw material prices, we strived to boost our efficiency to maintain our competitiveness. We minimized our costs through better utilization of energy and raw material resources, bulk procurement to lock in raw material costs at the lowest possible level.

FLEXIBLY INCREASE CAPACITY TO BOOST ECONOMIES OF SCALE

Despite the unfavourable external factors, demand for containerboard from the domestic market in China continued to grow at more or less the same pace as the supply. This, when coupled with the shifts in product mixes, helped accelerate closure of small-capacity paper mills and thereby facilitated industry consolidation. During the year, we added to our Dongguan base PM12 and PM13 which provide 0.8 million tpa of linerboard capacity. In the Taicang base, we upgraded PM8, which already commenced production in August 2007, to add 50,000 tpa of linerboard capacity. All of PM18 and PM19 in Dongguan, and PM20 and PM21 in Taicang commenced production in June 2008 as scheduled. PM22 and PM23 in Chongqing also commenced production in August 2008. In light of the prevailing uncertainties in the economies in which the Group operates, operation of PM27 to PM30 will be postponed to beyond 2010 from 2009 as originally scheduled. The Group will stay vigilant in changes in the market to adjust the progress of different projects to prepare itself for embracing the imminent economic recovery.

BROADEN PRODUCT RANGE AND INCREASE CLIENTELE TO INSTILL MORE RESILIENCE

The Group has been taking a proactive stance in development of high value containerboard products to achieve greater diversity in its product portfolio. This move, came in response to demand from the market and customers, helped the Group reduce its reliance on sale of a single product category thereby instilling more resilience against risks. To meet the escalating demand for light weight corrugating medium, PM18 in Dongguan and PM21 in Taicang commenced production in June 2008. With an aggregate capacity of 0.7 million tpa, they represent the first commercial production of high-speed paper machines in Asia (including Japan and Australia). As small capacity paper mills are yet to catch up with the latest production technologies and related high-speed facilities, new product launches can more effectively replace traditional products, accelerate industry consolidation, drive demand and help expand the Group's market share.

During the year, we acquired the high value specialty paper product project in Leshan, Sichuan, which is primarily for production of pulp, electric insulating paper and capacity tissue paper. We also plan to pursue production of liquid packaging paper products to complete our product range. However, due to the uncertainties surrounding the world economy, we have decided to assign resources and priorities to reinforce our existing business, while holding back the new projects until a better timing.

WELL-BALANCED GEOGRAPHICAL COVERAGE READY TO TAP NEW MARKETS IN ASIA

Following the commencement of construction of production bases in Chongqing and Tianjin, ND Paper has become the only containerboard manufacturer in the world with manufacturing presences in the four major economic regions in China and in Vietnam, constituting a well-balanced geographical network of production bases. The earthquake in Sichuan, while inflicting no damage to our production base there which was under construction, caused delay in the last stage of construction because of the quake-stricken blockages in transportation and logistics. We have postponed commencement of production of PM22 and PM23 in that base to August 2008. These two new paper machines provide capacities of respectively 0.45 million tpa of linerboard and 0.35 million tpa of high performance corrugating medium. The completion date for the construction of ancillary facilities including a power plant, a self-owned pier, a railway spur specially dedicated to serve this base postponed to August 2008 accordingly.

For the Tianjin base, the construction of paper machines PM25 and PM26 progressed as scheduled. These two paper machines, with capacities of 0.45 million tpa of linerboard and 0.35 million tpa of high performance corrugating medium, help the Group broaden its product offerings to customers. Attached to this base are ancillary facilities including a power plant, a dedicated rail spur and water treatment facilities. At the moment, demand in Tianjin is mainly met by small-scale capacities and suppliers from other provinces. This market landscape favours large-scale packaging paperboard manufacturers. We shall accelerate construction of the Tianjin base and bring forward the production commencement date from end of 2009 to mid-2009 to tap the consistently increasing demand there.

In May 2008, we acquired a 60% equity interest in a paper mill in Vietnam which has capacity of 0.10 million tpa as the first step for our expansion in Asia. We have decided to hold back our plan to expand capacity there in light of the prevailing volatility in the Vietnamese economy. However, we are still sanguine about the potential of the market in Vietnam in the long run. We shall revive the plan as soon as the economy there recovers and initiate our expansion into Asia.

TIGHTER COST CONTROL AND MORE DIVERSIFIED RAW MATERIAL SOURCES

The steep increases in commodity costs and erratic volatility of recovered paper prices inflicted pressure on the Group's production costs and affected the Group's gross margin. During the year, the Group implemented appropriate measures to tighten its cost control and passed on some of the rises in costs to customers. However, the customers' capacity of absorbing price increases was protracted in light of the worsening economic environment, accentuating the pressure in the Group's gross margin.

To support the Group's long term development, ND Paper has established a long term target of diversifying into upstream and resource business and in the process of identifying pulp production projects to secure stable supplies of pulp at competitive costs, ultimately building a fully-integrated enterprise from forestry, pulp to paper.

ENVIRONMENT

ND Paper strives to become a role model in the industry in environmental protection and stays close to its philosophy of "No Environment, No Paper" principle. Against a backdrop of the very strong determination as illustrated by the PRC Government to achieve environmental protection goals, ND Paper's value is reinforced due to its persistent heavy emphasis on environmental protection. We settle ourselves on performing better than, not just meeting statutory standards and requirements. In term of environmental protection facilities, we pioneered our peers in introducing a fully-automatic, sealed coal storage dome to our Dongguan base. It features special environmental friendly designs that help reduce spreading of soot particles during the processes of loading, transportation and storage of coal, creating a better working environment for our staff. In addition, we installed in our sewage treatment station a methane desulphurization facility that generates sulphur-free methane as a supplementary fuel to power our turbines. This helps us save 30,000 tonnes of thermal coal a year. This facility has commenced operation. We strive to reduce our carbon dioxide emission through deployment of advanced environmental protection facilities. We started our application for carbon credit trading in a move that increases our incentive for reducing our energy consumption to further enhance our cost effectiveness. In respect of energy saving and emission reduction, ND Paper passed the energy saving assessment held by the Economic and Trade Commission of Guangdong Province and attained its energy saving goal successfully.

We maintain strict controls over sewage treatment, solid waste treatment, emission and noise pollution in our production process. Our production bases were named Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and the Taicang Environmental Protection Administration. We continued to maintain our ISO14001 accreditation on environmental protection.

HUMAN RESOURCES

The Group places strong emphasis on training of our staff and human resources development. In addition to encouraging our staff to upgrade their skills through training and further education, we recruit talents, preparing our core management team better to embrace the Group's ongoing expansion.

ND Paper is a capital intensive, not labour intensive manufacturer. Our staff cost accounted for only 4.7% of our total revenue. Hence the direct effect of the New Labour Contract Law is very small. The Group has retrenched 2,500 staff members during the year through ongoing replacement of manual labour processes by machines and enactment of more production automation reforms. The Group will continue these automation efforts to better deploy its resources and keep operating costs under tighter control.

We strive to provide our staff with better working and living environment. Well-equipped staff residences had been built in our production bases in Taicang, Dongguan and Chongqing. The Dongguan base is equipped with comprehensive sports facilities while a large-scale indoor sports center is built in the Taicang base to help raise loyalty among our staff. Furthermore, we remain vigilant on industrial safety and have maintained our OHSAS18001 accreditation.

OPERATION MANAGEMENT

ND Paper adheres to a "People-based" management principle. We maintain an all-round management objective that boosts the efficiency of both the staff and the overall operation. We spare no effort in maintaining tight management on quality as we adopt the highest quality standards in every aspect. We continue to maintain our ISO9001 quality management accreditation.

FINANCIAL RESOURCES

The Group is capable of financing its further development with internal resources. We prefer debt financing over other alternatives when external financing is necessary. The guiding principles are to keep financing costs at low levels while maintaining our healthy financial position. Our gearing ratio is relatively high at the moment, but at a normal level in the industry. Moreover, we have been maintaining excellent long-term relationships with our principle bankers, who understand well the capital intensive nature of the paper manufacturing business. They continue to lend their support to our business development, citing our rate of return which is higher than the industry average. As at 30 June 2008, our unused credit facilities amounted to RMB4.25 billion. In April 2008, the Group successfully concluded its issue of US$300 million unsecured senior notes, a solid testimony to our robust financial strength and the recognition by the international capital markets.

We adhere to the principle of prudent financial management and appropriate deployment of capital resources in projects in accordance with their potential and prospective profitability. In light of the current unfavourable economic environment, the Group will trim its capital expenditure budgeted for FY2009 to RMB2.2 billion from the original RMB3 billion to ensure adequate cashflow to support its operations. The Group will not increase bank borrowings and targets to achieve a lower gearing than FY2008. Most of our sales revenue is denominated in Renminbi while a large proportion of our costs is settled in foreign currencies. We have been actively reducing our Renminbi borrowings and strengthen our debt profile both on the foreign exchange front and on the interest rate front.

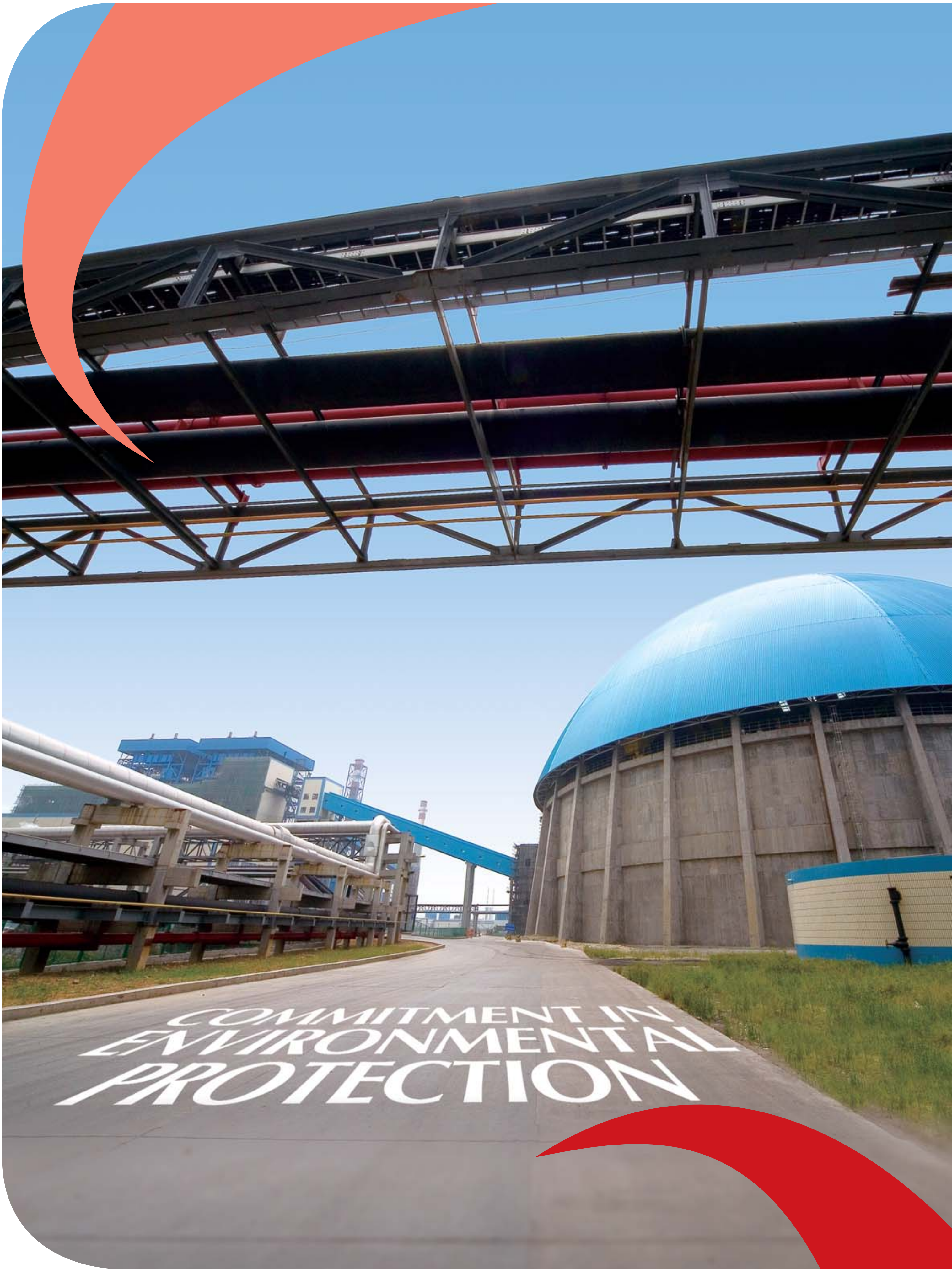
OUTLOOK

Going forward, as the world economy continues to be in doldrums, posing stiff challenges to manufacturing industries and difficulties to the Group's operations. We are preparing ourselves to meet these challenges as we constrain our capital expenditure and postpone our plans to expand capacities to 2010 or beyond 2011. We are reserving more resources to strengthen our existing businesses while intensifying our control on costs and sales risks, targeting to maintain our profitability at reasonable levels in light of the current difficult economic environment.

We shall continue to intensify the integration in the areas of operation scale, business scope and geographical coverage and internal control reforms in an effort to better secure ND Paper's development in the future and its cost competitiveness. We are making inroads to make sure that we are best prepared to embrace the imminent economic recovery. ND Paper has full confidence about emerging unscathed from the current difficulties and maximizing returns for shareholders.

Liu Ming Chung
Deputy Chairman and Chief Executive Officer

Hong Kong, 10 October 2008



COMMITMENT IN ENVIRONMENTAL PROTECTION

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

ND Paper is the largest containerboard producer in Asia and one of the leading players in the world. The Group primarily produces high value and diversified containerboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium, and coated duplex board. Equipped with multiple production lines with flexible configuration, the Group could offer customers a diversified product portfolio with various types, sizes, grades, burst indices, stacking strengths, basis weights, printability and brands in an efficient manner. Currently, five principal products are available in over 60 different basis weights and over 1,000 different sizes and type specifications.

During the year, the Group added six paper machines offering the Group an additional capacity of 2.40 million tpa. The 19 paper machines in operation command design capacities in PRC aggregating 6.95 million tpa, of which 3.70 million tpa are for linerboard, 2.30 million tpa are for high performance corrugating medium and 0.95 million tpa are for coated duplex board. Until the end of June 2008, all the paper machines in operation were located in the Dongguan base (4.45 million tpa) and Taicang base (2.50 million tpa).

Construction of third production base in Chongqing was completed, it started the operation in August 2008 with an additional capacity of 450,000 tpa of linerboard and 350,000 tpa of high performance corrugating medium.

The fourth production base in Tianjin has commenced construction during the year. This base will serve north and northeast China. Two paper machines stationed in Tianjin production base is scheduled to commence production by mid-2009 with an initial capacity of 800,000 tpa.

With a fully functional infrastructure and facilities that provide the Group with power, steam, water supplies, piers and logistical locations, the Group will have a better cost control and higher flexibility in operation. These features allow the Group to be self sustaining in several areas while also ensuring the highest standard of environmentally friendly manufacturing.

Business Strategy

Thanks to prudent and flexible business strategies, the Group managed to achieve satisfactory value growth in production capacity, product portfolio and market distributions despite the economic challenges and natural disasters occurred during the year.

Foreseeing the economic downturns will be recovered in two to three years' time, the Group will equipped itself to be well-prepared for rebound on market demand by allocating more resources on consolidating the existing business, aiming to achieve the status of the world's premier packaging board manufacturer with more diversified product portfolio and ultimately evolving itself into fully-integrated manufacturer from forestry to end-product with international reach and diversified offerings.

Prudent capacity expansion plan to meet market needs

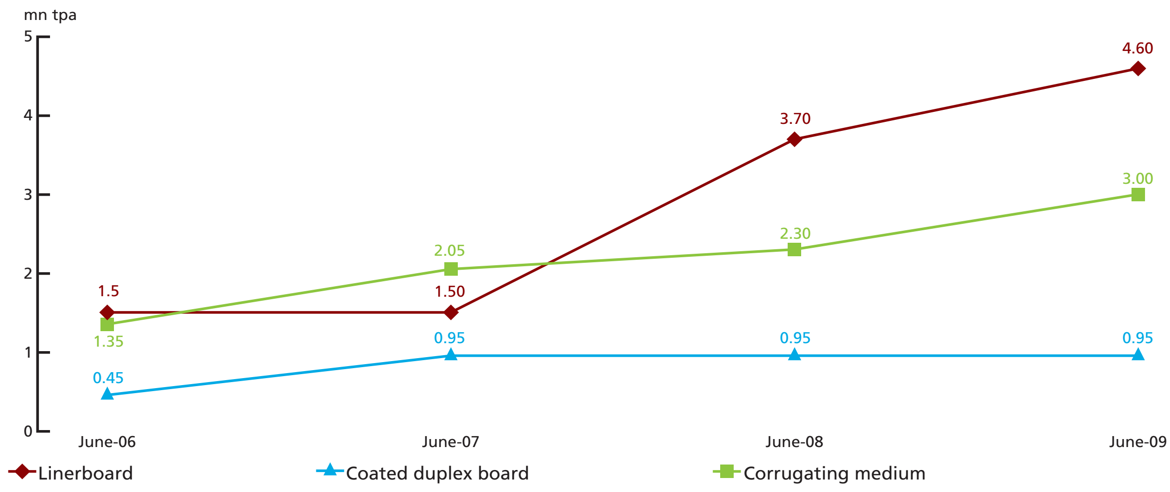
During the year, the Group enlarged the production capacity of PM8 with an additional 50,000 tpa, and commenced the operations of PM12 and PM13 in August 2007. Moreover, PM18 and PM19 in Dongguan, and PM20 and PM21 in Taicang started to operate in June 2008. In May 2008, the Group acquired 60% equity interest of Cheng Yang Paper Mill Co. Ltd., an existing paper manufacturer in Vietnam which currently has a production capacity of 100,000 tpa.

Paper Machine	Location	Product	Capacity
PM8	Taicang	Linerboard	500,000 tpa through addition of 50,000 tpa
PM12 and PM13	Dongguan	Linerboard	800,000 tpa
PM18	Dongguan	Light weight high performance corrugating medium	350,000 tpa
PM19	Dongguan	Linerboard	450,000 tpa
PM20	Taicang	Linerboard	450,000 tpa
PM21	Taicang	Light weight high performance corrugating medium	350,000 tpa

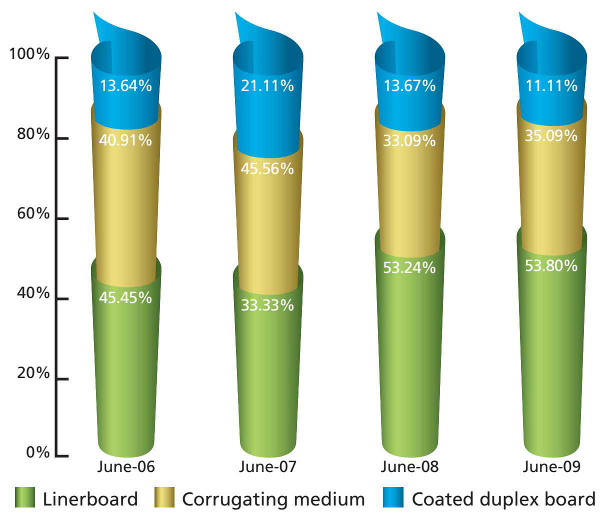
In order to meet the current market condition, the Group has adjusted the original capacity expansion plan. While PM25 and PM26 situated in Tianjin will commence operation in mid-2009, operation of PM27, PM28, PM29 and PM30 will be postponed to after 2010 so as to meet the expected economic recovery.

Paper machine	Location	Product	Capacity
PM22	Chongqing	Linerboard	450,000 tpa
PM23	Chongqing	High performance corrugating medium	350,000 tpa
PM25	Tianjin	Linerboard	450,000 tpa
PM26	Tianjin	High performance corrugating medium	350,000 tpa
PM27	Dongguan	Linerboard	450,000 tpa
PM28	Dongguan	Light weight high performance corrugating medium	350,000 tpa
PM29	Taicang	Linerboard	450,000 tpa
PM30	Taicang	Light weight high performance corrugating medium	350,000 tpa

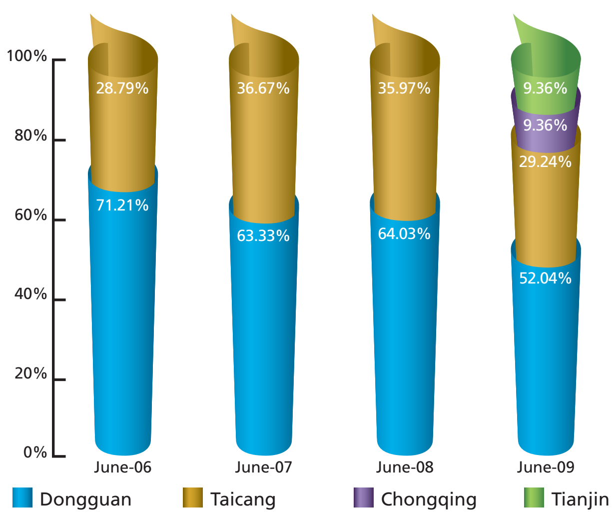
Total Design Capacity in China



Breakdown by Product



Breakdown by Location



Investing in infrastructure facilities to achieve economies of scale

(1) Power resources

To facilitate expanding production capacity and support large-scale containerboard manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. The Group has set up central coal-fired cogeneration power plants in both Dongguan and Taicang with aggregate installed capacity of 735 MW by end-June 2008. In Chongqing we have built two power generators with aggregating installed capacity of 120 MW to propel the new paper machines there. The Group is building power generating facilities with aggregate installed capacity of 158 MW in the Tianjin base. These power plants provide both electric power and steam for use in the drying process in the production process to all of its paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, the Group can achieve savings by using electric power from the Group's cogeneration plants compared to the cost of purchasing power from third parties. The Group's sourcing strategy for coal is to purchase from suppliers that can provide a stable and reliable supply at the lowest cost. To lower its coal costs, the Group purchases all of its coal directly from coal distributors and arranged its own shipping. The Group receives the coal by ship at its pier in Taicang and at Xinsha Ports in Dongguan. We have also invested in a new fully enclosed coal storage system in Dongguan in order to increase efficiency and reduce wastage and more importantly increase the environmental protection standard of our Group.

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

(2) Land resources

Apart from infrastructure, the Group has made investments in acquiring land use rights for sufficient land plots for its existing operations to allow for future development. Until 30 June 2008, the Group secured land use rights for land plots aggregating 8.51 million sq.m.

(3) Transportation infrastructure

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group has constructed a self-owned pier at Taicang and Chongqing.

The current pier in Taicang is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the shipping pier for its own use and to offer loading and unloading services to third parties. The operating berth, with an annual loading and unloading capacity of 2.7 million tonnes, is dedicated to receiving coal deliveries. Given that the Group can take direct delivery by ocean freight from the major coal ports on China's coast, the Group is able to realize cost savings by eliminating loading and unloading charges that the Group would otherwise incur for transit of coal.

The Group has finished the construction of a self-owned pier at Chongqing production base, there also exist a railway spur next to the production base. These ancillary facilities are all in place for the commencement of commercial production of the paper machines.

In Dongguan base, the Group also plans to construct a pier to meet the transportation requirements for finished products, raw materials and coal. The relevant approval procedures are still underway. This Dongguan pier is scheduled to complete construction and commence service by 2010. It has a design annual loading and unloading capacity of approximately 3.0 million tonnes.

Comprehensive geographical coverage to meet diverse needs

During the year, the Group achieved balanced market coverage with its four production bases established in Dongguan, Taicang, Chongqing and Tianjin. This comprehensive geographical production network enables the Group to fully cover the major PRC economic regions and provide services to customers.

Tianjin base, the Group's fourth base, serves the northern and north-eastern regions by PM25 with 450,000 tpa will produce linerboard paper and PM26 with 350,000 tpa will produce high performance corrugating medium paper. Production is expected to commence by mid-2009.

The production plant newly acquired in Vietnam in May 2008 also enables the Group to cultivate business opportunities to access the Asian packaging paperboard market in the future.

Diversifying into high value product portfolio

As the leader in the Asian market, the Group is always ahead of its peers to capture the business opportunity by introducing the newest products to the market. During the year, the Group further strengthened its product portfolio by expanding the product range and focusing on high value products.

Along the 3R's strategy "Reduce, Reuse and Recycle", demand for high value-added containerboard such as lighter weight high performance corrugating medium (70–90g/m^2) is increasing. In view of this, the Group constructed high-speed paper machines PM18 and PM21 in Dongguan and Taicang specifically dedicated for this product category during the year. These machines already commenced production in June 2008 with capacities aggregating 700,000 tpa.

The Group is determined to diversify into production of high value paperboard products. During the year, the Group completed the handover of operations and productions of Sichuan Qian Wei Baiya Paper Co. Ltd. and Sichuan Rui Song Paper Co. Ltd. for production of high value specialty paper. In addition, the Group is planning to develop the production of liquid packaging board products to further diversify its product portfolio. However, in view of a downturn in global economy, the Group would invest its resources in developing its current businesses, and only commence new projects in appropriate times in the future.

Committed to Environmentally Responsible Practices

The Group has always been sustaining the highest standard of environmentally practices by strictly complying with environmental laws and regulations promulgated by central and local environmental authorities. During the year, the Group purchased new environmental protection facilities so as to upgrade the wastewater discharge, airborne emissions and solid waste disposal etc. The production bases in Dongguan and Taicang have also been granted the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau and obtained ISO14001 certification for its environmental management standards. In respect of energy saving and emission reduction, ND Paper passed the energy saving assessment held by the Economic and Trade Commission of Guangdong Province and attained its energy saving goal successfully.

Sources of high quality and price competitive raw materials

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

(1) Recovered Paper

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

The Group sources its recovered paper from America Chung Nam, Inc. ("ACN") and the remainder from other suppliers. The Group entered into the Renewed ACN Supply Agreement and Further Renewed ACN Supply agreement in relation to the supply of recovered papers from ACN to members of the Group for the 3 years ending 30 June 2011.

Due to the Group's recurring purchases of recovered paper in large quantities and centralized procurement, the Group has been able to secure supplies from suppliers (including from ACN) at more competitive prices and incur lower transportation costs.

The Group has a policy to diversify its sources of supply and to maintain not less than 20% of its recovered paper in terms of aggregate value of its purchase of recovered paper from suppliers other than ACN. Consistently with previous years, the Group has also maintained an independent system which is based on biding procedures for recovered paper purchases and reviewed by one of the independent-non executive directors ("INEDs") with solid industry expertise. Regular reports regarding the Group's purchase and other relevant information will be provided to the INEDs who will conduct a quarterly review of the purchase terms and the fairness of the Group's basis for selecting its recovered paper suppliers.

We believe that the above arrangement can better 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.

(2) Kraft Pulp

Kraft pulp is the Group's second largest raw materials component. The Group uses both bleached and unbleached kraft pulp in the production of some of its products to increase the consistency of appearance and strength of the products. The Group strives to maintain a diversified source of kraft pulp. In addition to an initiative to secure part of the supply of unbleached kraft pulp through the joint venture Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited, we are in the process of examining a number of kraft pulp projects. These projects will provide us with convenient accesses to kraft pulp supplies to support our current paper production bases and future capacity expansion in time of 2010 economic rebound.

Enhance efficiency and effectiveness

The Group is implementing an enterprise resource planning (ERP) system for its Dongguan, Taicang and Chongqing operations. It will manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of its products, sales and marketing and delivery of its products through its internal transportation and delivery network. All paper machines have Distributed Control Systems that monitor and control all aspects of production and automated quality control system to ensure that every segment of the production process comply with our quality requirements. This arrangement enabled the Group to maintain its ISO9001 quality standard accreditation.

Emphasis on People-Oriented strategy

We believe that the high quality of human resources, particularly its management and professional engineers, is the most valuable asset of ND Paper. The Group obtained the OHSAS18001 certification for its occupational health and safety management system in March 2005. During the year, the Group provided continuous staff development programs, such as periodic in-house and overseas training and promotional opportunities. The Group does not limit itself to complying with the new Labour Contract Law, but aims to exceed international standards of performance by following international best practices for management processes and corporate governance.

As at 30 June 2008, the Group had approximately 10,840 full time staff in Hong Kong and the PRC. The related employee's costs for the year (including directors' emoluments) amounted to approximately RMB659.9 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's remuneration system. Moreover, the Group adopted a share option scheme for employees and refining the incentive bonus program to attract and retain capable human resources.

FINANCIAL REVIEW

Revenue

The Group achieved a revenue of approximately RMB14,113.6 million for FY2008, representing an increase of approximately 43.5% as compared with the last financial year. The major contributor of the revenue growth was the increase of sales volume. In FY2008, the Group's total sales volume of packaging paperboard products reached approximately 4.3 million tonnes, representing an increase of approximately 30.3% as compared to that of the last financial year. The increase of sales volume of packaging paperboard was supported by the full year contribution in FY2008 by PM11, PM16 and PM17, which commenced operation in January 2007, the enlargement of the production capacity of PM8 with an additional 50,000 tpa, as well as commenced operations of PM12 and PM13 in August 2007. The Group's total sales volume of kraft pulp products decreased to approximately 56,000 tonnes from approximately 88,000 tonnes in FY2007, representing a decrease of approximately 36.4%. The decrease of sales volume was due to the increase in the supply to the Group's other companies in this financial year as compared with the previous year.

The price increment of all the Group's product lines recognised during FY2008, particularly during its first half which is in line with the increase in the raw material costs, also bolstered the top line figure and confirmed the Group's industry leadership and the robust market demand.

The Group mainly manufactures packaging paperboard products, which include linerboard, coated duplex board and high performance corrugating medium, and kraft pulp products. The majority of the Group's sales is in China, whereas a significant portion of the Group's export sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency. For FY2008, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises and direct export, constituted approximately 38.4% of the Group's total sales as compared with 42.3% in the last financial year.

For FY2008, sales to the Group's top five customers in aggregate accounted for approximately 8.2% (FY2007: 13.4%) of the Group's revenue, with that to the single largest customer accounted for approximately 2.0% (FY2007: 3.8%).

Gross profit

The gross profit for FY2008 was approximately RMB2,872.3 million, an increase of RMB343.4 million or 13.6% as compared with the RMB2,528.9 million recorded in the last financial year. Overall gross margin for the year decreased from 25.7% to approximately 20.4%. The decrease in gross profit margin was mainly due to the slowdown of economic growth, the rise in costs of energy and raw materials.

Other gains — net

Other gains, net, of the Group decreased to approximately RMB228.8 million in FY2008 from RMB311.2 million in the last financial year. The decrease was mainly the net effects of the substantial drop in sales of electricity which cannot be offset by the increase in sales of scrap materials and net negative goodwill recognised. The substantial decrease of electricity sales of RMB112.6 million was mainly due to the increase in paper production capacity, which resulted in higher electricity consumption as compared with the last financial year.

Operating profit

The operating profit for FY2008 was approximately RMB2,265.9 million, a slight drop of approximately 1.2% over the last financial year.

Selling and marketing costs were approximately RMB335.5 million in FY2008, compared with RMB195.4 million in FY2007. The total amount of selling and distribution costs as a percentage of the Group's revenue increased from 2.0% in the last financial year to approximately 2.4% in FY2008, which was resulted from the increase in staff salaries and transportation costs, and the provision for impairment of trade receivables of approximately RMB50.9 million.

Administrative expenses increased from RMB351.3 million in the last financial year to approximately RMB499.7 million in FY2008. The increase was mainly a result of additional management and administrative costs were also incurred to support the commencement of new paper machines. The amount of administrative expenses as a percentage of Group revenue maintained at a stable level of 3.5% in FY2008 as compared to that in the last financial year. The Group's administrative expenses amounted to approximately RMB400.8 million after deducting the share option expenses, representing approximately 2.8% of the group's revenue. In the long run, the proactive investment in human resources assures the Group's growth sustainability.

Total staff costs of the Group increased by approximately 31.2% amounted to approximately RMB659.9 million during the financial year, representing approximately 4.7% of the Group's revenue as compared to 5.1% in the last financial year.

Net profit and dividends

The profit attributable to equity holders for FY2008 was approximately RMB1,876.9 million, a decrease of RMB126.5 million as compared with that in last financial year. The ratios of EBIT and EBITDA to revenue were 17.5% and 20.9% respectively.

The Group's finance costs decreased by 22.5% to approximately RMB101.9 million in FY2008 from RMB131.4 million in FY2007. The substantial decrease in the Group's finance costs was mainly the result of the increases in interest capitalised of approximately RMB288.4 million arised from upgrading of the Group's credit profile and optimising loan portfolio mix in terms of maturity and currency, which was attributable to the amelioration of the Group's financial position and the exchange gains of foreign currency borrowings of RMB221.3 million attributed by continuous appreciation of RMB during the financial year.

Basic earnings per share for FY2008 and the last financial year were RMB0.44 and RMB0.48 respectively.

During the year, the Group declared and paid an interim dividend of RMB1.68 cents per share, which amounted to RMB72.1 million. The directors have proposed a final dividend of RMB3.50 cents per share, which will aggregate to approximately RMB151.6 million. The total dividend for the year amounted to RMB5.18 cents per Share, representing a decrease of RMB6.42 cents per Share.

Taxation

Income tax charged for the financial year amounted to approximately RMB263.2 million and increased by approximately RMB161.5 million as compared with that in last financial year.

The increase in provision for income tax was mainly due to the increase in tax rate for some of the subsidiaries after the new Corporate Income Tax Law became effective on 1 January 2008 and the expiry of the tax holidays of certain subsidiaries.

From 1 July 2007 to 31 December 2007, PRC enterprise income tax is provided based on the statutory income tax rate of 18% to 27% of the assessable income of each of these companies for the period. After the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") was effective from 1 January 2008, which unifies the corporate income tax rate for domestic and foreign enterprises at 25%, from 1 January 2008, PRC enterprise income tax is provided based on the statutory income tax rate of 25% of the assessable income of our subsidiaries for the period. Certain subsidiaries of our Group still enjoy a grace period of the tax holidays in the PRC for 5 years from 1 January 2008 and during the grace period their income tax are exempted from tax or taxed at preferential rates of 7.5% to 12.5%.

More provision for deferred tax is provided for FY2008 which is in line with the increase in capex as compared with the last financial year.

Working capital

The inventories increased by approximately RMB1,316.0 million for FY2008 and amounted to approximately RMB2,818.5 million, representing an increase of 87.6% from that of last financial year. Inventories mainly comprise raw materials of approximately RMB1,814.8 million and finished goods of approximately RMB1,003.7 million.

The raw materials and finished goods increased by approximately RMB595.4 million and approximately RMB720.6 million respectively as compared to last financial year. The increase in raw materials balances were primarily the result of storing a stable amount of raw materials for deployment by increased production capacity in FY2008 whereas the increase in finished goods balance was mainly due to the full operations of PM11, PM16 and PM17 in FY2008 and the commencement of operation for PM12 and PM13 in FY2008.

As a result, during FY2008, inventory turnover increased to approximately 92 days as compared to 75 days for FY2007.

Trade and bills receivable increased by approximately RMB221.4 million for FY2008 and amounted to approximately RMB1,991.8 million. During FY2008, the turnover days of trade receivables were approximately 52 days as compared to 66 days for FY2007.

Trade and bills payable increased by approximately RMB1,218.0 million for FY2008 and amounted to approximately RMB2,286.5 million. Trade and bills payable turnover days was approximately 74 days for FY2008 and was in line with the credit period granted by most suppliers.

Liquidity and financial resources

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

The Group's net cash inflow from operating activities increased from approximately RMB756.1 million in 2007 to approximately RMB1,395.8 million in FY2008, representing an increase of approximately 84.6%. The increase was attributable primarily to the changes in working capital, mainly the increase of year end trade and other payables after netting off the increase in inventories and trade and other receivables. In terms of available financial resources as at 30 June 2008, the Group had total undrawn borrowing facilities of RMB4,250.8 million and cash and bank balances of RMB1,562.9 million. As at 30 June 2008, the shareholders' funds were approximately RMB13,271.5 million, an increase of approximately RMB1,758.6 million from that of the last financial year. The shareholders' fund per share increased by approximately 14.2% from RMB2.68 to RMB3.06.

The Group had outstanding bank loans and borrowings as at 30 June 2008 of approximately RMB14,685.4 million, of which approximately RMB2,295.5 million shall be repaid within 1 year, approximately RMB4,852.7 million shall be repaid after 1 year but within 2 years, approximately RMB6,587.0 million shall be repaid after 2 years but within 5 years, and approximately RMB950.2 million shall be repaid after 5 years. The net borrowings to equity ratio of the Group as at 30 June 2008 increased from 42.4% to approximately 95.9%, due to draw down of bank loans to fund the capital expenditure requirements of the Group.

Treasury policies

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

The treasury policies followed by the Group aim to:

(a) Minimise interest risk

This is accomplished by loan re-financing and negotiation. The Board closely monitors the Group's loan portfolio and compares the loan margin under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks. During FY2008, the Group executed new loan agreements to refinance substantial portfolio of the loans draw down under previous agreements which carried a higher interest rate. The Group has also sought to hedge its medium term interest rate risk by entering into cross currency interest rate swap contracts at a minimal price. As at 30 June 2008, the notional amounts of the outstanding cross currency interest rate swaps were US$350 million.

(b) Minimise currency risk

The Group has contracted new bank loans in US$ or HK$ for its subsidiaries in China to the extent allowable in view of the continued strengthening of the RMB. The Group has also sought to hedge its medium term currency risk by entering into cross currency swap contracts at a minimal price. As at 30 June 2008, the notional amounts of the outstanding cross currency swaps were US$100 million.

In the past two years, the Group has already executed two unsecured syndicated loan agreements, one on 19 September 2006 in US$ for 4 years and the other one on 18 June 2007 in HK$ for 5 years, with financial institutions in a total amount of equivalent to US$606.4 million as at 30 June 2008. These loans have served to push out maturities of loans, reduced the Group's average loan interest margin and have also increased the proportion of non-RMB borrowings considering the appreciation of RMB.

In April 2008, the Group has issued a 5 year senior unsecured notes with interest rate of 7.875% per annum. With the issuance of senior unsecured note, the Group has successfully diversified its funding channel and explored a new fund raising channel, international bond market, with the benefits of relative lower funding cost, sizeable market and higher efficiency as compared to the traditional short-term bank loans.

As at 30 June 2008, total foreign currency borrowings amounted to the equivalent of approximately RMB7,397.8 million and RMB loans amounted to approximately RMB7,287.6 million, representing approximately 50.4% and approximately 49.6% of the Group's borrowings respectively.

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

Cost of Borrowing

Despite higher interest rates in the first half of the year, average borrowing cost in FY2008 rose only slightly to 6.493% and 5.528% from 5.770% and 5.233% for long-term bank borrowings and short-term bank borrowings respectively in FY2007 due to the Group's prudent use of fixed and floating rate debt. The gross interest and finance charges (before interest income and impact from derivative financial instruments) increased to approximately RMB611.6 million in FY2008 from RMB302.3 million in FY2007.

Capital expenditures

For FY2008, the Group invested approximately RMB10,046.2 million for the construction of factory buildings, purchase of plant and machinery, equipment and land use rights. These capital expenditures were fully financed by bank borrowings and internal resources.

Capital commitments and contingencies

The Group expected to invest approximately RMB5,349.7 million on capacity expansion in the future 5 financial years. The Group made capital expenditure commitments mainly for machineries of approximately RMB835.5 million which were authorized but not contracted and approximately RMB4,514.2 million were contracted but not provided for in the financial statements as at 30 June 2008. These commitments were mainly related to the expansion of the Group's production capacity and part of these commitments may be postponed accordingly based on the availability of Group's internal financial resources in the forthcoming two years.

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

THE GROUP IN THE LAST FIVE YEARS

In millions of RMB

	For the year ended 30 June				
Consolidated Income Statement	2008	2007	2006	2005	2004
Sales	14,113.6	9,837.7	7,902.2	4,825.4	2,653.5
Cost of goods sold	(11,241.3)	(7,308.8)	(6,041.3)	(4,064.9)	(2,105.7)
Gross profit	2,872.3	2,528.9	1,860.9	760.5	547.8
Other gains — net	228.8	311.2	357.0	24.1	5.3
Selling and marketing costs	(335.5)	(195.4)	(172.8)	(91.5)	(60.2)
Administrative expenses	(499.7)	(351.3)	(233.9)	(135.0)	(67.3)
Operating profit	2,265.9	2,293.4	1,811.2	558.1	425.6
Finance costs	(101.9)	(131.4)	(294.8)	(179.8)	(85.1)
Profit before income tax	2,164.0	2,162.0	1,516.4	378.3	340.5
Income tax expense	(263.2)	(101.7)	(116.3)	(60.4)	(52.7)
Profit for the year	1,900.8	2,060.3	1,400.1	317.9	287.8
Profit attributable to:					
Equity holders of the Company	1,876.9	2,003.4	1,374.8	303.7	281.4
Minority interests	23.9	56.9	25.3	14.2	6.4
Consolidated Cash Flow Statement	2008	2007	2006	2005	2004
Net cash generated from operating activities	1,395.8	756.1	1,067.1	1,063.0	341.3
Net cash used in investing activities	(9,809.4)	(5,524.0)	(1,454.1)	(1,537.3)	(827.2)
Net cash generated from financing activities	8,270.2	3,727.0	2,556.0	681.4	795.4
Net (decrease)/increase in bank and cash balances	(143.4)	(1,040.9)	2,169.0	207.1	309.5

In millions of RMB

	As at 30 June				
Consolidated Balance Sheet	2008	2007	2006	2005	2004
Total assets	32,612.9	20,362.4	14,872.6	11,700.3	5,499.5
Inventories	2,818.5	1,502.5	932.0	998.2	566.1
Trade receivables and bills receivable	1,940.9	1,770.4	1,312.4	763.3	447.3
Prepayments and other receivables	911.3	417.7	246.6	233.7	715.3
Derivative financial instruments	—	24.9	—	—	—
Bank and cash balances	1,956.0	1,748.2	3,017.3	1,310.9	746.9
Total current assets	7,626.7	5,463.7	5,508.3	3,306.1	2,475.6
Property, plant and equipment	23,536.6	13,802.7	8,625.5	7,640.0	2,864.9
Land use rights	1,185.4	949.3	592.1	607.5	159.0
Intangible asset	238.3	146.7	146.7	146.7	—
Derivative financial instruments	25.9	—	—	—	—
Total non-current assets	24,986.2	14,898.7	9,364.3	8,394.2	3,023.9
Total liabilities	19,067.8	8,726.4	7,236.3	9,292.8	4,370.2
Trade payables and bills payable	2,286.5	1,068.5	1,516.8	2,167.7	593.6
Other payables	1,552.3	698.1	476.7	646.7	671.2
Current income tax liabilities	72.4	21.4	67.4	44.5	30.1
Derivative financial instruments	1.7	7.4	—	—	—
Short-term borrowings	2,295.5	2,543.1	2,176.9	2,431.6	1,236.8
Total current liabilities	6,208.4	4,338.5	4,237.8	5,290.5	2,531.7
Long-term borrowings	12,389.9	4,088.9	2,743.9	3,817.3	1,725.5
Deferred income tax liabilities	452.4	281.8	226.8	169.8	103.7
Other payables	17.1	17.2	27.8	15.2	9.3
Total non-current liabilities	12,859.4	4,387.9	2,998.5	4,002.3	1,838.5
Net current assets/(liabilities)	1,418.3	1,125.2	1,270.5	(1,984.4)	(56.1)
Total assets less current liabilities	26,404.5	16,023.9	10,634.8	6,409.8	2,967.8
Capital and reserves attributable to equity holders of the Company	13,271.5	11,512.9	7,541.4	2,321.9	1,049.0
Minority interests	273.6	123.1	94.9	85.6	80.3

	As at and for the year ended 30 June				
Financial Ratios	2008	2007	2006	2005	2004
EBITDA(1) *(in RMB million)*	2,956.7	2,716.6	2,035.1	717.5	511.1
Profitability ratios					
Gross profit margin(2) (%)	20.4	25.7	23.5	15.8	20.6
Operating profit margin(3) (%)	16.1	23.3	22.9	11.6	16.0
Net profit margin(4) (%)	13.3	20.4	17.4	6.3	10.6
EBITDA ratio(5) (%)	20.9	27.6	25.8	14.9	19.3
Rate of return on equity(6) (%)	14.1	17.4	18.2	13.1	26.8
Rate of return on capital employed(7) (%)	7.1	12.0	13.3	5.4	8.8
Liquidity ratios					
Current ratio(8) (times)	1.2	1.3	1.3	0.6	1.0
Quick ratio(9) (times)	0.8	0.9	1.1	0.4	0.8
Inventory turnover(10) (days)	92	75	56	73	98
Trade receivable turnover(11) (days)	52	66	61	48	62
Trade payable turnover(12) (days)	74	53	92	158	103
Capital adequacy ratios					
Gearing ratio(13) (%)	45.0	32.6	33.1	53.4	53.9
Net borrowings to equity ratio(14) (%)	95.9	42.4	25.2	212.7	211.2
Interest coverage(15) (times)	5.9	11.5	12.4	3.5	5.7

(1) EBITDA is profit before income tax, depreciation expense, amortization expense, interest income and interest expense (including interest on borrowings less interest capitalised, and bills discount charge).

(2) Gross profit margin is equal to gross profit divided by sales times 100%.

(3) Operating profit margin is equal to operating profit divided by sales times 100%.

(4) Net profit margin is equal to profit attributable to equity holders of the Company divided by sales times 100%.

(5) EBITDA ratio is equal to EBITDA divided by sales times 100%.

(6) Rate of return on equity is equal to profit attributable to equity holders of the Company divided by capital and reserves attributable to equity holders of the Company times 100%.

(7) Rate of return on capital employed is equal to operating profit for the year net of the amount of operating profit for the year times effective tax rate divided by the sum of short-term borrowings, long-term borrowings and total equity (including minority interests) times 100%.

(8) Current ratio is equal to current assets divided by current liabilities.

(9) Quick ratio is equal to current assets net of inventories divided by current liabilities.

(10) Inventory turnover is equal to inventories divided by cost of goods sold times 365 days.

(11) Trade receivable turnover is equal to the sum of trade receivables and bills receivable divided by sales times 365 days.

(12) Trade payable turnover is equal to the sum of trade payables and bills payable divided by cost of goods sold times 365 days.

(13) Gearing ratio is equal to total borrowings divided by total assets times 100%.

(14) Net borrowings to equity ratio is equal to the sum of short-term borrowings, the current portion of long-term borrowings and long-term borrowings net of bank and cash balances and restricted cash divided by shareholders equity times 100%.

(15) Interest coverage is equal to EBITDA divided by bank borrowing interest net of interest income.

CORPORATE GOVERNANCE

During the FY2008, all the applicable provisions under the Code on Corporate Governance Practices in Appendix 14 (the "Code") of the Listing Rules were met by the Company.

The Company continued to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as its code. Having made specific enquiry of all directors who were in office during the FY2008, they have complied with the Mode Code during the year under review.

BOARD

As at 30 June 2008, the Board comprised nine Directors, including four Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Ms. Cheung is the spouse of Mr. Liu while Mr. Zhang is a brother of Ms. Cheung. Mr. Lau Chun Shun is the son of Ms. Cheung and Mr. Liu and a cousin of Mr. Zhang. Save as disclosed above, the Board members have no financial, business, family or other material/relevant relationship with each other.

The Board is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are:

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

Biographical details of the Directors, showing a good balance of professional expertise and diverse range of experience among them, are set out on pages 57 and 59 of this Annual Report.

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

All of the Directors of the Company are appointed for a specific term. In accordance with the Company's Bye-laws, at each annual general meeting, all the Directors shall retire from office but shall be eligible for re-election.

The Board held four meetings in FY2008 and meetings attended by each of Directors were as follows:

Name of Directors	Number of Meetings attended/eligible to attend
Executive Directors	
Ms. Cheung *(Chairlady)*	4/4
Mr. Liu *(Deputy Chairman and Chief Executive Officer)*	4/4
Mr. Zhang *(Deputy Chief Executive Officer)*	4/4
Ms. Gao Jing	4/4
Non-executive Director	
Mr. Lau Chun Shun	2/4
Independent Non-executive Directors	
Ms. Tam Wai Chu, Maria	4/4
Mr. Chung Shui Ming, Timpson	4/4
Dr. Cheng Chi Pang	4/4
Mr. Wang Hong Bo	3/4

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

To avoid concentration of power and control, the position of the Chairlady and the Deputy Chairman cum Chief Executive Officer are segregated and each plays a distinctive role but complementing each other. The Chairlady is responsible for supervising the functions and performance of the Board, while the Deputy Chairman cum Chief Executive Officer is responsible for the management of the businesses of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs are appointed for a specific term, subject to re-election, which will run until the conclusion of the annual general meeting in accordance with the Company's Bye-laws. Two INEDs have professional accounting qualifications and extensive financial management expertise which exceeded the requirement of Listing Rule 3.10. The Company has received, from each of the INEDs, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs to be independent in accordance with each and every guideline set out in Rule 3.13 of the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, profitability and cash flows of the Group in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In preparing the financial statements of the Group for the FY2008, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movements of the Group at any time. The statement of reporting responsibilities of the Company's external auditors in connection with the financial statements of the Company are set out in the Auditor's Report on pages 69 to 70.

EXECUTIVE COMMITTEE

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

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

Currently, the members of the Executive Committee include Ms. Cheung (Chairlady), Mr. Liu and Mr. Zhang.

REMUNERATION COMMITTEE

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

A separate report prepared by the Remuneration Committee which summarized its works performed during the FY2008, and also set out details of the share options to the Directors and the employees on pages 40 to 44 of this Annual Report. No Director or any of his/her associates is involved in deciding his/her own remuneration.

During the FY2008, two Remuneration Committee meetings were held and the attendance of each member is set out below:

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

AUDIT COMMITTEE

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

A separate report prepared by the Audit Committee which summarized its works performed during FY2008, set out on pages 45 to 46 of this Annual Report.

During the FY2008, six Audit Committee meetings were held, with details as follows:

Name of Directors	Number of Meetings attended/eligible to attend
Dr. Cheng Chi Pang *(Chairman)*	6/6
Ms. Tam Wai Chu, Maria	6/6
Mr. Chung Shui Ming, Timpson	6/6
Mr. Wang Hong Bo	6/6

RISK CONTROL COMMITTEE

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

INVESTORS' RELATIONS AND SHAREHOLDERS' INTERESTS

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

The Company encourages participation of its shareholders at every annual general meeting to stay informed of the Group's strategy and goals. Each shareholder is legally entitled to demand that a special general meeting be convened and propose an agenda of such a meeting to be considered by other shareholders. In this circumstance, such shareholder is only required to notify in writing the Company Secretary at our registered office in Hong Kong in respect of the demand for convening a general meeting and the agenda for matters to be transacted at such meeting.

The Board endeavours to maintain an on-going dialogue with Shareholders. The Chairlady is personally chairs annual general meetings to ensure that shareholders' views are communicated to the Board. The annual general meetings provides a useful forum to exchange views with the Board.

Matters resolved at the 2007 AGM and the percentage of votes cast in favour of such resolutions are set out below:

- Approval of the audited financial statements for the year ended 30 June 2007 (99.99%).
- Approval of a final dividend for the year ended 30 June 2007 (100%).
- All Directors were re-elected and elected as Directors (99.48% to 99.98% in respect of each individual resolution).
- Fix the remuneration of the Directors (99.56%).
- Re-appointment of PricewaterhouseCoopers as the external auditors of the ND Holdings (100%).
- Grant of a general mandate to Directors to issue additional Shares in the Company (92.68%), repurchase by the Company of its own Shares (99.99%), extension of the general mandate regarding issue of additional Shares (92.64%).

The poll results are posted on the Company's website (www.ndpaper.com) after the general meetings.

The Company actively develops investors' relations and communicates with the investment community throughout the year, particularly after announcement of its interim and annual results. It also addresses the enquiries of investors (including institutional shareholders, analysts and the media) by way of regular corporate presentations, telephone conferences and forums. The details are set out on pages 133 to 135 in this annual report.

REMUNERATION COMMITTEE

The Remuneration Committee was established in March 2006. The functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and practices and establishing recruitment policies that enable the Company to recruit, retain and motivate high-calibre staff to reinforce the success of the Company and create value for our shareholders.

In addition, the Remuneration Committee supervises and enforces the Pre-Listing Share Option Scheme and 2006 Share Option Scheme of the Company in an effective manner. Currently, the Remuneration Committee consists of Ms. Tam Wai Chu, Maria (Chairlady), Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang, Mr. Liu and Mr. Zhang.

SUMMARY OF MAJOR WORK DONE IN FY2008

During the FY2008, the Remuneration Committee held two meetings with 100% attendance. The following is a summary of the major tasks completed by the Remuneration Committee during the year.

- recommended the Board to approve the fee of the Directors;
- reviewed the remuneration of Directors and senior management;
- reviewed and approved the remuneration packages and service contracts of Directors;
- reviewed the remuneration policy for FY2008;
- recommended the performance bonus to be awarded to Directors and senior management; and
- approved the exercise of the share options under the 2006 Share Option Scheme of the Company.

SHARE OPTION SCHEMES

The Company operates two share option schemes, namely a Pre-Listing Share Option Scheme and a 2006 Share Option Scheme. Each grantee is required to pay a non-refundable consideration of HK$1.00 upon each acceptance of options. The principal terms of the two share option schemes are as follows:

Pre-Listing Share Option Scheme

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

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

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

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

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

		Number of share options				
Grantees	Balance as at 1 July 2007	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2008	Approximate percentage of shareholding
i) Directors						
Ms. Cheung	13,538,652	–	–	–	13,538,652	0.313%
Mr. Liu	16,914,184	(3,382,836)	–	–	13,531,348	0.312%
Mr. Zhang	9,451,857	(2,362,964)	–	–	7,088,893	0.164%
Ms. Gao Jing	400,000	(100,000)	–	–	300,000	0.007%
Ms. Tam Wai Chu, Maria	933,336	(233,334)	–	–	700,002	0.016%
Mr. Chung Shui Ming, Timpson	933,336	(233,334)	–	–	700,002	0.016%
Dr. Cheng Chi Pang	1,166,670	(466,668)	–	–	700,002	0.016%
Sub-total:	43,338,035	(6,779,136)	–	–	36,558,899	0.844%
ii) Employees and others	38,048,336	(9,530,934)	–	–	28,517,402	0.658%
Total	**81,386,371**	**(16,310,070)**	**–**	**–**	**65,076,301**	**1.502%**

* The issued share capital of the Company was 4,330,862,099 as at 30 June 2008

Notes:

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

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

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

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

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

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

(3) Mr. Liu is the spouse of Ms. Cheung. Therefore, Ms. Cheung is deemed to be interested in the Shares subject to the share options granted to Mr. Liu and Mr. Liu is deemed to be interested in the Shares subject to the share options granted to Ms. Cheung.

(4) The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$14.62.

Save as disclosed above, no option was granted, cancelled or lapsed under the Pre-Listing Share Option Scheme during the FY2008.

2006 Share Option Scheme

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

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

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

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

Grantees	Balance as at 1 July 2007	Number of share options: Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2008	Approximate percentage of shareholding
Directors						
Ms. Cheung	41,500,000	(8,300,000)	—	—	33,200,000	0.767%
Mr. Liu	41,500,000	(8,300,000)	—	—	33,200,000	0.767%
Mr. Zhang	41,500,000	(8,300,000)	—	—	33,200,000	0.767%
Total:	**124,500,000**	**(24,900,000)**	**—**	**—**	**99,600,000**	**2.301%**

* The issued share capital of the Company was 4,330,862,099 as at 30 June 2008

Notes:

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

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

3. The weighted average closing price immediately before the dates on which the options were exercised was approximately HK$17.66.

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

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

   The performance targets are as follows:

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

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

Save as disclosed above, no any other options were granted, cancelled or lapsed under the 2006 Share Option Scheme during the FY2008.

VALUE OF SHARE OPTIONS

The fair value of options are determined used "Binominal Valuation model" and "Black-Scholes model" (the "Models"). Key assumptions of the Models are:

	Pre-Listing Share Option Scheme	2006 Share Option Scheme
Model:	Binominal Valuation	Black-Scholes
Risk-free rate:	yield of 5-year Exchange Fund Notes	3.75%–3.81%
Expected dividend yield:	5%	1.00%–4.50% per annum
Expected volatility of the market price of the Company's Shares:	25%	28%
Fair value as at effective date (approximately):	HK$70,000,000	HK$364,000,000

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

DIRECTORS' SERVICES CONTRACTS

None of the Directors who are proposed for re-election at the 2008 AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT DETAILS

Details of the emoluments of the directors and the senior management are set out in note 23 to the financial statements.

AUDIT COMMITTEE

MEMBERS

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

TERMS AND REFERENCE

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

SUMMARY OF MAJOR WORK DONE IN FY2008

The Audit Committee holds regular meetings at least four times a year and organizes additional meetings if and when necessary. During FY2008, the committee held six meetings with 100% attendance. The following is a summary of the tasks completed by the Audit Committee during FY2008:

- reviewed the financial statements for the year ended 30 June 2007 and for the six months ended 31 December 2007 before submission to the Board focusing particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from the audit;

  (iv) the going concern assumption;

  (v) compliance with accounting standards; and

  (vi) compliance with stock exchange listing rules and legal requirements in relation to financial reporting;

- reviewed the external auditor's audit plan, FY2007 letter of representation and audit engagement letter;
- considered and approved the FY2007 external audit fees;
- reviewed the "Continuing Connected Transactions" set forth on pages 49 to 52 of this Annual Report;
- reviewed the purchase terms and the fairness of the Group's basis of selecting its recovered paper suppliers quarterly;
- reviewed the reports issued by the auditors of the Company on all the transactions conducted between the Group and ACN; and
- reviewed the Company's internal control systems.

FINANCIAL REPORTS

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

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

RE-APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee recommended to the Board that, subject to Shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers be re-appointed as the Company's external auditor for 2009.

For the FY2008, the external auditor of the Company received approximately RMB5.0 million for audit services and RMB0.14 million for tax and other services.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

BUSINESS RISK

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

FINANCIAL RISK

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

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

COMPLIANCE RISK

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

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

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

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

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

OPERATIONAL RISK

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

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

CONNECTED TRANSACTIONS

During FY2008 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

(1) EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are each of sizes that exceed 0.1% but less than 2.5% of each of the percentage ratios (other than the profits ratio) on an annual basis under Chapter 14 of the Listing Rules, and constitute continuing connected transactions exempt from the independent shareholders' approval requirement but subject to the reporting and announcement requirements of the Listing Rules.

Before listing on the Stock Exchange, the Group has been granted conditional waivers from strict compliance with the disclosure requirements for the period from 3 March 2006 to 30 June 2008 for these transactions. The Group has been further granted conditional waiver to increase the annual caps for the Longteng Purchase Agreement, the Longteng Supply Agreement and the Forestry Supply Agreement on 26 June 2008.

(a) Longteng Purchase Agreement

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

During the FY2008, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB119.8 million and RMB144.0 million respectively.

As disclosed in the announcement dated 26 June 2008, the Company and Dongguan Longteng entered into a Renewed Longteng Purchase Agreement to revise the annual caps to approximately RMB173.0 million, RMB207.0 million and RMB241.0 million for the three years ending 30 June 2011.

(b) Longteng Supply Agreement

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

During the FY2008, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB83.6 million and RMB105.0 million respectively.

As disclosed in the announcement dated 26 June 2008, the Company and Dongguan Longteng entered into Renewed Longteng Supply Agreement to revise the annual cap to approximately RMB126.0 million, RMB151.0 million and RMB181.0 million for the three years ending 30 June 2011.

(c) Forestry Supply Agreement

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

During the FY2008, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB70.9 million and RMB156.0 million respectively.

As disclosed in the announcement dated 26 June 2008, ND Xing An and China Inner Mongolia Forestry have entered into a Renewed Forestry Supply Agreement to review the annual caps to approximately RMB156.0 million for each of the three years ending 30 June 2011.

(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are each of sizes that exceed 2.5% on an annual basis pursuant to Rule 14.07 of the Listing Rules which constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the approval of the independent shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the independent non-executive directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

(a) Taicang Purchase Agreement

Pursuant to the Taicang Purchase Agreements entered into between Zhang's Enterprises and Taicang Packaging dated 12 February 2006 and 27 February 2007, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from 3 March 2006 to 30 June 2008. Taicang Packaging is a company which is held as to 100% by Mr. Zhang.

During the FY2008, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB202.5 million and RMB220.0 million respectively.

As disclosed in the announcement dated 26 June 2008, Taicang Packaging and the Group have entered into Renewed Taicang Purchase Agreement to revise the annual caps to approximately RMB241.0 million for the year ending 30 June 2009.

(b) ACN Supply Agreement

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

The Group will purchase not less than 20% of its requirements of recovered paper in terms of aggregate value from suppliers other than the ACN Group. During the FY2008, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB4,916.5 million and RMB5,092.0 million respectively.

As disclosed in the announcement dated 26 June 2008, the Company and ACN entered into the Renewed ACN Supply Agreement to extend the term of the ACN Supply Agreement for a period of one month from 1 July 2008 to 31 July 2008 with a one-month cap of RMB241.0 million.

(c) Further Renewed ACN Supply Agreement

As disclosed in the circular dated 14 July 2008, the Company and ACN entered into a Further Renewed ACN Supply Agreement on 30 June 2008 to revise the annual cap to approximately RMB11,000.0 million, RMB13,000.0 million and RMB16,000.0 million for the eleven months ending 30 June 2009 and the two year ending 30 June 2011 respectively. At 2008 SGM, the Company sought approval from the independent shareholders on Further Renewed ACN Supply Agreement by vote of poll.

(d) Further Renewed of Taicang Purchase Agreement

As disclosed in the circular dated 14 July 2008, the Company and Taicang Packaging entered into a Further Renewal Taicang Purchase Agreement on 30 June 2008 to revise the annual cap to approximately RMB340.0 million and RMB390.0 million for the years ending 30 June 2010 and 30 June 2011 respectively. At 2008 SGM, the Company sought approval from the independent shareholders on Further Renewed Taicang Purchase Agreement by vote of poll.

The continuing connected transactions mentioned above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(iii) in accordance with the relevant agreements governing such transactions; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

(i) have been approved by the Board;

(ii) were in accordance with the pricing policies of the Group if the continuing connected transactions involve provision of goods or services by the Group;

(iii) were entered into in accordance with the relevant agreements governing the continuing connected transactions; and

(iv) did not exceed the respective annual caps for the relevant continuing connected transactions disclosed in the IPO Prospectus dated 20 February 2006, the announcements dated 27 February 2007 and 3 April 2008.

CORPORATE AND SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY — ENVIRONMENTAL PROTECTION

The Group has persistently observed the principles of environmental protection in its purchase of raw materials, production processes and finished products as it is convinced that no paper-makers could sustain in the absence of environmental protection initiatives. All production bases of the Group are in compliance with internationally recognised environment management standards and effective environment management is being implemented with the use of efficient environmental protection equipment and technologies. As one of the international leaders in the paper manufacturing industry, the Group maintained consistent compliance with environmental protection practices and high environmental standards throughout the year. We have also formulated an operating system conducive to an environmentally-friendly paper-making operation.

The Group has significantly reduced the risk of non-compliance with environmental laws and regulations caused by impact of our operations on the environment by improving our operational efficiency through energy conservation and environmental protection systems. Our persistence in environmental protection measures has in fact become a valuable asset that fosters competitive advantage for the Group.

ENVIRONMENTALLY-FRIENDLY PRODUCTION PROCESS

The Group's production lines are imported from international leading manufacturers with energy conservation features. We carry out clean production in our production lines, reducing per product unit water and electricity consumption and exercising control over the sources of pollutants. Since recent years, we have been increasing the use of energy-saving equipment in new projects. The principle of energy conservation and reduced consumption has been observed throughout the production process from the design and model selection of paper machines to the choice of lighting facilities for the production workshop.

Currently, the water produced during the operation of the paper machines can be fully recycled. The Group has formulated medium to long term objectives in reducing water consumption and increasing water recycling in production, in order to further reduce excessive consumption of resources.

WASTEWATER TREATMENT

Clean water is an important natural resource and an essential element in paper production. To minimise pollution to water resources in its production process, the Group has introduced the anaerobic aerobic two-stage biological treatment, currently the world's most advanced wastewater treatment technology, and the systems have sustained continuous operation with high efficiency throughout the years, resulting in water discharge performance that exceeds relevant national and local standards.

We have also adopted the state-of-the-art automatic programmable logic controller (PLC) systems with an online monitoring system to monitor our wastewater discharge for centralised management. The wastewater treatment rates of such systems are 100%. Moreover, at each of the wastewater treatment facilities of our new projects, we newly installed an additional precipitation tank which will further reduce the concentration of water pollutants through the addition of water purification agents. Meanwhile, we have gained valuable experience in wastewater treatment through technological exchanges with internationally advanced companies engaged in wastewater treatment.

The level of discharged pollutants is measured based on the water quality parameter after treatment. The COD of our discharged water after treatment is less than 80 mg/l, which is better than the grade one national discharge standard of 100 mg/l.

EMISSION CONTROL

The Group has a circulation fluidized bed solid waste incinerator which can effectively incinerate a wide range of low-grade fuels, including waste paper pulp, light slag and sewage from the wastewater treatment station. The system is effective and environmentally friendly with its low emission. The use of low-grade fuels not only greatly reduces waste discharge but also reduces coal consumption and the emission of carbon dioxide.

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

In 2008, the Group conducted a technology upgrade exercise for its methane collection and treatment system featuring the addition of a methane desulphurisation unit. With this unit, processed methane will be transmitted to the heat and electricity boiler system as fuel for power generation and a reduction of 30,000 tons each year in coal consumption will be achieved after commissioning. The optimised use of methane (including methane gases) as resources will contribute to reducing the greenhouse effect.

In addition, the Group, being the first among its peer, introduced a fully-automatic and fully enclosed coal storage dome in the Dongguan production base. The environmental-friendly design can reduce the amount of dust produced during loading, transporting and storing of coal, improving the working environment for the staff.

SOLID WASTES DISPOSAL

The solid wastes of the production process of the Company are mainly residual paper pulp, light slag and sewage. The Group has achieved the goal of processing all wastes from paper making on an internal basis with its proprietary environmentally-friendly incinerator and avoided creating further burden for public waste treatment facilities. The incinerators apply advanced emission treatment equipment, fabric-bag filters for dust removal and half-dry desulphurisation facilities. Monitoring devices are installed for real-time monitoring.

To enhance our overall utilisation rate of solid waste, we also incinerate all solid waste to increase steam production and thereby reduce coal consumption.

NOISE CONTROL

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

AWARDS/CERTIFICATIONS

Solid and fluid wastes (including waste water and sewage) as well as polluted gas are being generated from our production process. To comply with relevant laws and regulations, the Group has obtained relevant permits for the discharge of wastewater and polluted gas and the disposal of solid waste.

In recent years, the government has adopted a tightened environmental protection policy underpinned by much more stringent environmental requirements for enterprises. To tighten the monitoring of enterprises , the Environmental Protection Bureau has conducted unwarned inspections in addition to regular visits to ensure that paper manufacturers are in compliance with relevant requirements. The Group has never been charged for material violation of any environmental laws or regulations, or subject to any fine in respect thereof.

In addition to ISO 14001 certification for environmental management, our Dongguan and Taicang production bases were granted with the honour of Green/Environmental Creditable Enterprises by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau, respectively. Besides, the Group was also one of the few paper manufacturing enterprises in the industry which could pass the energy saving assessment held by the Economic and Trade Commission of Guangdong Province and attained its energy saving goal successfully.

		PRC Government approved	ND Paper	Parameter before treatment			Average parameter after treatment		
	Unit	level	standards	2006	2007	2008	2006	2007	2008
COD_{CR}	mg/l	≤100	80	2,500	2,500	3,000	<100	80	80
BOD_5	mg/l	≤20	20	1,000	1,000	1,300	<20	10	10
SS	mg/l	≤70	30	2,000	2,000	2,800	<70	28	28
PH		6–9	6–9	6–9	6–9	6–9	6–9	6-9	6–9
SO_2	mg/m^3	≤400	100	2,360	2,520	2,800	<55	60	80
Dust	mg/m^3	≤50	50	24,600	25,400	25,400	<29	30	30
NO_x	mg/m^3	≤450	450	–	–	–	<356	339	333

A "PEOPLE-ORIENTED" HUMAN RESOURCE MANAGEMENT

ND Paper is committed to the "people-oriented" management philosophy underpinned by the "Growth → Development → Mutual Reward" human resource development strategy, linking corporate development closely with the staff's personal and career development. In addition to providing career development opportunities, the Group has also worked vigorously to promote lifelong learning among staff to enhance individual's capabilities as well as the overall competitiveness of our team. We sought to enhance staff satisfaction with and loyalty to the Group through ongoing improvements to employees' work environment and living conditions, the practice of "people-oriented" personnel management and more extensive communications with staff. The Group has successfully build an internationalized business management team that has drawn together industry experts with proven experience in paper-making technologies, through internal promotion complemented by relevant external recruits

TRAINING AND DEVELOPMENT FOR STAFF

The Group provides ongoing development opportunities and formulates career development plans for staff with potentials as well as implementing a sound promotion path and performance appraisal system. MBA and EMBA courses for senior management have been launched in association with the renowned Zhongshan University, while outstanding technical staff have been chosen and sent abroad to receive advanced technical training. We also have in place a comprehensive continuing education programs for both management and technical staff. These programs are tailor-made for staff with varying professional qualifications, job duties and experiences, providing them with strong support and assistance for staff's career path development.

ND Paper has an effective mentorship system for newly joined staff in addition to the induction program which covers the corporate culture, job-specific skills and operational safety rules.

CARING OUR STAFF

The Group sought to enhance staff's satisfaction and loyalty to ND Paper through continual improvement to the working environment and living conditions, implementing a "people-oriented" personnel management and providing more interactive communications channels.

The Group is committed to providing a pleasant living and working environment for its staff. With continuous effort in improving the staff residences, ND Paper has also introduced numerous welfare facilities and organized a variety of cultural and recreational activities so as to provide its staff with some refreshing and relaxing moments after work. The Group also organizes regular occupational body checks for staff to ensure their physical health.

ND Paper attaches great importance to staff communications and interaction. Various channels have been set up for this purpose. For instance, regular meetings with new staff, setting up the staff hotline and publication of our corporate newsletter "The Nine Dragon Community" (《玖龍員工》) which disseminates corporate information regularly, have proved to be effective channels to interact with staff . In addition, staff communication sessions are being conducted by the staff union on a regular basis to allow staff to voice their opinions and allow the Group to devise effective solutions and improvements, maintaining harmonious relations with its staff.

REMUNERATION AND BENEFITS

The Group offers competitive remuneration packages and performance-based discretionary bonuses, which are determined by performances at the corporate, team and individual levels, as well as the job duties of individual employees. The Group conducts regular review and revision on staff remuneration in accordance with its remuneration policy to maintain ND Paper's competitiveness in the recruitment market.

SOCIAL RESPONSIBILITY

Social responsibility is the top priority for the Group. The Group donated RMB15 million this year to charity organizations and local communities on a continuous basis. Immediately following the "5.12" earthquake in Wenchuan, Sichuan Province, the Group donated RMB10 million while RMB610,000 were raised among its staff for the post-earthquake relief. ND Paper's kind-hearted staff participated in the charity walkathon ("四川挺住 • 中國加油") to show their full support to Sichuan and China.

DIRECTORS AND SENIOR MANAGEMENT

PROFILE OF DIRECTORS

Ms. Cheung Yan, 51, has been the Chairlady of the Company since 6 February 2006. She is a founder of the Group and is in charge of the Group's overall corporate development and strategic planning. Ms. Cheung has nearly 8 years of experience in industrial accounting, over 12 years of experience in paper manufacturing and over 22 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference, vice chairman of the Women's Federation of Commerce of the All-China Federation of Industry and Commerce, and executive vice president of the Guangdong Overseas Chinese Enterprises Association. Ms. Cheung is also an honorary citizen of the City of Dongguan, Guangdong Province, China. Ms. Cheung was awarded the esteemed title of "Worldwide Chinese Ambassador of Love"（「世界華人愛心大使」） in September 2006. Ms. Cheung is the wife of Mr. Liu, the sister of Mr. Zhang and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 46, has been the Deputy Chairman and Chief Executive Officer of the Company since 6 February 2006. He is a founder of the Group and is responsible for the overall corporate management and planning, the development of new manufacturing technologies, the procurement of production equipment as well as human resources management of the Group. Mr. Liu also assists the Chairman in government relations. Mr. Liu has over 17 years of experience in international trade and over 9 years of experience in corporate management. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. Mr. Liu graduated with a bachelor's degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is the husband of Ms. Cheung, the brother-in-law of Mr. Zhang and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 40, has been the Executive Director and Deputy Chief Executive Officer of the Company since 6 February 2006. He is a founder and is responsible for the overall management of the operations and business of the Group including marketing and distribution, finance, procurement, sales and IT departments. Mr. Zhang has over 14 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. Zhang Yuanfu, 45, has been an Executive Director of the Company since 8 October 2008. He also serves as the Group's Chief Financial Officer and the Qualified Accountant in charge of financial matters and investor relations. Prior to joining the Group, Mr. Zhang served as the chief financial officer, qualified accountant and company secretary of Weichai Power Co., Ltd. for more than 5 years and also worked in a number of Hong Kong listed companies in charge of accounting and financial management. He has more than 22 years of experience in auditing, accounting and corporate finance. Mr. Zhang holds a bachelor degree in Economics. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Gao Jing, 45, has been an Executive Director of the Company since 6 July 2006. She joined the Group in June 1996 and has 12 years of experience in cost auditing of raw materials and the purchasing of recovered paper. She served as the Group's Financial Manager and was promoted as the Head of the Group's Import Purchasing Department in July 2006. Ms. Gao graduated from Liaoning Broadcasting Television University with a diploma in Electrical Engineering. The spouse of Ms. Gao, Mr. Huang Tie Min, is a senior management of the Group who serves as the deputy general manager of the Group in charge of engineering.

Mr. Lau Chun Shun, 27, has been a Non-executive Director of the Company since 6 February, 2006. Mr. Lau graduated at the University of California, Davis, with a bachelor's degree in Economics and is currently pursuing a master degree in Industrial Engineering at the Columbia University. Mr. Lau worked for the Group as a management trainee in the production department of the Group during each of the summers from 2002 to 2004. During his traineeship, Mr. Lau assisted the management team in its supervision of the daily operation of the Group and has gained an understanding of the Group's overall businesses and operations. Mr. Lau is the son of Ms. Cheung Yan and Mr. Liu Ming Chung and the nephew of Mr. Zhang Cheng Fei.

Ms. Tam Wai Chu, Maria, *GBS, JP*, 62, has been an Independent Non-executive Director of the Company since 6 February 2006. She serves as an Independent Non-executive Director of Guangnan (Holdings) Limited, Minmetals Land Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Titan Petrochemicals Group Limited, Tong Ren Tang Technologies, Co., Ltd. and Wing On Company International Limited. Ms. Tam is a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, a member of the Hong Kong Basic Law Committee under the Standing Committee of the National People's Congress, and a member of the Task Group on Constitutional Development of the Commission of Strategic Development. She is qualified as a barrister-at-law at Gray's Inn, London and has practice experience in Hong Kong.

Mr. Chung Shui Ming, Timpson, *GBS, JP*, 56, has been an Independent Non-Executive Director of the Company since 6 February 2006. Mr. Chung is an Independent Non-executive Director and Chairman of the audit committee of China Netcom Group Corporation (Hong Kong) Limited, Tai Shing International (Holdings) Limited and Miramar Hotel and Investment Company, Ltd. and an Independent Non-Executive Director of Glorious Sun Enterprises Limited.

In addition, Mr. Chung is a member of the National Committee of the 11th Chinese People's Political Consultative Conference, Chairman of the Council of the City University of Hong Kong and Chairman of the Fund Management Sub-Committee of the Hong Kong Housing Authority. Mr. Chung was previously an Executive Director, Deputy Chairman and Managing Director of Hantec Investment Holdings Limited, an Executive Director and Chief Executive Officer 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 a 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.

Dr. Cheng Chi Pang, 51, has been an Independent Non-executive Director of the Company since 6 February 2006. He holds a bachelor degree in Business, a master 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 27 years of experience in auditing, business advisory and financial management.

Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. 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 Chairman of L & E Consultants Limited, a Non-executive Director of Wai Kee Holdings Limited and Build King Holdings Limited and an Independent Non-Executive Director and Chairman of the audit committee of China Ting Group (Holdings) Limited, Tianjin Port Development Holdings Limited and Fortune Sun (China) Holdings Limited.

Mr. Wang Hong Bo, 54, has been an Independent Non-executive Director of the Company since 6 February 2006. Mr. Wang has extensive experience and expertise in the paper industry in China and was appointed as the Deputy Head of Yantai Packaging Decoration Factory in 1990.

PROFILE OF SENIOR MANAGEMENT

Mr. Nan Yue Jun, 48 , has served as the President of Dongguan Nine Dragons Paper Industries Co., Ltd. ("Dongguan Nine Dragons") since August 2008. Mr. Nan has more than 20 years of operation and management experience in various industries. Prior to joining the Group, he had played divers senior management roles in Foxconn China (Hon Hai Precision Co., Ltd. Taiwan), Lucent Technologies China, Lucent Asia Pacific, and AT&T Taiwan Inc. with excellent records. His experience covers the areas of Sales & Marketing, Manufacturing Operations, Services, Supply Chain Management and Mega Project Management. Mr. Nan holds multiple diploma and certificates including Stanford University EMBA and Tulane University MBA from the USA, Master of Industrial Engineering of National Tsing Hua University and Graduate School program of Management of Technologies of National Chiao Tong University from Taiwan. As the member of alumni associations and previous collaborative programs, Mr. Nan has great connections to the Stanford University, Tulane University and Shanghai Jiao Tong University.

Mr. Jehng Naii-jia, Stephen, 48, joined as President of Nine Dragons Paper Industries (Taicang) Co., Ltd. ("Taicang Nine Dragons") in charge of operations and management since July, 2008. He has more than 20 years of progressive hands-on global experience in numerous aspects from Manufacturing Management, Project Management, Supply Chain Management and Operations Management in USA to General Management in China. Prior to joining the company, Mr. Jehng served as a General Manager in TPO Displays (Nanjing) Ltd, Senior Director of Operations in Phillips Electronics, General Manager in Flash Electronics, INC. (China) and Operations Director in Solectron Corporation, USA. Mr. Jehng earned his master degree in Engineering Management from University of Southwestern Louisiana, USA. He received his bachelor degree in Industrial Engineering from TungHai University in Taiwan.

Mr. Zhang Du Ling, 38, joined Dongguan Nine Dragons since July 1998 as the General Manager. He has served as the Managing Deputy General Manager in charge of sales and marketing since September 2007. Prior to joining the Group, he was the Sales Manager of Dongguan Chung Nam Paper Manufacturing Co., Ltd. Mr. Zhang has approximately 12 years of sales and marketing experience in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Ng Kwok Fan, Benjamin, 52, has served as the Group's Deputy General Manager and Assistant to Chairman in charge of corporate administration and investor relations since February 2006. Before joining the Group, he worked in several international marketing communications groups and public companies listed in Hong Kong and overseas. Mr. Ng has extensive experience in advertising, marketing and corporate finance. He graduated from the University of Hong Kong and is a member of the Certified General Accountants Association of Canada.

Mr. Chu Xin Qi, 50, 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 27 years of related working experience. Mr. Chu is a senior economist and he graduated from Shandong College of Economics with a bachelor's diploma in Finance.

Mr. Hung Tie Min, 45, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering since January 1999. Mr. Huang has approximately 23 years of construction projects and management experience in the paper manufacturing industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor degree in Science. He is the spouse of Ms. Gao Jing, an Executive Director of the Company.

Mr. Zhong Hong Xiang, 40, 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 17 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining the Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated from Fujian College of Forestry with a diploma in Stock Preparation and Paper Manufacturing Technology.

Mr. Cheng Jun, 46, has served as the Deputy General Manager of Taicang Nine Dragons since April 2004 in charge of sales and marketing. Mr. Cheng joined the Group since 1998 and was seconded to Taicang Nine Dragons in 2002. Mr. Cheng has over 22 years' experience in production technology, sales and marketing and distribution and transportation in the paper manufacturing industry. Prior to joining the Group, he served as a Deputy Head of a paper manufacturing factory in Zhangyi District, Gansu province. He graduated from Northwest Light Industry College with a diploma in Engineering.

Mr. Zhou Guo Wei, 40, has served as the Deputy General Manager of Nine Dragons Paper Industries (Tianjin) Co. Ltd. since November 2007. Prior to this position, he served as the Chief Engineer of Dongguan Nine Dragons in charge of research and production of the Group's kraftlinerboard production lines from December 2002 to October 2007. He joined the Group in December 2002 from Shandong First Paper Yantai Paper Co., Ltd., where he served as the DCS engineer for 4 years. Mr. Zhou has approximately 15 years of stock preparation and paper manufacturing experience in China. He graduated the Tianjin Institute of Light Industry with a bachelor degree in Stock Preparation and Paper Manufacturing.

Mr. Xia Ying Hua, 47, has served as the Deputy General Manager of Taicang Nine Dragons in charge of administration, infrastructure development, liaison with relevant government authorities regarding project application and approval since 2003. Prior to joining the Group, Mr. Xia has served as a government official and therefore has the experience in liaising with government authorities. He graduated from Zhengzhou Industry College with a bachelor's degree in Engineering. He is a senior engineer.

Mr. Wang Le Xiang, 41, has served as Deputy General Manager of Dongguan Sea Dragon Paper Industries Company Limited since July 2006 and became the General Manager of Nine Dragons Paper Industries (Chongqing) Co., Ltd. ("Chongqing Nine Dragons") in charge of supervision and management in March 2007. Mr. Wang has over 16 years' experience in production, technology and management in the paper manufacturing industry. He graduated in 1991 from Tianjin Institute of Light Industry with a bachelor degree in Stock Preparation and Paper Manufacturing Technology.

Mr. Guan Deng Yuan, 49, has served as Deputy General Manager of Chongqing Nine Dragons in charge of general administration works. Mr. Guan has joined the Group since 1997 and was seconded to Chongqing in September 2006. Prior to joining the Group, he has worked in the Government for the Economic Management Department and therefore has the experience in liaison and communication with relevant government authorities. He graduated in 1992 from School of Central Community Economic Administration.

Mr. Zhou Chuan Hong, 47, has joined the Group since July 2002. He served as the Deputy General Manager of Dongguan Nine Dragons from January 2007 to August 2007 and has served as the General Manager of Nine Dragons Paper Industries (Tianjin) Co. Ltd in charge of supervision and management since September 2007. Mr. Zhou has over 20 years in equipment installment, project management and business management in the paper manufacturing industry. Prior to joining the Group, he worked in Shandong Huazhong Paper Co., Ltd. He graduated from South China Institute of Technology (currently South China University of Technology), is a engineer.

Mr. Zhang Chuang, 41, has served as Chief Information Officer of ND Group in charge of corporate information system since September 2008. Before joining ND Group, Mr. Zhang worked at Lenovo Group as an IT director responsible for global application system operation, and occupied as an IT manager at General Motor and Dupont respectively. Graduated from Tsinghua University, Mr. Zhang has 15 years IT management experience in manufacturing industry. He holds electronic engineering bachelor degree and computer science master degree and MBA of Queens' University, Canada.

DIRECTORS' REPORT

The Directors are pleased to present the audited consolidated financial statements of ND Holdings for the FY2008.

PRINCIPAL BUSINESSES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the FY2008 are set out in the accompanying financial statements on page 71.

An interim dividend of RMB1.68 cents (equivalent to approximately HK1.87 cents) (2007: RMB1.60 cents) per share was paid to Shareholders on 21 May 2008.

The Directors recommend the payment of a final dividend of RMB3.50 cents (equivalent to approximately HK3.98 cents) per share for the FY2008, which is expected to be payable on Monday, 15 December 2008 subject to the approval of the 2008 AGM. The dividend will be payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 November 2008. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 = RMB0.88 as at 10 October 2008 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on pages 32 to 34.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2008 are set out in note 9 to the financial statements.

FIXED ASSETS

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

BORROWINGS

Details of the borrowings of the Group are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 15 to the financial statements.

RESERVES

Details of the change in reserves of the Group and the Company during the year are set out in note 16 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the FY2008, the five largest customers of the Group accounted for 8.2% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group accounted for 55.4% of its aggregate purchases.

DIRECTORS

The Directors who held office during FY2008 were:

Executive Directors

Ms. Cheung
Mr. Liu
Mr. Zhang
Ms. Gao Jing

Non-Executive Directors

Mr. Lau Chun Shun

Independent non-executive Directors

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2008, the Directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

The Company

(A) Interests in the Company

		Number of Shares held			Number of underlying Shares (in respect of share options) held			
Name of Directors	Long Position/ Short Position	Personal Interests	Family Interests	Corporate Interests (Note 1)	Personal Interests	Family Interests	Total	Approximate percentage of shareholdings
Ms. Cheung	Long Position	22,883,663	13,562,836	2,990,520,000	46,738,652	46,731,348	3,120,436,499	72.05%
Mr. Liu	Long Position	13,562,836	22,883,663	2,990,520,000	46,731,348	46,738,652	3,120,436,499	72.05%
Mr. Zhang	Long Position	13,025,928	–	–	40,288,893	–	53,314,821	1.23%
Ms. Gao Jing	Long Position	200,000	467,000	–	300,000	1,200,000	2,167,000	0.05%
Ms. Tam Wai Chu, Maria	Long Position	516,668	–	–	700,002	–	1,216,670	0.03%
Mr. Chung Shui Ming, Timpson	Long Position	403,668	–	–	700,002	–	1,103,670	0.03%
Dr. Cheng Chi Pang	Long Position	318,668	–	–	700,002	–	1,018,670	0.02%

Note:

(1) Best Result directly held 2,990,520,000 shares in the Company. The issued share capital of Best Result is held as to approximately 29.706% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 7.367% by Ms. Cheung and as to approximately 37.053% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

(2) Details of the share options granted under the Pre-Listing Share Options Scheme and 2006 Share Option Scheme are set out on pages 40 to 44 in the section of Remuneration Committee.

(B) Interests in Associated Corporation — Best Result

Name of directors	Long Position/ Short Position	Capacity	No. of issued shares held in Best Result Holdings Limited	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficiary of a trust	29,706	29.706%
		Beneficiary Owner	7,367	7.367%
Mr. Liu	Long Position	Beneficiary of a trust	37,053	37.053%
Mr. Zhang	Long Position	Beneficiary of a trust	25,874	25.874%

Save as disclosed above, none of the Directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the shares, underlying Shares or debentures of the Company or any associated corporation as at 30 June 2008, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2008, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executives of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in the Shares or underlying Shares of the Company:

Name of Shareholder	Long Position/ Short Position	Capacity	Number of Shares held (Note 1)	Approximate percentage of total issued Shares
Best Result (Note)	Long Position	Beneficial Owner	2,990,520,000	69.05%
HSBC Bank USA, National Association	Long Position	Trustee of YC 2006 QuickGRAT	2,990,520,000	69.05%
Bank of the West (Note)	Long Position	Trustee of MCL Living Trust	2,990,520,000	69.05%

Note:

Best Result directly held 2,990,520,000 Shares in the Company. The issued share capital of Best Result is held as to approximately 29.706% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 7.367% by Ms. Cheung and as to approximately 37.053% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust.

Save as disclosed above, as at 30 June 2008, as far as the Company is aware of, there was no other person (other than the above-mentioned Directors and the chief executive of the Company) who had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

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

DONATIONS

During the year, the Group donated a total of RMB15 million for charitable purposes.

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

During the FY2008, the Company repurchased its Shares on the Stock Exchange for purpose of enhancing its earnings per Share as follows:

Month/year	Number of shares repurchased	Price per Share Highest (HK$)	Price per Share Lowest (HK$)	Aggregate consideration paid (HK$)
March 2008	1,000,000	7.19	7.06	7,126,000.00

The repurchased Shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's Shares during FY2008.

CORPORATE GOVERNANCE

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

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

(a) "Corporate Governance" on page 35, in which the details of the Company's corporate governance compliance are set out;

(b) "Remuneration Committee" on page 40, in which the scope of duties and activities of the Remuneration Committee during the year are set out;

(c) "Audit Committee" on page 45 in which the scope of duties and activities of the Audit Committee during the year are set out;

(d) "Internal Control and Risk Management" on page 47, in which the structure and policy of the Company in respect of internal control and risk management are set out;

(e) "Connected Transactions" on page 49, in which the details of the connected transactions of the Group are set out; and

(f) "Corporate Social Responsibility" on page 53, in which the details of the Company's environmental protection policy and contributions to society are set out.

RELATED PARTY TRANSACTIONS

Details of related party transactions conducted during the ordinary course of business, which cover all transactions with related parties which constitute connected transactions as defined under the Listing Rules, are set out in note 32 to the consolidated financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

PUBLIC FLOAT

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

AUDITORS

The Group's financial statements for the FY2008 were audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Cheung Yan
Chairman

Hong Kong, 10 October 2008

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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

We have audited the consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 71 to 132, which comprise the consolidated and company balance sheets as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 October 2008

BALANCE SHEETS

	Note	Consolidated		Company	
		30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	23,536,557	13,802,727	2,638	—
Land use rights	7	1,185,424	949,259	—	—
Intangible assets	8	238,284	146,694	—	—
Derivative financial instruments	12	25,923	—	25,923	—
Investments in subsidiaries	9	—	—	2,414,156	2,386,700
		24,986,188	14,898,680	2,442,717	2,386,700
Current assets					
Inventories	10	2,818,476	1,502,509	—	—
Trade and other receivables	11	2,852,233	2,188,107	8,735,675	6,537,694
Derivative financial instruments	12	—	24,900	—	—
Restricted cash	13	393,175	—	—	—
Bank and cash balances	14	1,562,873	1,748,224	44,410	261,023
		7,626,757	5,463,740	8,780,085	6,798,717
Total assets		32,612,945	20,362,420	11,222,802	9,185,417
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	6,526,986	6,179,161	6,526,986	6,179,161
Other reserves	16	1,233,201	1,056,189	2,234,946	2,182,254
Retained earnings					
— Proposed final dividend	28	151,580	429,065	151,580	429,065
— Unappropriated retained earnings		5,359,735	3,848,519	255,864	394,903
		13,271,502	11,512,934	9,169,376	9,185,383
Minority interests		273,648	123,084	—	—
Total equity		13,545,150	11,636,018	9,169,376	9,185,383

BALANCE SHEETS

		Consolidated		Company	
	Note	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
LIABILITIES					
Non-current liabilities					
Deferred government grants	17(b)	17,039	17,215	—	—
Borrowings	18	12,389,923	4,088,927	2,023,226	—
Deferred income tax liabilities	19	452,421	281,746	—	—
		12,859,383	4,387,888	2,023,226	—
Current liabilities					
Derivative financial instruments	12	1,730	7,417	—	—
Trade and other payables	17	3,838,793	1,766,599	30,200	34
Current income tax liabilities		72,374	21,416	—	—
Borrowings	18	2,295,515	2,543,082	—	—
		6,208,412	4,338,514	30,200	34
Total liabilities		19,067,795	8,726,402	2,053,426	34
Total equity and liabilities		32,612,945	20,362,420	11,222,802	9,185,417
Net current assets		1,418,345	1,125,226	8,749,885	6,798,683
Total assets less current liabilities		26,404,533	16,023,906	11,192,602	9,185,383

Ms. Cheung Yan
Chairman

Mr. Liu Ming Chung
Deputy Chairman and Chief Executive Officer

The notes on pages 76 to 132 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 30 June 2008 RMB'000	2007 RMB'000
Sales	20	14,113,586	9,837,664
Cost of goods sold	22	(11,241,250)	(7,308,753)
Gross profit		2,872,336	2,528,911
Other gains — net	21	228,780	311,216
Selling and marketing costs	22	(335,482)	(195,429)
Administrative expenses	22	(499,778)	(351,274)
Operating profit		2,265,856	2,293,424
Finance costs	24	(101,884)	(131,441)
Profit before income tax		2,163,972	2,161,983
Income tax expense	25	(263,145)	(101,645)
Profit for the year		1,900,827	2,060,338
Profit attributable to:			
Equity holders of the Company		1,876,850	2,003,408
Minority interests		23,977	56,930
		1,900,827	2,060,338
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in RMB per share)*			
— basic	27	0.4354	0.4794
— diluted	27	0.4249	0.4703
Dividends	28	223,720	494,650

The notes on pages 76 to 132 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital RMB'000 (Note 15)	Other reserves RMB'000 (Note 16)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 July 2006	4,141,291	902,006	2,498,107	7,541,404	94,913	7,636,317
Profit for the year	–	–	2,003,408	2,003,408	56,930	2,060,338
Dividend paid to a minority shareholder	–	–	–	–	(31,470)	(31,470)
2006 final and 2007 interim dividends paid to equity holders of the Company	–	–	(161,035)	(161,035)	–	(161,035)
Appropriation to other reserves	–	62,896	(62,896)	–	–	–
Partial disposal of equity interests in certain subsidiaries to minority shareholders	–	–	–	–	2,711	2,711
Placement of shares for cash	2,011,048	–	–	2,011,048	–	2,011,048
Placing expenses	(32,358)	–	–	(32,358)	–	(32,358)
Share options granted to directors and employees	–	102,393	–	102,393	–	102,393
Exercise of share options	59,180	(11,636)	–	47,544	–	47,544
Currency translation differences	–	530	–	530	–	530
Balance at 30 June 2007	6,179,161	1,056,189	4,277,584	11,512,934	123,084	11,636,018
Balance at 1 July 2007	6,179,161	1,056,189	4,277,584	11,512,934	123,084	11,636,018
Profit for the year	–	–	1,876,850	1,876,850	23,977	1,900,827
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	71,021	71,021
2007 final and 2008 interim dividends paid to equity holders of the Company	–	–	(501,543)	(501,543)	–	(501,543)
Appropriation to other reserves	–	141,576	(141,576)	–	–	–
Acquisition of subsidiaries	–	–	–	–	57,336	57,336
Partial disposal of equity interests in certain subsidiaries to minority shareholders	–	–	–	–	1,879	1,879
Share options granted to directors and employees	–	98,974	–	98,974	–	98,974
Repurchase of shares of the Company	(6,507)	–	–	(6,507)	–	(6,507)
Exercise of share options	354,332	(78,583)	–	275,749	–	275,749
Currency translation differences	–	(17,256)	–	(17,256)	(3,649)	(20,905)
Cash flow hedge reserve	–	32,301	–	32,301	–	32,301
Balance at 30 June 2008	6,526,986	1,233,201	5,511,315	13,271,502	273,648	13,545,150

The notes on pages 76 to 132 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

		For the year ended 30 June	
		2008	2007
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	29	2,061,312	1,120,580
Income tax paid		(106,328)	(92,731)
Interest paid		(559,198)	(271,758)
Net cash generated from operating activities		1,395,786	756,091
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,428,598)	(5,345,017)
Proceeds from disposals of property, plant and equipment	29	2,044	987
Payment for acquisition of land use rights		(173,839)	(234,867)
Proceeds from disposals of land use rights	29	4,179	26,981
Acquisition of subsidiaries, net of cash acquired	31(a&b)	(223,917)	669
Cash advances made to a related party		—	(21)
Cash receipts from repayments of cash advances to directors		—	2,191
Interest received		10,647	25,099
Cash receipts from repayments of cash advances to a related party		76	—
Net cash used in investing activities		(9,809,408)	(5,523,978)
Cash flows from financing activities			
Proceeds from placement of shares		—	2,011,048
Placing expenses		—	(32,358)
Repurchase of shares of the Company		(6,507)	—
Exercise of share options		275,749	47,544
Proceeds from borrowings		15,893,788	8,783,028
Repayments of borrowings		(7,580,185)	(6,987,644)
Government grants received	6	117,918	103,902
Dividend paid to a minority shareholder		—	(37,520)
Dividend paid to equity holders of the Company		(501,543)	(161,035)
Proceeds from capital contribution from minority shareholders of subsidiaries		71,021	—
Net cash generated from financing activities		8,270,241	3,726,965
Net decrease in bank and cash balances		(143,381)	(1,040,922)
Bank and cash balances at beginning of the year		1,748,224	2,816,660
Exchange losses on bank and cash balances		(41,970)	(27,514)
Bank and cash balances at end of the year	14	1,562,873	1,748,224

The notes on pages 76 to 132 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

These financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 10 October 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) Standard and interpretations effective during the year ended 30 June 2008

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements — Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC)-Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standard and interpretations effective during the year ended 30 June 2008 (continued)

HK(IFRIC)-Int 11, 'HKFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. The interpretation has been applied retrospectively. The adoption of this interpretation does not have material impact on the Company's and Group's financial statements.

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

HKAS 1 (Revised), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 July 2009.

HKAS 23 (Revised), 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group's financial statements.

HKAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group (continued)

HKFRS 2 (Amendment) 'Share-based Payment Vesting Conditions and Cancellations' (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 July 2009, but it is not expected to have any material impact on the Group's financial statements.

HKFRS 3 (Revised) 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 July 2009, but it is not expected to have any material impact on the Group's financial statements.

HKFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 July 2009. The expected impact is still being assessed in detail by management.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(c) Amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations

HKAS 32 (Amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments are not relevant to the Group's operations because none of the Group's companies have puttable instruments.

HK(IFRIC) — Int 12, 'Service concession arrangements' (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

HK(IFRIC) — Int 13, 'Customer loyalty programmes' (effective for annual periods beginning on or after 1 July 2008). HK(IFRIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) — Int 14 is not relevant to the Group's operations because none of the Group's companies have defined benefit asset.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2008.

(a) Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

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

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

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

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

The assets' residual values are ranged from 3% to 5%. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statements.

2.6 Construction in progress

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

2.7 Land use rights

Land use rights in the balance sheet represent up-front prepayment made for operating leases for land use rights paid and payable to the counterparties. Land use rights are carried at cost and are charged to the income statement on a straight-line basis over the respective periods of the leases which range from 30 years to 50 years.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

(a) Goodwill

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

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

(b) Other intangible assets acquired in a business combination other than goodwill

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with definite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with definite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Impairment testing of intangible assets is described in Note 2.9.

2.9 Impairment of investments in subsidiaries and non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements on the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains — net.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of cross currency swaps hedging foreign currency denominated borrowings is recognised in the income statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the income statement within other gains — net.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Derivative financial instruments and hedging activities (continued)

(a) Cash flow hedge (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within other gains — net.

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement within other gains — net.

2.12 Inventories

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

2.13 Cash

Cash includes cash in hand and deposits held at call with banks.

2.14 Share capital

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.15 Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings

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

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

2.17 Borrowing costs

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

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits

(a) Pension obligations

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

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

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

(b) Employee leave entitlements

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

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

(c) Share-based compensation

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(d) Termination benefits

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

2.20 Provisions

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

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

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

2.21 Revenue recognition

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

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

(a) Sales of goods, scrap materials and coals

Sales of goods, scrap materials and coals are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition (continued)

(c) Interest income

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

(d) Sales of electricity

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

2.22 Leases (as the lessee for operating leases)

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

2.23 Government grants

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

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

2.24 Dividend distribution

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

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Foreign exchange risk

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

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

To mitigate the impact of currency exchange rate fluctuations, the Group continually assesses the exposure to currency risk, and a portion of the risk is hedged by using derivative financial instruments. During the year ended 30 June 2008, the Group used cross currency swaps to hedge the exposure to foreign currency risk on certain foreign currency borrowings.

At 30 June 2008, if RMB had weakened/strengthened by 10% against foreign currency with all other variables held at constant, net profit for the year would be as follows:

	Weakened by 10%	Strengthened by 10%	Weakened by 10%	Strengthened by 10%
	Increase/(decrease) in net profit for the year ended 30 June			
	2008 RMB'000	2008 RMB'000	2007 RMB'000	2007 RMB'000
Denominated in US$				
Bank and cash balances	5,742	(5,742)	2,350	(2,350)
Trade and other receivables	1,606	(1,606)	4,518	(4,518)
Trade and other payables	(21,979)	21,979	(11,453)	11,453
Borrowings	(32,116)	32,116	(33,371)	33,371
Denominated in HK$				
Bank and cash balances	36,777	(36,777)	124,707	(124,707)
Trade and other receivables	51,092	(51,092)	33,429	(33,429)
Trade and other payables	(1,924)	1,924	(1,057)	1,057
Borrowings	(101,472)	101,472	(73,564)	73,564
	(62,274)	62,274	45,559	(45,559)

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Interest rate risk

The Group has significant interest-bearing assets, mainly represent cash at bank and bank deposits, and are exposed to changes in market interest rates. It is the Group's policy to maintain surplus cash with an appropriate amount of short-term deposits.

The Group's long-term borrowings expose to interest rate risk. 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. As at 30 June 2008, RMB6,605,592,000 (2007: RMB1,228,259,000) of the Group's borrowings were at fixed rates. The Group has entered into cross currency interest rate swap contracts to hedge its interest rate risk.

At 30 June 2008, if interest rates on borrowings had been 25 basis points higher/lower with all other variables held constant, net profit for the year would have been RMB8,212,000 (2007: RMB8,618,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

Credit risk arises from cash at bank, derivative financial instruments and trade and other receivables, except for prepayment.

The Group has no significant concentration of credit risk. Management do not expect any losses from non-performance by the banks and financial institutions, as they are with good reputation. Credit risk related to trade receivables is the risk that the receivables cannot be collected on the due date. The Group has policies in place to ensure that sales of goods are made to customers with a good credit quality based on assessment of ageing of trade receivables, repayment history, the customers' financial position and other factors. No single customer accounted for more than 5% of the Group's total revenue during the year (2007: None).

Transactions involving cross currency swap contracts that hedge foreign currency risk are with counter parties that have no significant credit risk. Management does not expect any counterparty to fail to meet its obligations.

(d) Liquidity risk

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

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility (Note 18) and bank and cash balances (Note 14) on the basis of expected cash flow.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 30 June 2008				
Borrowings	3,146,239	5,501,853	7,491,773	1,012,549
Derivative financial instruments	1,730	—	—	—
Trade and other payables	3,838,793	—	17,039	—
At 30 June 2007				
Borrowings	2,829,790	1,221,855	3,232,726	4,147
Derivative financial instruments	7,417	—	—	—
Trade and other payables	1,766,599	—	17,215	—
Company				
At 30 June 2008				
Trade and other payables	30,200	—	—	—
At 30 June 2007				
Trade and other payables	34	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level.

	30 June 2008 RMB'000	30 June 2007 RMB'000
Total borrowings	14,685,438	6,632,009
Total assets	32,612,945	20,362,420
Gearing ratio	45%	33%

The increase in the gearing ratio during the year ended 30 June 2008 resulted primarily from the increase in borrowings, which is mainly for the acquisition of property, plant and equipment.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including bank and cash balances, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less impairment provision for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of derivative financial instruments is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Estimated recoverable amounts of intangible assets with indefinite useful lives

Determining whether intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash generating units to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. At 30 June 2008, the carrying amount of goodwill, trademark and customer relationship are approximately RMB146,694,000 (2007: RMB146,694,000), RMB56,357,000 (2007:Nil) and RMB30,709,000 (2007: Nil), respectively. Details of the recoverable amount calculation are disclosed in Note 8.

Were the discount rate used to increase (decrease) by 10% from management's estimate, the carrying amount of goodwill would not have been lower further, the trademark would have been RMB5,636,000 lower or RMB7,184,000 higher, and the customer relationship would have been RMB2,124,000 lower or RMB2,338,000 higher.

(b) Useful lives of plant and machinery

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

Were the actual useful lives of the paper manufacturing plant and machinery to differ by 10% from management's estimate, the carrying amount of the plant and machinery as at 30 June 2008 would be an estimated RMB113,509,000 (2007: RMB78,039,000) higher or RMB138,733,000 (2007: RMB95,381,000) lower.

(c) Employee benefits — share-based compensation

The fair value of options granted under the Pre-IPO Share Option Scheme and Share Option Scheme is determined using the Binomial and Black-Scholes valuation model, respectively. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected life, expected volatility, trigger price multiple and employees turnover rate. Where the outcome of the number of options that are exercisable is different, such difference will have an impact on the Group's net profit in the subsequent remaining vesting period over the relevant share options. Additional information is disclosed in Note 16.

Were the number of options decrease by 10% from management's estimate, the net profit of the Group would increase by RMB9,897,000.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date. As at 30 June 2008, the carrying amounts of inventories were RMB2,818,476,000 (2007: RMB1,502,509,000).

(e) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management will reassess the provision at the balance sheet date. As at 30 June 2008, the carrying amounts of trade receivables were RMB1,620,392,000 (2007: RMB1,543,179,000).

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

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

(g) Income taxation and deferred taxation

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

5. SEGMENT INFORMATION

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

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.

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 30 June 2006						
Cost	1,672,971	6,798,578	99,001	181,225	766,167	9,517,942
Accumulated depreciation	(195,107)	(615,563)	(26,853)	(54,933)	—	(892,456)
Net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Year ended 30 June 2007						
Opening net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Additions	10,981	34,938	22,524	64,627	5,406,113	5,539,183
Transfer	424,271	2,429,006	9,613	5,321	(2,868,211)	—
Disposals (Note 29)	—	(1,009)	(793)	(6,922)	—	(8,724)
Depreciation (Note 22)	(73,151)	(244,041)	(13,757)	(22,269)	—	(353,218)
Closing net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
At 30 June 2007						
Cost	2,108,223	9,260,342	128,407	238,223	3,304,069	15,039,264
Accumulated depreciation	(268,258)	(858,433)	(38,672)	(71,174)	—	(1,236,537)
Net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
Year ended 30 June 2008						
Opening net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
Additions	19,061	80,316	99,231	59,877	9,637,802	9,896,287
Acquisition of subsidiaries (Note 31)	43,886	293,196	626	3,123	9,102	349,933
Transfer	754,064	1,925,022	85,905	3,467	(2,768,458)	—
Disposals (Note 29)	(3,380)	(579)	(6,102)	(2,089)	—	(12,150)
Depreciation (Note 22)	(82,382)	(358,585)	(21,892)	(24,241)	—	(487,100)
Exchange differences	(2,697)	(10,190)	(38)	(186)	(29)	(13,140)
Closing net book amount	2,568,517	10,331,089	247,465	207,000	10,182,486	23,536,557
At 30 June 2008						
Cost	2,920,442	11,579,690	307,270	296,541	10,182,486	25,286,429
Accumulated depreciation	(351,925)	(1,248,601)	(59,805)	(89,541)	—	(1,749,872)
Net book amount	2,568,517	10,331,089	247,465	207,000	10,182,486	23,536,557

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 30 June 2008			
Opening net book amount	—	—	—
Additions	63	2,750	2,813
Depreciation	(8)	(167)	(175)
Closing net book amount	55	2,583	2,638
At 30 June 2008			
Cost	63	2,750	2,813
Accumulated depreciation	(8)	(167)	(175)
Net book amount	55	2,583	2,638

Certain property, plant and equipment of the Group with carrying values of approximately RMB185,642,000 as at 30 June 2008 (2007: RMB5,200,000) had been pledged for bank borrowings of the Group (Note 18).

As at 30 June 2008, the Group has constructed certain buildings at cost of RMB32,420,000 (2007: RMB32,244,000) and relevant government grants in form of cash has been received and deducted from the cost of additions to buildings above (Note 17).

During the year, the Group has received tax benefit of RMB117,918,000 (2007: RMB103,902,000) relating to the purchase of qualified equipment manufactured in the PRC. The amount has been deducted from the cost of additions of the plant and machinery.

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

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Cost of goods sold	396,603	289,363
Other gains — net	4,390	10,393
Administrative expenses	33,413	35,205
Selling and marketing costs	33,268	19,286
Total depreciation expense (Note 29)	467,674	354,247
Add: change of depreciation capitalised in finished goods	19,426	(1,029)
	487,100	353,218

NOTES TO THE FINANCIAL STATEMENTS

7. LAND USE RIGHTS — GROUP

The Group's interests in land use rights represent net book value of prepaid operating lease payments for land use rights held outside Hong Kong on leases of between 30 years to 50 years. The net book value are analysed as follows:

	30 June 2008 RMB'000	30 June 2007 RMB'000
Opening	949,259	592,125
Additions	149,871	220,915
Acquisition of subsidiaries (Note 31)	113,244	151,930
Amortisation of prepaid operating lease payments (Note 22)	(20,160)	(15,711)
Disposals (Note 29)	(3,698)	—
Exchange differences	(3,092)	—
	1,185,424	949,259

As at 30 June 2008, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB178,626,000 (2007: RMB182,366,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

8. INTANGIBLE ASSETS — GROUP

	Goodwill RMB'000 Note (a)	Trademark RMB'000 Note (b)	Patent RMB'000 Note (c)	Customer relationship RMB'000 Note (d)	Total RMB'000
At 1 July 2007					
Cost and net book amount	146,694	—	—	—	146,694
Year ended 30 June 2008					
Opening net book amount	146,694	—	—	—	146,694
Acquisition of subsidiaries (Note 31)	75,136	56,357	4,524	30,709	166,726
Impairment charge (Note 21)	(75,136)	—	—	—	(75,136)
Closing net book amount	146,694	56,357	4,524	30,709	238,284
At 30 June 2008					
Cost	221,830	56,357	4,524	30,709	313,420
Accumulated impairment	(75,136)	—	—	—	(75,136)
Net book amount	146,694	56,357	4,524	30,709	238,284

NOTES TO THE FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS — GROUP (CONTINUED)

(a) Goodwill

Goodwill is allocated to the Group's individual CGU. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the paper manufacturing business in which the CGU operates.

(b) Trademark

Trademark represents the power of "Xueshan" brand which delivers an earning stream and generates value for the Group. The trademark is renewable every 10 years at minimal cost. The directors of the Company are of the view that the Group has both the intention and ability to renew the trademark continuously. As a result, the useful life of the trademark is considered by the management of the Group as indefinite because the trademark is expected to contribute to the Group's net cash inflows indefinitely. The trademark will not be amortised until their useful life is determined to be definite. Instead, the trademark will be tested for impairment annually and whenever there is an indication that they may be impaired.

The valuation of the trademark is determined by estimating the value of royalties which the company is exempted from by virtue of the fact that it owns the trademark. A paper manufacturing business royalty rate is multiplied by the net revenues expected to be generated by the trademark and then capitalised at a discount rate at which the trademark operates.

(c) Patent

Patent represents manufacturing know-how, which have definite useful lives. Such patent are amortised on a straight-line basis over 8 years.

The valuation of the patent is determined by comparing the net cash flows that with and without the patent. The difference was then capitalised at a discount rate at which the CGU operates.

(d) Customer relationship

Customer relationship represents the capabilities to retain and control the future benefit stream from the existing customers. The directors of the Company are of the view that the Group has the capabilities to retain existing customers continuously. As a result, customer relationship is considered by the management of the Group as indefinite because the existing customers are expected to contribute to the Group's net cash inflows indefinitely. The customer relationship will be tested for impairment annually and whenever there is an indication that they may be impaired.

The valuation of the customer relationship is determined based on excess earnings method. A customer retention rate is multiplied by the net revenue expected to be generated from existing customers and then capitalised at a discount rate at which the CGU operates.

NOTES TO THE FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS — GROUP (CONTINUED)

(e) Impairment testing on intangible assets with indefinite useful lives

For impairment testing, goodwill, trademark and customer relationship are allocated to each CGU as follows:

	Goodwill		Trademark		Customer relationship	
	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
Dongguan Sea Dragon Paper Industries Company Limited ("Dongguan Sea Dragon")	146,694	146,694	—	—	—	—
Nine Dragons Pulp and Paper (Leshan) Co., Ltd ("Leshan Nine Dragons")	—	—	56,357	—	30,709	—
Cheng Yang Paper Mill Co., Ltd. ("Cheng Yang Paper")	75,136	—	—	—	—	—
	221,830	146,694	56,357	—	30,709	—

Impairment charge for goodwill of RMB75,136,000 had been provided for Cheng Yang Paper based on value-in-use calculation (Note 21).

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

	Goodwill — Dongguan Sea Dragon	Trademark — Leshan Nine Dragons	Customer relationship — Leshan Nine Dragons
Gross margin (Note i)	18.0%	—	25.8%
Royalty rate (Note ii)	—	2.0%	—
Customer retention rate (Note ii)	—	—	80.0%
Growth rate (Note iii)	1.0%	2.0%	—
Discount rate (Note iv)	13.2%	13.5%	13.5%

Note:

(i) Management determined budgeted gross margin based on past performance and its expectations for the market development.

(ii) Royalty rate and customer retention rate is based on management's estimate and knowledge about the business.

(iii) The weighted average growth rates used are lower than the average growth rate of past ten years and are used to extrapolate cash flow beyond the budget period.

(iv) The discount rates used are pre-tax discount rate applied to the cash flow projections and reflect specific risks relating to the business segment.

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

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

The following is a list of the principal subsidiaries as at 30 June 2008:

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

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES — COMPANY (CONTINUED)

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: (continued)				
Nine Dragons Machinery Supplies Limited	Hong Kong	Financing activities/ Hong Kong	HK$1	100%
Nine Dragons Resources Limited	Hong Kong	Investment holdings/ Hong Kong	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$238,024,000	99.9%
Dongguan Sea Dragon Paper Industries Company Limited[2]	PRC	Manufacture of paper/PRC	US$149,979,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$159,820,000	99.9%
Dongguan Sky Dragon Paper Industries Company Limited[1]	PRC	Manufacture of paper/PRC	—	100%
Nine Dragons Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$254,965,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$152,982,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$118,198,500	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$4,500,000	99.9%
Nine Dragons Terminal (Chongqing) Company Limited[1]	PRC	Provision for loading services/PRC	US$4,640,000	100%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited[2]	PRC	Manufacture of pulp and paper/PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited[3]	PRC	Provision for transportation services/PRC	RMB5,000,000	90%

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES — COMPANY (CONTINUED)

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: (continued)				
Nine Dragons Transportation (Taicang) Company Limited[3]	PRC	Provision for transportation services/PRC	RMB2,000,000	89.6%
Dalson International Limited	BVI	Investment holdings/ PRC	US$1	100%
Wah Da (Macao Commercial Offshore) Company Limited	Macau	Offshore business/ Macau	Macao Pataca 100,000	100%
Best Shine International Development (Cayman V) Ltd. ("Best Shine")	Cayman Islands	Investment holdings/ Vietnam	US$12,010,000	100%
Cheng Yang Paper Mill Co., Ltd.	Vietnam	Manufacture of paper/Vietnam	US$22,000,000	60%
Nine Dragons Pulp and Paper (Leshan) Co., Ltd.[3]	PRC	Manufacture of paper/PRC	RMB50,000,000	99.9%
Nine Dragons Bamboo (Qian Wei) Development Limited[3]	PRC	Manufacture pulp and paper/PRC	RMB10,000,000	89.9%
Nine Dragons Paper Industries (Tianjin) Co., Ltd[2]	PRC	Manufacture of paper/PRC	US$39,520,800	99.9%
Shine Dragon Paper Industries (Tianjin) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$30,252,200	99.9%
Sky Dragon Paper Industries (Taicang) Co., Ltd[2]	PRC	Manufacture of paper/PRC	US$8,238,000	99.5%

The English names of the companies comprising the Group which incorporated in PRC represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

Kind of legal entities:

1 Wholly foreign owned enterprise

2 Sino-foreign equity joint venture enterprise

3 Domestic enterprise

NOTES TO THE FINANCIAL STATEMENTS

10. INVENTORIES — GROUP

	30 June 2008 RMB'000	30 June 2007 RMB'000
At cost:		
Raw materials	1,814,744	1,219,399
Finished goods	1,003,732	283,110
	2,818,476	1,502,509

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB11,241,250,000 (2007: RMB7,308,753,000).

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
Trade receivables due from:				
— third parties	1,550,758	1,509,713	—	—
— related parties (Notes b and 32)	120,581	33,466	—	—
	1,671,339	1,543,179	—	—
Less: provision for impairment of receivables (Note 22)	(50,947)	—	—	—
Trade receivables — net	1,620,392	1,543,179	—	—
Bills receivable	320,463	227,235	—	—
Prepayments	527,316	229,621	—	—
Amounts due from subsidiaries (Note b)	—	—	8,730,480	6,536,315
Amounts due from related parties (Notes b and 32)	—	76	—	—
Other receivables	384,062	187,996	5,195	1,379
	2,852,233	2,188,107	8,735,675	6,537,694

(a) As at 30 June 2008, the fair value of trade and other receivables approximate their carrying amounts after provision for impairment.

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

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

NOTES TO THE FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) As at 30 June 2008, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
0–30 days	1,139,493	1,158,030
31–60 days	394,480	269,387
61–90 days	97,610	114,214
Over 90 days	39,756	1,548
	1,671,339	1,543,179

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.

(e) As at 30 June 2008, trade receivables of RMB50,947,000 (2007: Nil) were impaired. The amount of the provision was RMB50,947,000 as at 30 June 2008 (2007: Nil). The individually impaired receivables relate to customers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
0–30 days	5,936	–
31–60 days	5,978	–
61–90 days	16,669	–
Over 90 days	22,364	–
	50,947	–

(f) As at 30 June 2008, trade receivables of RMB18,154,000 (2007: RMB19,222,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
61–90 days	1,786	18,142
Over 90 days	16,368	1,080
	18,154	19,222

NOTES TO THE FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(g) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
RMB	2,179,537	1,483,567
HK$	482,247	340,604
US$	118,296	359,739
EUR	8,725	4,197
VND	63,428	–
	2,852,233	2,188,107

(h) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
Beginning of the year	–	–
Impairment loss for trade receivables	50,947	–
End of the year	50,947	–

(i) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

NOTES TO THE FINANCIAL STATEMENTS

12. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	30 June 2008		30 June 2007	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swaps (Note a)	—	1,730	12,000	—
Cross currency swaps				
— cash flow hedge (Note b)	25,923	—	—	—
Forward foreign exchange contracts	—	—	12,900	7,417
Total	25,923	1,730	24,900	7,417
Less: non-current portion				
Cross currency swaps				
— cash flow hedge (Note b)	(25,923)	—	—	—
Current portion	—	1,730	24,900	7,417

Company

	30 June 2008		30 June 2007	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Non-current:				
Cross currency swaps				
— cash flow hedge (Note b)	25,923	—	—	—

(a) Cross currency interest rate swaps

The notional amounts of the outstanding cross currency interest rate swaps at 30 June 2008 were US$350 million (2007: US$350 million).

(b) Cross currency swaps — cash flow hedge

The notional amounts of the outstanding cross currency swaps at 30 June 2008 were US$100 million (2007: Nil), which were used to hedge foreign currency borrowings. The contracts will be terminated on 29 April 2013. Gains recognised in the hedging reserve in equity in Note 16 on cross currency swaps as at 30 June 2008 are recognised in the income statement in the period during which the hedged transactions affect the income statement.

(c) The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

13. RESTRICTED CASH

As 30 June 2008, the restricted cash of RMB393,175,000 (2007: Nil) has been pledged as securities for bank borrowings (Note 18).

14. BANK AND CASH BALANCES

	Group		Company	
	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
Cash at bank and in hand	1,348,503	1,180,541	2,726	3,453
Time deposits	214,370	567,683	41,684	257,570
	1,562,873	1,748,224	44,410	261,023
Denominated in:				
RMB	777,261	286,629	—	—
HK$	347,123	1,270,605	1,614	258,355
US$	422,803	187,112	42,796	2,668
Others	15,686	3,878	—	—
	1,562,873	1,748,224	44,410	261,023
Maximum exposure to credit risk	1,560,864	1,747,373	44,410	261,023

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. BANK AND CASH BALANCES (CONTINUED)

At 30 June 2008, the cash at bank and in hand, time deposits and restricted cash (Note 13) of the Group and the Company were deposit in the financial institutions without significant credit risk. Details of these financial institutions are as follows:

	Group		Company	
	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
Bank of China	1,191,793	476,492	2,246	9,778
Agricultural Bank of China	177,144	221,541	—	—
China Merchants Bank	142,661	50,148	—	—
Industrial and Commercial Bank of China	121,997	75,963	—	—
Rural Credit Cooperatives	52,684	10,478	—	—
Others and cash on hand	269,769	913,602	42,164	251,245
Total	1,956,048	1,748,224	44,410	261,023

15. SHARE CAPITAL

Movements were:

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid						
At 1 July 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291
Placement of shares for cash		125,000,000	12,500	12,353	1,998,695	2,011,048
Placing expenses		—	—	—	(32,358)	(32,358)
Exercise of share options		15,652,029	1,565	1,554	57,626	59,180
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161
Repurchase of shares of the Company		(1,000,000)	(100)	(91)	(6,416)	(6,507)
Exercise of share options	16(b)	41,210,070	4,121	3,854	350,478	354,332
At 30 June 2008		4,330,862,099	433,086	448,822	6,078,164	6,526,986

The total authorised number of ordinary shares as at 30 June 2008 is 8,000,000,000 shares (2007: 8,000,000,000 shares) with a par value of HK$0.1 per share (2007: HK$0.1 per share).

NOTES TO THE FINANCIAL STATEMENTS

15. SHARE CAPITAL (CONTINUED)

The Company repurchased 1,000,000 of its own shares through purchases on the Stock Exchange during the year ended 30 June 2008. The shares have been cancelled upon being reacquired. The total amounts paid to acquire the shares were approximately HK$7,126,000 (equivalent to RMB6,507,000), which have been deducted from equity attributable to the Company's equity holders.

16. OTHER RESERVES

Group

	Contributed surplus RMB'000 (Note a)	Capital reserve RMB'000	Share options reserve RMB'000 (Note b)	Statutory reserve and enterprise expansion fund RMB'000 (Note c)	Translation RMB'000	Cash flow hedge reserve RMB'000	Total RMB'000
As at 1 July 2006	660,542	98,980	16,797	125,687	—	—	902,006
Transfer from net profit	—	—	—	62,896	—	—	62,896
Share options granted to directors and employees	—	—	102,393	—	—	—	102,393
Exercise of share options	—	—	(11,636)	—	—	—	(11,636)
Currency translation differences	—	—	—	—	530	—	530
As at 30 June 2007	660,542	98,980	107,554	188,583	530	—	1,056,189
Transfer from net profit	—	—	—	141,576	—	—	141,576
Share options granted to directors and employees	—	—	98,974	—	—	—	98,974
Exercise of share options	—	—	(78,583)	—	—	—	(78,583)
Currency translation differences	—	—	—	—	(17,256)	—	(17,256)
Cash flow hedge reserve							
— Fair value gains (Note 12)	—	—	—	—	—	25,923	25,923
— Amount released to set off the impact of hedged items that affected the income statement	—	—	—	—	—	6,378	6,378
As at 30 June 2008	660,542	98,980	127,945	330,159	(16,726)	32,301	1,233,201

NOTES TO THE FINANCIAL STATEMENTS

16. OTHER RESERVES (CONTINUED)

Company

	Contributed surplus RMB'000 (Note d)	Share options reserve RMB'000 (Note b)	Cash flow hedge reserve RMB'000	Total RMB'000
At 1 July 2006	2,074,700	16,797	—	2,091,497
Share options granted to directors and employees	—	102,393	—	102,393
Exercise of share options	—	(11,636)	—	(11,636)
At 30 June 2007	2,074,700	107,554	—	2,182,254
Share options granted to directors	—	98,974	—	98,974
Exercise of share option	—	(78,583)	—	(78,583)
Cash flow hedge reserve				
— Fair value gains (Note 12)	—	—	25,923	25,923
— Amount released to set off the impact of hedged items that affected the income statement	—	—	6,378	6,378
At 30 June 2008	2,074,700	127,945	32,301	2,234,946

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

(b) A summary of the share option schemes, details of the movement in share options and valuation of the share options are set out on pages 41 to 44.

(c) Statutory reserve and enterprise expansion fund

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER PAYABLES

	Group		Company	
	30 June 2008 RMB'000	30 June 2007 RMB'000	30 June 2008 RMB'000	30 June 2007 RMB'000
Trade payables due to:				
— third parties	832,368	570,649	—	—
— related parties (Notes a and 32)	1,284,309	420,564	—	—
	2,116,677	991,213	—	—
Bills payable, secured	169,796	77,300	—	—
Deposits from customers	188,448	90,411	—	—
Other payables	1,160,741	515,368	1,842	34
Staff welfare benefits payable	82,793	40,343	—	—
Accrued expenses	137,377	69,179	28,358	—
	3,855,832	1,783,814	30,200	34
Less: Deferred government grants (Note b)	(17,039)	(17,215)	—	—
	3,838,793	1,766,599	30,200	34

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

(b) In prior years, the Group had received grants amounted to RMB49,459,000 from the government authority as assistance to the Group for purchases, construction or otherwise acquisitions of plant and buildings. Up to 30 June 2008, the Group has utilised an amount of RMB32,420,000 (2007: RMB32,244,000) to acquire certain buildings (Note 6).

(c) The ageing analysis of trade payables as at 30 June 2008 is as follows:

	Group	
	30 June 2008 RMB'000	30 June 2007 RMB'000
0–90 days	2,039,363	949,693
91–180 days	41,167	9,536
181–365 days	17,149	27,141
Over 365 days	18,998	4,843
	2,116,677	991,213

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS

Group

	30 June 2008 RMB'000	30 June 2007 RMB'000
Non-current		
— Long-term bank borrowings	6,463,692	1,431,535
— Syndicated term loans	3,903,005	2,657,392
— Senior notes (Note a)	2,023,226	—
	12,389,923	4,088,927
Current		
— Short-term bank borrowings	1,190,768	2,373,082
— Current portion of long-term bank borrowings	64,678	170,000
— Current portion of syndicated term loans	240,069	—
— Short-term financing bills	800,000	—
	2,295,515	2,543,082
Total borrowings	14,685,438	6,632,009

(a) The senior notes recognised in the balance sheet are calculated as follows:

	For the year ended 30 June 2008 RMB'000
Carrying amount as at the date of issuance	2,061,260
Amortisation of issue cost	1,176
Exchange gains	(39,210)
Carrying amount as at 30 June 2008	2,023,226

The senior notes are guaranteed by certain subsidiaries. The net assets of these subsidiaries as at 30 June 2008 were approximately RMB1,378,896,000. Interest rate payable on the senior notes is 7.875% per annum. It is subject to adjustment from time to time if rating assigned to the senior notes downgraded and interest rate will be increased accordingly.

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS (CONTINUED)

Group (continued)

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

	30 June 2008				
	Bank borrowings RMB'000	Short-term financing bills RMB'000	Syndicated term loans RMB'000	Senior notes RMB'000	Total RMB'000
Within 1 year	1,255,446	800,000	240,069	—	2,295,515
Between 1 and 2 years	4,304,747	—	547,940	—	4,852,687
Between 2 and 5 years	1,208,740	—	3,355,065	2,023,226	6,587,031
Wholly repayable within 5 years	6,768,933	800,000	4,143,074	2,023,226	13,735,233
Over 5 years	950,205	—	—	—	950,205
	7,719,138	800,000	4,143,074	2,023,226	14,685,438

	30 June 2007		
	Bank borrowings RMB'000	Syndicated term loans RMB'000	Total RMB'000
Within 1 year	2,543,082	—	2,543,082
Between 1 and 2 years	1,028,259	—	1,028,259
Between 2 and 5 years	400,000	2,657,392	3,057,392
Wholly repayable within 5 years	3,971,341	2,657,392	6,628,733
Over 5 years	3,276	—	3,276
	3,974,617	2,657,392	6,632,009

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS (CONTINUED)

Group (continued)

(c) The effective interest rates as at 30 June 2008 are as follows:

	30 June 2008			
	RMB	HK$	US$	Others
Long-term bank borrowings	6.7363%	—	—	4.5000%
Syndicated term loans	—	5.0000%	5.9000%	—
Senior notes	—	—	7.8750%	—
Short-term bank borrowings	6.6038%	5.0307%	5.1636%	4.1944%
Short-term financing bills	5.5750%	—	—	—

	30 June 2007			
	RMB	HK$	US$	Others
Long-term bank borrowings	5.5279%	—	—	—
Syndicated term loans	—	4.9122%	5.9000%	—
Short-term bank borrowings	5.4837%	5.0256%	—	—

(d) As at 30 June 2008, borrowings of RMB11,630,072,000 (2007: RMB5,531,408,000) are secured by assets of the Group, and guarantees given by subsidiaries within the Group which are detailed as follows:

	30 June 2008 RMB'000	30 June 2007 RMB'000
Borrowings secured by assets of the Group*	485,172	3,276
Borrowings guaranteed by subsidiaries within the Group	11,144,900	5,528,132
	11,630,072	5,531,408

* The above borrowings are secured by the Group's property, plant and equipment (Note 6) and restricted cash (Note 13).

(e) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	30 June 2008 RMB'000	30 June 2007 RMB'000
6 months or less	7,894,846	5,323,750
6 – 12 months	185,000	80,000
	8,079,846	5,403,750

NOTES TO THE FINANCIAL STATEMENTS

18. BORROWINGS (CONTINUED)

Group (continued)

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

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

	30 June 2008 RMB'000	30 June 2007 RMB'000
Carrying amounts	12,389,923	4,088,927
Fair values	12,389,287	4,074,037

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

(g) The carrying amounts of all the Group's borrowings as at 30 June 2008 are denominated in the following currencies:

	30 June 2008 RMB'000	30 June 2007 RMB'000
RMB	7,287,615	3,225,089
US$	5,098,815	2,657,392
HK$	2,064,992	749,528
Other currency	234,016	—
	14,685,438	6,632,009

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

	30 June 2008 RMB'000	30 June 2007 RMB'000
Floating rate:		
— expiring within one year	2,346,193	4,471,618
— expiring beyond one year	1,904,655	4,393,874
	4,250,848	8,865,492

Company

On 30 June 2008, borrowings of the Company represented senior notes, which are denominated in US$ (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

19. DEFERRED INCOME TAX — GROUP

	30 June 2008 RMB'000	30 June 2007 RMB'000
Deferred income tax liabilities to be payable after more than 12 months	452,421	281,746

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

	30 June 2008 RMB'000	30 June 2007 RMB'000
Beginning of the year	281,746	226,808
Acquisition of subsidiaries (Note 31)	56,201	—
Exchange difference	(401)	—
Recognised in the consolidated income statement (Note 25)	114,875	54,938
End of the year	452,421	281,746

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000 (Note a)	Fair value gains RMB'000 (Note b)	Total RMB'000
At 1 July 2006	226,808	—	226,808
Charged to the consolidated income statement	54,938	—	54,938
At 30 June 2007	281,746	—	281,746
Acquisition of subsidiaries (Note 31)	—	56,201	56,201
Exchange differences	—	(401)	(401)
Charged to the consolidated income statement	114,875	—	114,875
At 30 June 2008	396,621	55,800	452,421

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

(b) Deferred income tax liabilities on fair value gain is derived from the acquisition of certain business during this period, being the difference between the carrying amounts of the assets and their fair value.

NOTES TO THE FINANCIAL STATEMENTS

19. DEFERRED INCOME TAX — GROUP (CONTINUED)

(c) In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. The Group did not recognise deferred tax assets of RMB29,902,000 (2007: RMB17,971,000) in respect of tax losses amounting to RMB142,381,000 (2007: RMB78,016,000) as at 30 June 2008 as management believes it is more likely than not that such tax losses would not be utilised before they expire. As at 30 June 2008, the tax losses carried forward are as follows:

	30 June 2008 RMB'000	30 June 2007 RMB'000
2011	11,422	11,422
2012	46,151	46,151
2013	18,381	—
Tax loss with no expiry date	66,427	20,443
	142,381	78,016

20. SALES

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Sales of packaging paper	13,901,777	9,469,325
Sales of pulp paper	211,809	368,339
	14,113,586	9,837,664

21. OTHER GAINS — NET

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Gains from sales of scrap materials	125,916	55,338
Gains from sales of electricity	10,624	123,227
Gains from sales of coals	1,707	—
Interest income	10,647	25,099
Net foreign exchange (loss)/gain	(4,918)	77,855
Transportation	749	5,985
Net (loss)/gain arising from change in fair value of derivative financial instruments	(20,108)	26,423
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	(1,879)	(2,711)
Negative goodwill (Note 31)	181,178	—
Goodwill impairment (Note 8)	(75,136)	—
	228,780	311,216

NOTES TO THE FINANCIAL STATEMENTS

22. EXPENSES BY NATURE

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

	For the year ended 30 June	
	2008	2007
	RMB'000	RMB'000
Depreciation (Note 6)	487,100	353,218
Less: amount charged to other gains — net	(4,390)	(10,393)
	482,710	342,825
Employee benefit expense (Note 23)	659,859	503,054
Changes in finished goods	(720,622)	(12,661)
Raw materials and consumables used	10,817,218	6,647,307
Transportation	110,717	55,134
Operating leases		
— Land use rights (Note 7)	20,160	15,711
— Buildings	1,760	902
Auditors' remuneration	5,593	4,428
Non-deductible value added tax for indirect export sales	262,492	98,793
Provision for impairment of trade receivables (Note 11)	50,947	—
Other expenses	385,676	199,963
	12,076,510	7,855,456

23. EMPLOYEE BENEFIT EXPENSE

	For the year ended 30 June	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	534,615	383,110
Share options granted to directors and employees (Note 16)	98,974	102,393
Pension costs — defined contribution plans (Note a)	17,830	10,763
Medical benefits	4,919	2,772
Other allowances and benefits	3,521	4,016
	659,859	503,054

(a) Pensions — defined contribution plans

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

	For the year ended 30 June	
	2008	2007
	RMB'000	RMB'000
Gross scheme contributions	17,830	10,763

NOTES TO THE FINANCIAL STATEMENTS

23. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 30 June 2008 is set out below:

Name of director	Fees RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Cheung Yan ("Ms. Cheung")	1,767	—	30,923	—	32,690
Mr. Liu Ming Chung ("Mr. Liu")	3,269	—	30,921	—	34,190
Mr. Zhang Cheng Fei ("Mr. Zhang")	2,956	—	30,146	—	33,102
Ms. Gao Jing	480	200	70	—	750
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
Ms. Tam Wai Chu, Maria	448	109	177	—	734
Mr. Chung Shui Ming, Timpson	448	109	177	—	734
Dr. Cheng Chi Pang	448	109	177	—	734
Mr. Wang Hong Bo	240	—	—	—	240
	10,056	527	92,591	—	103,174

NOTES TO THE FINANCIAL STATEMENTS

23. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

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

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

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

* Mr. Wang Hai Ying is an executive director, and resigned as an executive director of the Company with effect from 28 February 2007.

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

NOTES TO THE FINANCIAL STATEMENTS

23. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2008 include three (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: two) individuals during the year are as follows:

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Pension costs	24	23
Salaries, share options, other allowances and benefits in kind	6,721	4,075
	6,745	4,098

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2008	2007
RMB nil to RMB2,000,000	—	1
RMB2,000,001 to RMB4,000,000	2	1

24. FINANCE COSTS

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Interest on borrowings		
— wholly repayable within five years	487,246	260,404
— not wholly repayable within five years	24,570	139
	511,816	260,543
Less: interest capitalised	(288,446)	(86,742)
	223,370	173,801
Bills discount charge	92,122	35,964
Other incidental borrowing cost	7,696	5,827
Exchange gains on borrowings	(221,304)	(84,151)
	101,884	131,441

The capitalisation interest rate applied to funds borrowed generally and used for the development of construction in progress is 5.350% for the year ended 30 June 2008 (2007: 5.649%).

NOTES TO THE FINANCIAL STATEMENTS

25. INCOME TAX EXPENSE

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Current tax		
— Hong Kong profits tax (Note a)	—	—
— PRC enterprise income tax (Note b)	148,270	94,368
— Reversal of prior years' PRC enterprise income tax	—	(47,661)
	148,270	46,707
Deferred income tax (Note 19)	114,875	54,938
	263,145	101,645

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

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Profit before taxation	2,163,972	2,161,983
Tax calculated at tax rates applicable to respective companies ranging from 18% to 27% (2007: 18%–27%) within the Group	814,574	661,206
Effect of tax holidays	(502,604)	(549,860)
Add: tax losses for which no deferred income tax asset was recognised	12,493	11,634
Add: expense not deductible	87,439	—
Less: income not subject to tax	(148,682)	—
Less: deferred income tax effect from change of tax rate	—	(21,335)
Less: utilisation of previously unrecognised tax losses	(75)	—
Income tax expense	263,145	101,645

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2008 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

25. INCOME TAX EXPENSE (CONTINUED)

(b) PRC enterprise income tax

Certain of the companies of the Group are subject to PRC enterprise income tax. From 1 July 2007 to 31 December 2007, PRC enterprise income tax is provided based on the statutory income tax rate of 18% to 27% of the assessable income of each of these companies for the period as determined in accordance with the relevant PRC income tax rules and regulations except for certain subsidiaries of the Company, which were exempted from tax or taxed at preferential rates of 7.5% to 12%.

The Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") was effective from 1 January 2008, which unifies the corporate income tax rate for domestic and foreign enterprises at 25%. From 1 January 2008, PRC enterprise income tax is provided based on the statutory income tax rate of 25% of the assessable income of each of these companies for the period as determined in accordance with the new CIT Law except for certain subsidiaries of the Company, which were exempted from tax or taxed at preferential rates of 7.5% or 12.5%.

26. RETAIN EARNINGS OF THE COMPANY

	30 June 2008 RMB'000	30 June 2007 RMB'000
Beginning of the year	823,968	157,120
Profit for the year (Note a)	85,019	827,883
Dividends	(501,543)	(161,035)
End of the year	407,444	823,968
Representing		
— Proposed final dividend	151,580	429,065
— Unappropriated retained earnings	255,864	394,903

(a) The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB85,019,000 (2007: RMB827,883,000).

27. EARNINGS PER SHARE

— Basic

	For the year ended 30 June 2008	2007
Profit attributable to equity holders of the Company (RMB'000)	1,876,850	2,003,408
Weighted average number of ordinary shares in issue (shares in thousands)	4,310,918	4,179,049
Basic earnings per share (RMB per share)	0.4354	0.4794

NOTES TO THE FINANCIAL STATEMENTS

27. EARNINGS PER SHARE (CONTINUED)

— Diluted

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

	For the year ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	1,876,850	2,003,408
Weighted average number of ordinary shares in issue (shares in thousands)	4,310,918	4,179,049
Adjustments for share options (shares in thousands)	105,946	80,658
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	4,416,864	4,259,707
Diluted earnings per share (RMB per share)	0.4249	0.4703

28. DIVIDENDS

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Interim dividend, paid, of RMB1.68 cents (2007: RMB1.60 cents) per ordinary share	72,140	65,585
Final dividend, proposed, of RMB3.50 cents (2007: RMB10.00 cents) per ordinary share	151,580	429,065
	223,720	494,650

The directors recommend the payment of a final dividend of RMB3.50 cents per ordinary share, totaling RMB151,580,000. Such final dividend is to be approved by the shareholders at the Annual General Meeting on 27 November 2008. These financial statements do not reflect this final dividend payable.

NOTES TO THE FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Profit for the year	1,900,827	2,060,338
Adjustments for		
Income tax expense (Note 25)	263,145	101,645
Depreciation (Note 6)	467,674	354,247
Amortisation (Note 7)	20,160	15,711
Provision for impairment of trade receivables	50,947	—
Share options granted to directors and employees (Note 16)	98,974	102,393
Loss on sale of property, plant and equipment (see below)	10,106	7,737
Gain on disposal of land use right (see below)	(481)	—
Negative goodwill (Note 31)	(181,178)	(2)
Goodwill impairment (Note 8)	75,136	—
Loss on disposal of equity interests in certain subsidiaries to minority shareholders (Note 21)	1,879	2,711
Net loss/(gain) arising from change in fair value of derivative financial instruments (Note 21)	20,108	(26,423)
Interest income (Note 21)	(10,647)	(25,099)
Finance cost (Note 24)	101,884	131,441
Exchange losses on bank and cash balance	41,970	27,514
	2,860,504	2,752,213
Changes in working capital		
Inventories	(1,181,663)	(571,507)
Trade and other receivables	(1,049,155)	(457,126)
Derivative financial instruments	5,483	—
Trade and other payables	1,426,143	(603,000)
Cash generated from operations	2,061,312	1,120,580

NOTES TO THE FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS (CONTINUED)

In the cash flow statement, proceeds comprise:

	30 June 2008 RMB'000	30 June 2007 RMB'000
Sale of property, plant and equipment		
Net book amount (Note 6)	12,150	8,724
Loss on sale of property, plant and equipment	(10,106)	(7,737)
Proceeds from sale of property, plant and equipment	2,044	987
Disposal of land use rights		
Net book amount (Note 7)	3,698	—
Gain on disposal of land use rights	481	—
Proceeds from disposal of land use rights	4,179	—

30. COMMITMENTS

(a) Capital commitments

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

	30 June 2008 RMB'000	30 June 2007 RMB'000
Contracted but not provided for:		
— Property, plant and equipment	4,514,218	5,809,540
Authorised but not contracted for:		
— Property, plant and equipment	835,494	939,222
	5,349,712	6,748,762

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

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

	30 June 2008 RMB'000	30 June 2007 RMB'000
Not later than one year	986	2,131
Later than one year and not later than five years	2,125	612
Later than five years	20,721	—
	23,832	2,743

NOTES TO THE FINANCIAL STATEMENTS

31. BUSINESS COMBINATION

During the year ended 30 June 2008, the Group has acquired certain entities which resulted in business combination.

(a) Sichuan Qian Wei Baiya Paper Co., Ltd. ("Qian Wei") and Sichuan Rui Song Paper Co. Ltd. ("Rui Song")

Qian Wei and Rui Song were originally owned by the same parties, who are independent to the Group ("originally share holders").

On 20 December 2007, the Group entered into an agreement with originally share holders to acquire 100% share capital of Qian Wei at no consideration. Qian Wei was established in December 2005. Qian Wei has not yet commenced production but holding of certain land use rights for future paper manufacturing establishment and possesses a right to develop and produce high value specialty board products, mainly insulating paper and capacitor tissue paper, bleached wood pulp and bleached bamboo pulp. Qian Wei was renamed as Leshan Nine Dragons on 15 January 2008.

On 9 May 2008, the Group entered into an agreement with Rui Song to acquire a series of assets from Rui Song. The transaction was effective on 25 May 2008. The assets are required to be relocated by August 2010. The consideration paid is RMB73,990,000. The assets acquired were integrated into Leshan Nine Dragons for continuing operation. The existing annual designed production capacity of Rui Song for the production of high value specialty board products and bleached wood pulp and bleached bamboo pulp is 15,000 tonnes and 26,000 tonnes respectively.

The acquired business of Leshan Nine Dragons contributed revenues of RMB32,490,000 and profit of RMB4,197,000 for the year ended 30 June 2008.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	73,990
Less: fair value of net assets acquired	(255,168)
Negative goodwill (Note 21)	(181,178)

NOTES TO THE FINANCIAL STATEMENTS

31. BUSINESS COMBINATION (CONTINUED)

(a) Sichuan Qian Wei Baiya Paper Co., Ltd. ("Qian Wei") and Sichuan Rui Song Paper Co. Ltd. ("Rui Song") (continued)

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

	Fair value RMB'000	Acquirees' Carrying amount RMB'000
Bank and cash balances	2	2
Property, plant and equipment (Note 6)	135,794	18,270
Land use rights (Note 7)	63,130	39,425
Intangible assets (Note 8)	91,590	—
Receivables	1,364	1,364
Inventories	55,990	55,990
Provision for relocation cost	(42,992)	—
Net deferred tax liabilities (Note 19)	(49,710)	—
Net assets	255,168	115,051
Purchase consideration settled in cash	(73,990)	
Negative goodwill	181,178	
Purchase consideration settled in cash	73,990	
Cash and cash equivalents in subsidiary acquired	(2)	
Cash outflow on acquisition	73,988	

NOTES TO THE FINANCIAL STATEMENTS

31. BUSINESS COMBINATION (CONTINUED)

(b) Best Shine

On 5 May 2008, the Group acquired the entire issue share capital of Best Shine from independent third parties for an aggregate consideration of US$22,800,000.

Best Shine was established in Cayman Islands in February 2003, and acts as an investment holding company that holds 60% equity interest in Cheng Yang Paper which principally engages in the production of various kinds of industrial papers, including kraft paper, testliner and medium paper in Vietnam.

The acquired business of Cheng Yang Paper contributed revenues of RMB61,271,000 and loss of RMB3,120,000 for the year ended 30 June 2008.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	160,545
Less: Fair value of net assets acquired	(85,409)
Goodwill (Note 8)	75,136

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

	Fair value RMB'000	Acquirees' Carrying amount RMB'000
Bank and cash balances	10,616	10,616
Property, plant and equipment (Note 6)	214,139	202,271
Land use rights (Note 7)	50,114	18,706
Inventories	58,889	58,889
Receivables	57,803	57,803
Payables	(20,387)	(20,387)
Borrowings	(221,938)	(221,938)
Net deferred tax liabilities (Note 19)	(6,491)	–
Net assets	142,745	105,960
Minority interests	(57,336)	
Net assets acquired	85,409	
Purchase consideration settled in cash	160,545	
Cash and cash equivalents in subsidiary acquired	(10,616)	
Cash outflow on acquisition	149,929	

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
America Chung Nam Inc. ("ACN")	Beneficially owned by Ms. Cheung
Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging")	Beneficially owned by Mr. Zhang

(b) Transactions with related parties

For the year ended 30 June 2008, the Group had the following significant transactions with related parties. Sales and purchase transactions are negotiated with related parties in the normal course of business with a margin on the same basis with non-related parties:

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Sales of goods:		
Taicang Packaging	202,468	193,592
Sales of utilities:		
Taicang Packaging	6,378	4,553
Purchase of recovered paper (net of claims and returns):		
ACN	4,916,525	2,922,405
Taicang Packaging	8,856	6,353
	4,925,381	2,928,758
Agent fee of direct export sales:		
ACN	5,698	—

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

Other than compensation for directors as disclosed in Note 23, compensation for other key management is as follows:

	For the year ended 30 June	
	2008 RMB'000	2007 RMB'000
Salaries and other short-term employee benefits	29,517	7,443
Termination benefits	3,625	—
Share options	4,799	7,563
	37,941	15,006

(d) Balances with related parties

	30 June 2008 RMB'000	30 June 2007 RMB'000
Trade balances due from:		
Related parties:		
— Taicang Packaging	120,581	33,466
Non-trade balances due from:		
Related parties:		
— Taicang Packaging	—	76
Trade balances due to:		
Related parties:		
— ACN	1,279,040	417,589
— Taicang Packaging	5,269	2,975
	1,284,309	420,564

33. ULTIMATE HOLDING COMPANY

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

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

COMMUNICATING WITH INVESTORS

We have been firmly adhering to a high standard of corporate governance and disclosure. Our proactive approach to investor relations has made us widely-recognised by investors in the capital market. ND Paper has also been closely monitored by analysts of a wide range of institutional investors. Currently, more than 20 local and international research institutions has published reports on ND Paper.

The management has remained dedicated to expanding its direct communications with investors to further strengthen their thorough understanding of ND Paper's business, future development and strategies. The management has also communicated with investors to share their insights into the market and the paper industry. In addition, the management participates actively in a significant number of regional and global investor conferences organized by reputable investment banks to explain our business development to investors. Apart from that, we have also developed investor relations in the US, Europe and Asia (including the PRC).

In order to increase transparency and make timely disclosure of the latest information of the Group, we update our corporate website regularly, release press releases through the media and organize results announcement presentations twice annually. Besides, we frequently organize plant tours and meetings with analysts and fund managers to enhance their understanding of our business operation and production procedures. We take interactive approach with investors by giving detailed answers to enquires, understanding their opinions and suggestions as well as disseminating corporate information.

SHAREHOLDERS

As at 30 June 2008, the Group had over 4,800 non-institutional shareholders.

Our corporate website provides investors with the Company's information as well as its latest development. A full library of bilingual resources such as results announcements, annual reports and interim reports are available for download. The website is updated on a regular basis to ensure timely and updated information will be delivered to our shareholders. In addition, the management established an effective communication channel with the shareholders through annual general meetings.

AWARDS

During the year under review, ND Paper was awarded the Honourable Mention of the 2007 Best Annual Reports Awards organised by the Hong Kong Management Association. This award was not only an evidence of our success in achieving substantial economic benefits, but also recognition from the society for the level of our corporate governance and financial disclosures.

FINANCIAL CALENDAR

FY2008 interim results	Announcement published on 17 March 2008
FY2008 annual results	Announcement published on 10 October 2008
Closure of register of members	21 to 27 November 2008 (both dates inclusive)
2008 AGM	27 November 2008
Distribution of FY2008 final dividend#	15 December 2008

subject to shareholder's approval of the final dividend at 2008 AGM

SHARE INFORMATION

Shares listing

The Shares of ND Paper are listed on the Main Board of the Stock Exchange (Stock Code: 2689.HK).

Index Constituent

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

Ordinary shares

Issued Shares as at 30 June 2008:	4,330,862,099 Shares
Nominal Value:	HK$0.1 per Share
Broad lot:	1,000 Shares

Dividends

Dividends per Share for the year ended 30 June 2008

— Interim dividend	RMB1.68 cents per Share
— Final dividend	RMB3.50 cents per Share

Share Registrar and Transfer Office

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

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

Investor Relations Contact

Corporate Communications Department
Nine Dragons Paper (Holdings) Limited
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30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 3929 3800
Fax: (852) 3929 3890
Email: ir@ndpaper.com

Stock Code

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

Website

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

DEFINITION

2006 Share Option Scheme	the share option scheme adopted by the Company on 12 February 2006
2007 AGM	Annual General Meeting held on 27 November 2007
2008 AGM	Annual General Meeting to be held on 27 November 2008
2008 SGM	Special General Meeting held on 31 July 2008
ACN	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, is indirectly wholly owned by Ms. Cheung
ACN Supply Agreement	the agreement entered into between the Company and ACN on 12 February 2006 which sets out the terms for the supply of recovered paper from ACN to the Group for the three financial years ending 30 June 2008
Associate(s)	has the meaning ascribed to it under the Listing Rules
Best Result	Best Result Holdings Limited, a company incorporated under the laws of BVI, is a substantial shareholder of the Company
Board	The board of directors of the Company
BVI	the British Virgin Islands
Bye-laws	the bye-laws of ND Holdings
CAGR	Compound annual growth rate
China Inner Mongolia Forestry	China Inner Mongolia Forestry Industry Co., Ltd., a state-owned enterprise
Company or ND Holdings or ND Paper	Nine Dragons Paper (Holdings) Limited (玖龍紙業（控股）有限公司), a Company which was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt Company with limited liability
Director(s)	the director(s) of the Company or any one of them

Dongguan Longteng	Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業有限公司) a limited liability company established in the PRC in May 2003
Forestry Supply Agreement(s)	the agreement entered into between ND Xing An and China Inner Mongolia Forestry on 12 February 2006 and 27 February 2007 pursuant to which China Inner Mongolia Forestry agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group for three financial years ending 30 June 2008
Further Renewed ACN Supply Agreement	the agreement entered into between the Company and ACN on 30 June 2008 which sets out the terms for the supply of recovered paper by ACN to members of the Group for the period commencing from 1 August 2008 and ending on 30 June 2011
Further Renewed Taicang Purchase Agreement	the agreement entered into between the Company and Taicang Packaging on 30 June 2008 which sets out the terms of the purchase of packaging paperboard products by Taicang Packaging from the Group for the period commencing from 1 July 2009 and ending on 30 June 2011
FY	Financial year ended/ending 30 June
Group	The Company and its subsidiaries
HKD/HK$	Hong Kong dollars
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR	The Hong Kong Special Administrative Region of the People's Republic of or HKSAR China
INED(s)	Independent Non-executive Director(s) of ND Holdings
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longteng Purchase Agreement(s)	the agreement entered into between Zhang's Enterprises, a wholly owned subsidiary of the Company, and Dongguan Longteng on 12 February 2006 and 27 February 2007, which sets out the terms of the purchase of packaging paperboard products by Dongguan Longteng from the Group
Longteng Supply Agreement(s)	the agreement entered into between Zhang's Enterprises, a wholly owned subsidiary of the Company, and Dongguan Longteng on 12 February 2006, 27 February 2007 and 3 April 2008, which sets out the terms of the supply of packaging materials and chemicals for the production of paperboard products from Dongguan Longteng to the Group
MCL Living Trust	a living trust set up by Mr. Liu as the settlor and Ms. Cheung and Mr. Liu as the trustees and the special trustees and Bank of The West as the trustee. The object of the trust is Mr. Liu
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Mr. Liu	Mr. Liu Ming Chung (劉名中先生), an executive Director, the Deputy Chairman and the Chief Executive Officer of the Company
Mr. Zhang	Mr. Zhang Cheng Fei (張成飛先生), an executive Director and the Deputy Chief Executive Officer of the Company
Ms. Cheung	Ms. Cheung Yan (張茵女士), an executive Director and the Chairman of the Company

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. ND Xing An is 55% indirectly owned by the Company and 45% owned by China Inner Mongolia Forestry
PM	a prefix referring to the Group's paper machines. For example, PM1 refers to the Group's first paper machine
Pre-Listing Share Option Scheme	the Pre-Listing Share Option Scheme adopted by the Company with effect from 1 January 2006
Renewed ACN Agreement	the agreement entered into between the Company and ACN on 26 June 2008 which sets out the terms for the supply of recovered paper by ACN to members of the Group for a period of one month commencing on 1 July 2008 and ending on 31 July 2008
Renewed Forestry Supply Agreement	the agreement entered into between ND Xing An and China Inner Mongolia Forestry entered into on 26 June 2008 which sets out the supply wood logs and wood chips to members of the Group as requested by them from time to time for the period ending 30 June 2011
Renewed Longteng Purchase Agreement	the agreement entered into between the Company and Dongguan Longteng entered into on 26 June 2008, which sets out the purchase of packaging paperboard products manufactured by the Group from time to time for the three financial years ending 30 June 2011
Renewed Longteng Supply Agreement	the agreement entered into between the Company and Dongguan Longteng entered into on 26 June 2008, which sets out the supply of packaging materials and chemicals for production of paperboard products to members of the Group as requested from time to time for the three financial years ending 30 June 2011
Renewed Taicang Purchase Agreement	the agreement entered into between the Company and Taicang Packaging entered into on 26 June 2008, which sets out the purchase of packaging paperboard products manufactured by the Group to Taicang for a period of one year commencing from 1 July 2008 and ending on 30 June 2009
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share Option Schemes	Pre-Listing Share Option Scheme and 2006 Share Option Scheme
Share(s)	Ordinary share(s) of HK$0.10 each in the issued share capital of the Company
Shareholder(s)	holder(s) of Shares of the Company
sq.ft	square feet
sq.m	square metre
Taicang Packaging	Nine Dragons Packaging (Taicang) Company Limited, a wholly foreign-owned enterprise established in the PRC on 9 April 2002

Taicang Purchase Agreement(s)	the agreement entered into between Zhang's Enterprises and Taicang Packaging on 12 February 2006 and 27 February 2007, which sets out the terms for the purchase of packaging paperboard products by Taicang Packaging from the Group
tpa	tonnes per annum
USD/US$	US dollars
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
Zhang's Enterprises	Zhang's Enterprises Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
%	per cent

GLOSSARY

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

Designed & Produced by Cre8™

玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED