The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of the Offering Memorandum (referred to below), make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Offering Memorandum (referred to below).

玖龍紙業(控股)有限公司

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in the Bermuda with limited liability)

(Stock code: 2689)

WARNING

The posting of the offering memorandum in connection with the issue of US$300 million 7.875% senior notes due 2013 (the "Offering Memorandum") at the HKEx Website is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and not for any other purposes.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Memorandum.

US$300,000,000

玖龍紙業(控股)有限公司

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

7.875% Senior Notes due 2013

Issue Price: 99.493%

The 7.875% Senior Notes due 2013 (the "Notes") will bear interest from April 29, 2008, at 7.875% per annum payable semi-annually in arrears on April 29 and October 29 of each year, beginning October 29, 2008. The Notes will mature on April 29, 2013. The Notes are senior obligations of Nine Dragons Paper (Holdings) Limited (the "Company") and are guaranteed by certain of our existing subsidiaries (the "Subsidiary Guarantors") (the "Subsidiary Guarantees") other than those organized under the laws of the PRC and certain other subsidiaries specified in "Description of the Notes."

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a price equal to 100% of the principal amount of the Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event, as defined in the Indenture, the Company must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. For a detailed description of the Notes and the Subsidiary Guarantees, see "Description of the Notes."

The Notes and the Subsidiary Guarantees will be the senior direct debt obligations of the Company and the Subsidiary Guarantors, respectively. The Notes and each Subsidiary Guarantee will (i) be effectively subordinated to all of the existing and future secured debt of the Company and the Subsidiary Guarantors, to the extent of the value of the assets securing such debt; (ii) be effectively subordinated to all existing and future obligations of our subsidiaries in the PRC; (iii) rank senior in right of payment to all of the existing and future debt of the Company and the Subsidiary Guarantors expressly subordinated in right of payment to the Notes; and (iv) subject to the foregoing, be equal in right of payment with all existing and future senior debt of the Company and the Subsidiary Guarantors. However, applicable law may limit the enforceability of the Subsidiary Guarantees. See "Risk Factors — Risks Relating to the Subsidiary Guarantees."

The Notes sold to qualified institutional buyers will be eligible for trading in The PORTAL Market, a market operated by the NASDAQ Stock Market, Inc. ("PORTAL"). Approval in-principle has been received for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes. Currently, there is no public market for the Notes.

The Notes have been rated "BBB-" by Standard & Poor's Ratings Services ("Standard & Poor's") and "BBB-" by Fitch Ratings Inc. ("Fitch"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves risks that are described in the "Risk Factors" section beginning on page 15 of this offering memorandum.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Initial Purchaser only (1) to qualified institutional buyers in reliance on the exemption provided by Rule 144A under the Securities Act ("Rule 144A"), and (2) outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For further details about eligible offerees and resale restrictions, see "Plan of Distribution" and "Transfer Restrictions."

It is expected that delivery of the Notes will be made through the facilities of The Depository Trust Company on or about April 29, 2008 in New York, New York (the "Closing Date").

Merrill Lynch & Co.

The date of this offering memorandum is April 22, 2008.

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Investors should rely only on the information contained in this offering memorandum. The Company and Merrill Lynch Far East Limited (the "Initial Purchaser") have not authorized any other person to provide investors with different information. If anyone provides any investor with different or inconsistent information, such investor should not rely on it. The Company and the Initial Purchaser are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. Each investor should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. The Company's business, financial condition, results of operations and prospects may have changed since that date.

The Company is relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering and for transactions that are not subject to the Securities Act. **Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.** By purchasing Notes, investors will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "Transfer Restrictions" in this offering memorandum. Investors should understand that they will be required to bear the financial risks of their investment for an indefinite period of time.

This offering memorandum has been submitted confidentially to a limited number of institutional investors so that they can consider a purchase of the Notes. Neither the Company nor the Initial Purchaser has authorized its use for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See "Transfer Restrictions."

The distribution of this offering memorandum and the offering and sale of the Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the European Economic Area, Bermuda, the PRC, Hong Kong, Japan and Singapore, and to persons connected therewith.

No representation is made by the Company or the Initial Purchaser that this offering memorandum may be lawfully distributed or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes responsibility for facilitating any such distribution or offering or for a purchaser's failure to comply with applicable laws and regulations. For a description of certain restrictions on offers and sales of the Notes, and distribution of this offering memorandum, see "Transfer Restrictions" and "Plan of Distribution."

None of the Company, the Initial Purchaser or any of their respective representatives is making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. Investors should not consider any information in this offering memorandum to be legal, business or tax advice. Each investor should consult its own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

The permission of the Bermuda Monetary Authority is required for the issue and transfer of securities of Bermuda exempted companies, including the Company. By public notice dated June 1, 2005, the Bermuda Monetary Authority has granted permission for the issue and free transferability of all securities to persons regarded as non-residents of Bermuda for exchange control purposes so long as the shares of the Bermuda company are listed on an appointed stock exchange, which term includes the Stock Exchange of Hong Kong Limited. Accordingly, no further permission of the Bermuda Monetary Authority in connection with the issue of the Notes or their subsequent transfer is required, so long as the shares of the Company remain listed on the Stock Exchange of Hong Kong Limited.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions addressed in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure (as such terms are defined in United States Treasury Regulation Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these Notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The Company and the Initial Purchaser reserve the right to reject any offer to purchase any Notes, in whole or in part, for any reason, or to sell less than the aggregate principal amount of Notes offered by this offering memorandum.

In connection with the issue of the Notes, Merrill Lynch Far East Limited, as stabilizing manager may, subject to applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the time of delivery. However, there may be no obligation on Merrill Lynch Far East Limited, to do this. Such stabilizing action, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED ("RSA"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company" and words of similar import, we are referring to Nine Dragons Paper (Holdings) Limited itself, or to Nine Dragons Paper (Holdings) Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecast and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchaser or our or their respective directors and advisors, and neither us, the Initial Purchaser nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The statistics set forth in this offering memorandum relating to the PRC and the packaging paperboard industry in the PRC were taken or derived from various government and private publications. The Initial Purchaser does not make any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

In this offering memorandum, all references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); all references to "HK$" and "Hong Kong dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong" or "HK"); and all references to "RMB" or "Renminbi" are to the Renminbi, the official currency of the People's Republic of China (the "PRC").

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB7.2946 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007, and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK$7.7984 to US$1.00, the noon buying rate in New York City for cable transfers payable in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or Hong Kong dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rates."

References to "fiscal year" in this offering memorandum refer to the Company's fiscal year ending on June 30 of each relevant year. References to "associate" or "associates" in this section are to associates as defined in HKFRS.

References to "the PRC" and "China," for the purposes of this offering memorandum, except where the context requires, do not include Hong Kong, Macau Special Administrative Region of the PRC ("Macau") or Taiwan. "PRC government" or "State" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

References to “commencement of operations” or “date of commencement” indicate the date on which the referenced paper machine or other article of equipment was successfully installed and brought online for testing. Typically, our paper machines undergo several months of testing following the date of commencement of operations. The commencement of commercial operations occurs after the conclusion of the initial testing period, when the paper machine begins operating at a commercially viable level.

References to our “Controlling Shareholders” are to Best Result Holdings Limited, Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei. References to the “Reorganization” are to the 2005 corporate reorganization we underwent shortly before our initial public offering. References to “IPO” are to our initial public offering on March 3, 2006.

References to “design production capacity” refers to management’s estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis, and is based on factors which affect normal operating limits such as the capacity of equipment to process material, the type and basis weight of the product being produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity estimates assume utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the designated primary product, at assumed basis weights.

Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our business and operating strategies;
- our capital expenditure plans and estimates;
- various business opportunities, strategies and acquisitions that we may pursue;
- our ability to expand our design production capacity and introduce new products;
- our ability to manage our existing production bases and establish new production bases in the PRC and abroad;
- our relationships with our suppliers, customers, employees and various governmental and regulatory authorities;
- our dividend policy;
- our operations, utilization rates and business prospects;
- our financial condition and results of operations;
- demand for our products, our competitive position and the industry outlook generally; and
- changes in political, economic, legal and social conditions in the PRC.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. So long as any of the Notes remain outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our semi-annual and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in Bermuda with limited liability. Bermuda has a different body of securities laws from the United States and protections for investors may differ.

All of our assets are located outside the United States. In addition, all of our directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons or to enforce against us or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We expect to appoint National Corporate Research as our agent to receive service of process with respect to any action brought against us in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

We have been advised by our Bermuda legal advisors, Conyers Dill & Pearman, that the courts of Bermuda are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any of its states and (ii) in original actions brought in Bermuda, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any of its states, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in Bermuda of judgments obtained in the United States, the courts of Bermuda will recognize and enforce a judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided that such judgment is final and conclusive, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Bermuda judgment in respect of the same matter, and was not obtained in a manner, and is not of a kind the enforcement of which is, contrary to the public policy of Bermuda (awards of punitive or multiple damages may well be held to be contrary to public policy). A Bermuda court may stay proceedings if concurrent proceedings are being brought elsewhere.

We have been advised by Gonçalves Pereira, Rato, Ling, Vong & Cunha – Advogados, our Macau Counsel, that any judgment obtained against us in any overseas court in respect of any legal suit or proceeding arising out of or relating to the Notes may be enforced by the courts of Macau subject to a specific proceeding of judicial review and confirmation, whose terms and legal requisites are stated in the Macau Civil Proceeding Code, inter alia, its sections 1199 to 1205.

We have been advised by Sidley Austin, our Hong Kong legal counsel, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, a judgment of a court in the United States predicated upon U.S. federal or state securities laws may be enforced in Hong Kong at common law by bringing an action in a Hong Kong court, and then seeking summary or default judgment on the strength of the foreign judgment, provided inter alia that the foreign judgment is for a debt or a definite sum of money and is final and conclusive on the merits.

Further, we have been advised by our PRC legal counsel, Jun He Law Offices, that there is uncertainty as to whether the courts of the PRC, would enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards, ("HKFRS"), which differ in certain respects from generally accepted accounting principles in certain other countries. The material differences between HKFRS and generally accepted accounting principles in the United States ("U.S. GAAP") are described herein under "Summary of Certain Differences between HKFRS and U.S. GAAP."

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SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

Overview

We are the largest producer in Asia, and one of the largest producers in the world, of containerboard products, in terms of worldwide capacity and market share, based on data from RISI Inc. as of January 25, 2008. We manufacture primarily containerboard products, including linerboard, high-performance corrugating medium and certain types of coated duplex board. We also produce unbleached kraft pulp through our joint venture subsidiary, Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An"), which we primarily sell to third parties but also use for our own production. We believe the level of integration and scale of our operations enables us to efficiently produce a broad range of high quality packaging paperboard products at a low cost.

Our operations have grown significantly since our inception in 1995. Our current aggregate design production capacity for packaging paperboard is 5.35 mtpa. We now operate fifteen technologically advanced paper machines imported mainly from Europe, North America and Japan, which are located in our two production bases in China, with three factories at our Dongguan base in the Pearl River Delta region and one factory at our Taicang base in the Yangtze River Delta region. As we have increased our design production capacity, our sales have grown significantly. Our sales increased from RMB7,902.2 million in fiscal year 2006 to RMB9,837.7 million in fiscal year 2007, representing a growth rate of 24.5%. For fiscal years 2006 and 2007 and the six months ended December 31, 2007, our net profit was RMB1,400.1 million, RMB2,060.3 million and RMB1,078.7 million, respectively.

We are in the process of further increasing our design production capacity and, based on existing commitments and negotiations with equipment suppliers, have plans to increase our design production capacity by approximately 5.20 mtpa, or 97.2% by the end of 2009. We are constructing two additional production bases, one in Chongqing and one in Tianjin, and have entered into an agreement to acquire a site in Sichuan Province and have signed an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam to further expand our design production capacity, diversify our product mix and extend our geographic coverage. In aggregate, we are planning on adding 13 new paper machines across our Dongguan, Taicang, Chongqing and Tianjin bases and in Vietnam. We believe that our new facilities in Chongqing, Tianjin, Sichuan and Vietnam will enable us to take advantage of demand for packaging paperboard products in central-western, northern and north-eastern China and to cultivate business opportunities in Southeast Asia.

We believe that our increasingly integrated operations have enhanced our competitive position and profitability in the packaging paperboard market. We own and operate extensive facilities to support our manufacturing operations, including coal- and solid waste-fired power plants with an aggregate installed capacity of 615 MW, water treatment systems, a shipping pier capable of accommodating oceangoing vessels of up to 50,000 dwt, truck fleets, warehouses and raw materials yards and other supporting infrastructure. To support our expansion, we will continue to acquire substantial land in Chongqing and Tianjin and are installing comprehensive infrastructure facilities to replicate our integrated operations in Dongguan and Taicang. Based on existing commitments and current negotiations, we estimate that our total aggregate capital expenditures for fiscal years 2008 and 2009 will be RMB9,773.0 million, representing approximately RMB6,753.7 million and RMB3,019.3 million, respectively.

We were incorporated in Bermuda on August 17, 2005 as an exempted company with limited liability and our shares were listed on The Stock Exchange of Hong Kong Limited on March 3, 2006 and trades under the stock code 2689. As of March 31, 2008, we had a market capitalization of approximately HK$27.4 billion.

Competitive Strengths

We are the largest containerboard manufacturer in Asia and the market leader for containerboard products in China

We are the largest producer in Asia, and one of the largest producers in the world, of containerboard products in terms of worldwide capacity and market share, based on data from RISI Inc. as of January 25, 2008. Our current design production capacity for packaging paperboard is 5.35 mtpa and consists of 2.80 mtpa of linerboard, 1.60 mtpa of high-performance corrugating medium and 0.95 mtpa of coated duplex board. Our scale allows us to build our brand name recognition and exercise our pricing power. Our multiple paper machines increase our flexibility by allowing us to manufacture a variety of products simultaneously while minimizing equipment shutdowns required for product and specification changes. We believe that our advanced production facilities allow us to quickly and efficiently adapt to meet customer demands and have helped us build our brand name and reputation as a market leader in the packaging paperboard industry in Asia.

Our production bases are strategically located in close proximity to our key customers, transportation networks and energy and water resources

Each of our current bases in Dongguan and Taicang and our planned bases in Chongqing and Tianjin are located in rapidly developing economic regions of China. Such regions have seen economic growth above the PRC national average and each provides a high concentration of current and potential manufacturing customers. Our Dongguan base is strategically located in the Pearl River Delta, one of the largest carton manufacturing centers in China. Our Taicang base is located in the Yangtze River Delta and is in a major port city bordering Shanghai. Our planned Chongqing base will be located on the Yangtze River coast within a 40-minute drive from the Chongqing city center and our planned Tianjin base will be built in the Ninghe Economic Development Zone next to the Binhai New Area in Tianjin. We believe that the continued development of domestic consumption by local industries in these regions will support demand for our products. Moreover, a majority of our customers are located in close proximity to our production bases, enabling us to deliver our products in a timely and cost-efficient manner.

Both our Dongguan and Taicang bases have access to extensive transportation networks through which we deliver most of our products. The Xinsha port is located adjacent to our Dongguan base and we have constructed a shipping pier at Taicang capable of accommodating oceangoing vessels of up to 50,000 dwt for directly receiving the coal that powers our production bases. Our planned Chongqing and Tianjin bases will also have convenient access to transportation networks through a shipping pier in Chongqing, a public port in Tianjin and rail and highway systems. These transportation and delivery networks help ensure reliable, timely deliveries to our customers and allow us to conveniently source raw materials and energy supplies. The proximity of our bases to major rivers also allows us to draw water supplies for our manufacturing processes.

We are one of China's most efficient packaging paperboard manufacturers

We believe our operational efficiencies enhance our ability to take advantage of continuing growth in the packaging paperboard market in China. We have increased our operational efficiencies primarily through organic growth, a flexible production process and continued focus on vertically integrating our operations.

We have designed our product mix both to meet market demand and to maximize the recycling of water and scrap fiber by-products from the production of one product for use in the production of another product. We utilize a variety of recovered paper grades while maintaining product quality and performance characteristics, providing us with increased flexibility in sourcing raw materials at competitive prices. In addition, some of our paper machines can shift from the production of one type of product to another with little or no interruption, thereby increasing our flexibility to produce different products. We have also assembled a fleet of over 600 large trucks that we use to provide full-year uninterrupted delivery services to customers and for the transportation of raw materials from our piers to our production bases in Dongguan and Taicang. These support facilities provide us with efficient access to energy, water and transportation sources.

To ensure consistency in the quality and management of our various production bases, we centrally train most of our technicians and management in our Dongguan base. This centralized training allows for a smoother transfer of employees between our production bases, allowing us to ramp up production in new facilities at a faster pace. Our fourdrinier kraftlinerboard paper machines are among the largest and fastest in China and our average equipment utilization rate for the six months ended December 31, 2007 was 94.0%.

Our operations enable us to provide a broad range of packaging paperboard products tailored to our customers' needs

We currently have fifteen technologically advanced paper machines with automated Distributed Control Systems ("DCS") and quality control systems. The size, width, versatility and number of our paper machines allow us to offer a diversified product portfolio with various types, grades, burst indices, stacking strengths, basis weights, printability and brands to meet a variety of customer requirements. Our multiple production lines enable us to rapidly and efficiently adjust our product mix to offer a diversified product portfolio. The width of our machines also allows us to produce products in a large variety of sizes, increasing our flexibility to meet customer demands. Our five principal products are available in 40 different basis weights and over 1,000 different size and type specifications.

We believe there are very few containerboard manufacturers in Asia that can match our production scale, speed and flexibility, degree of integration and inventory management which together allow us to accommodate variations in customer requirements and to fill large orders on short notice. We believe this ability has bred loyalty among our customers and allowed us to continue to attract new customers as we are able to efficiently provide consistent quality containerboard products across various specifications.

We have secure sources of high-quality raw materials at competitive prices

Recovered paper and kraft pulp are the principal raw materials used in the manufacture of our products. We source the majority of our recovered paper from America Chung Nam, Inc. ("ACN"), a company wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, under a long-term contract entered into at arm's length and which is renewable at our option. See "Related Party Transactions." Our long-term and stable relationship with ACN enables us to obtain better logistical and pricing terms than might otherwise be available and provides us with priority of supply over other ACN customers. While we source the majority of our recovered paper from ACN, we have been working to continue to diversify our sources of recovered paper in China in order to achieve greater independence from our suppliers.

We produce unbleached kraft pulp, one of the principal raw materials for kraftlinerboard, through ND Xing An, our 55%-owned joint venture subsidiary. ND Xing An has access to extensive softwood forest reserves in Inner Mongolia which are owned and managed by our domestic joint venture partner, enabling us to secure a future supply of unbleached kraft pulp, which is in short supply in China. As of December 31, 2007, ND Xing An had the capacity to produce 0.12 million tonnes of long-fibered unbleached kraft pulp annually. In order to further control raw material costs, we are exploring the development of wood pulp forestry resources and pulp production facilities.

We have developed a large, diversified and stable base of customers

We have developed a large, diversified and stable base of customers and have become the preferred supplier to a number of customers that use our packaging paperboard products to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally-recognized brand names. As of December 31, 2007, we had more than 1,000 customers, consisting of corrugators and coated duplex board packaging and printing companies located in the Pearl River Delta and Yangtze River Delta regions, as well as international paper companies. For the six months ended December 31, 2007, sales to our top five customers accounted for 8.6% of our total revenue and sales to our single largest customer accounted for only 2.7% of our total revenue. In addition, we have a low customer turnover rate, which we believe is the result of the quality and consistency of our products, our ability to provide a broad range of packaging paperboard products to meet customer needs and our superior after-sales services.

We are committed to environmentally responsible practices

We consider the implementation of environmentally responsible practices and the maintenance of high environmental standards to be an essential part of our leadership in the industry and our long-term success. Accordingly, we are committed to setting higher standards for environmental compliance in the industry. We have established a special department to set up environmental protection systems for managing wastewater treatment, emissions, solid waste treatment and noise control and will continue to invest in energy conservation equipment in order to ensure a higher level of energy efficiency in our new paper machines. We also conduct periodic evaluations of our facilities to ensure that we are in compliance with or exceed the relevant minimum standards under PRC environmental laws and regulations. We believe our production bases have attained internationally recognized environmental management standards. We obtained ISO 14001 certification for our environmental management standards in February 2005 and in 2008, our main operating subsidiaries in Dongguan and Taicang were named as Green/Environmental Creditable Enterprises by the Guangdong and Taicang Environmental Protection Bureaus, respectively, based on compliance with domestic environmental regulations.

To minimize the impact of our operations on forest resources, most of the fiber used in our production process comes from recovered paper. We also employ a circulating fluidized bed waste-to-energy boiler in Dongguan, which we believe is the only one of its kind used by paper manufacturers in China, that provides efficient combustion, produces low atmospheric emissions and has the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. We have also added an additional power plant unit at our Dongguan base which is capable of generating steam power from solid waste. Moreover, our water recycling and conservation system and wastewater treatment facilities substantially reduce our water consumption to minimize the impact on water resources. We believe these measures and our environmental record has been a factor in assisting us to obtain required regulatory approvals to expand our capacity.

We are led by an experienced and dedicated international management team

We are led by an experienced and dedicated international management team, particularly our founding shareholders, Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei. These founding shareholders have led us through rapid growth and expansion since our establishment in 1995 and have an average of approximately 18 years of experience in the recovered paper recycling and paper manufacturing businesses. Our senior management team has an average of over eight years' experience in the field. Our board of directors and senior management team includes internationally trained talent with professional qualifications from overseas. Through our management's leadership, vision and drive, and their consistent efforts to implement international best practices, we believe we have become the market leader in China with a respected brand name and one of the largest producers in the world of containerboard products within a short period of time. Many members of our senior management have been with us or our subsidiaries since our establishment.

We maintain a strong commitment to enhancing corporate governance policies

In order to meet or exceed international best practices and to streamline our management processes and strengthen our corporate governance, we maintain four independent non-executive directors and have established a risk control committee which, among other things, ensures effective information exchange, supervises the effectiveness and efficiency of control over activities within and between different departments, identifies and analyzes risks which may impede the achievement of corporate objectives (including risks associated with changes in the regulatory and operating environments) and establishes internal control measures for minimizing and eliminating risks. In addition, we established an audit committee to review and supervise our financial reporting process and maintain an independent system to govern and monitor our recovered paper purchasing process, which includes obtaining bids from multiple suppliers and selecting the successful bid based on objective standards such as price, quality of recovered paper, delivery schedule and services. The bid is then reviewed by one of our independent non-executive directors prior to the placement of our orders and the independent non-executive directors will also conduct a periodic review of the purchase terms and the fairness of our basis for selecting recovered paper suppliers. We believe that the above policies will help us ensure that we maintain a high standard of integrity and ethics in our business activities and ensure compliance with applicable laws and regulations.

Business Strategies

We aim to become the world's leading manufacturer of packaging paperboard products. We will continue to seek opportunities to realize sustainable growth of our business. To achieve this, we plan to focus on the following strategies:

Continue to build on our market leadership position in China to expand into other regions in Asia

We seek to reinforce our market leadership position in China by leveraging our successful experience in the Pearl River Delta and Yangtze River Delta to expand into western and northern China. We believe the commencement of production at our planned facilities in Chongqing and Tianjin will make our products competitive in the western and northern parts of China and increase our overall share of the national market. We plan to purchase and install 13 new paper machines to increase our design production capacity of packaging paperboard from 5.35 mtpa to 10.55 mtpa by the end of 2009. We are continually exploring new investment opportunities to expand our production capacity and to increase our market share, geographic reach and competitiveness. With a view to strengthening our domestic and global market positioning, we have recently acquired a site in Sichuan Province and signed an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam, in order to access the growing Southeast Asian packaging paperboard market.

Continue to enhance operating efficiency

We seek to replicate the success of our production bases in Dongguan and Taicang in our planned bases in Chongqing and Tianjin and at our proposed Sichuan acquisition and intend to continue to enhance our operating efficiencies through upgrading our production processes and equipment and developing our support facilities, we believe that such measures will increase our production volumes and enhance our efficiency and product quality. We will continue to install technologically advanced paper machines to achieve increased design production capacity and quality within the shortest possible time. During fiscal years 2008 and 2009, we intend to purchase and install 13 additional paper machines in our Dongguan, Taicang, Chongqing and Tianjin bases and in Vietnam. To accommodate the increased design production capacity from these new paper machines and to help integrate their production operations, we also plan to build up the supporting infrastructure and logistical support systems at these facilities by constructing a pier in Chongqing and by building power plants, wastewater treatment facilities, water pumping stations and expanding our truck fleets at both our Chongqing and Tianjin bases. We also intend to continue to look for potential cost-saving opportunities in electricity, water, steam and human resources in order to conserve resources.

Further diversify our product offerings

We are actively pursuing opportunities to expand our product lines to allow us to offer a broader range of complementary products to existing and future customers and diversify our revenue streams. By June 2008, we plan to begin production of light-weight high-performance corrugating medium, a product which provides cost advantages to customers due to its lighter weight. Light-weight high-performance corrugating medium is mainly sourced by leading international and Internet retail chains and e-commerce logistics providers. We are currently constructing PM18 and PM21 at our Dongguan and Taicang bases, respectively, which we believe will be among the first facilities with the capacity for industrial scale production of light-weight high-performance corrugating medium outside Europe. We believe this will be the only product line of its kind in Asia. We are currently developing a site in Sichuan Province which will be principally engaged in the production of high-value specialty board products such as insulating paper and capacitor tissue paper, wood pulp and bamboo pulp. We are also planning to develop non-aseptic and aseptic liquid packaging board, which is used in beverage packaging, at our Taicang base. We believe such products will be in high demand and will command higher selling prices than normal packaging paper products.

Further diversify our sources of raw materials

We currently purchase a substantial majority of our recovered paper from overseas markets, including purchases from ACN. As we expand our design production capacity, we plan to significantly increase our purchases of recovered paper within China to reduce overreliance on overseas suppliers and to diversify our sources of raw materials. We plan to build long-term relationships with select local suppliers of recovered paper in order to broaden our supplier base. Recently, we established relationships with several local suppliers of recovered paper and we intend to continue to develop our domestic sourcing policy. Our aim is to significantly increase the proportion of locally-sourced recovered paper in the coming few years.

While the principal component in our packaging paperboard products is recovered paper, we require a substantial quantity of kraft pulp for containerboard production. We are exploring the development or acquisition of wood pulp forestry resources and pulp production facilities. The ability to source kraft pulp internally would provide a stable supply of this raw material, and act as a natural hedge against rising kraft pulp costs. To further optimize our sourcing of raw materials, our research and development staff is working with our suppliers to develop the use of new alternative chemicals to improve product performance and reduce costs.

Attract high caliber employees and continue to emphasize and reward excellent performance

We believe that the quality of our human resources, particularly our management and professional engineers, is critical to our ability to compete effectively. To help us continue to attract and retain domestic and international management and engineering talent, we are constructing an employee training center at our former headquarters in Dongguan which will offer Executive MBA and MBA courses for our middle and high-level management staff through our collaboration with Zhongshan University in Guangzhou. We will also continue to emphasize and reward excellence in performance and provide staff development programs such as periodic in-house and overseas training and internal transfer and promotion systems to improve the overall development of our staff. For example, we adopted two share option schemes for our employees in 2006 and have adopted a performance-based compensation plan in order to help ensure that the pay levels of our employees are competitive.

General Information

We were incorporated in Bermuda on August 17, 2005 as an exempted company with limited liability, with the registered number 37208. Our principal place of business in the PRC is at Xinsha Port Industrial Zone, Mayong Town, Dongguan, Guangdong Province, China. Our place of business in Hong Kong is at 3129-3140, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Our website address is http://www.ndpaper.com. Information contained on our website does not constitute part of this offering memorandum.

The Offering

The following summary contains basic information about the Notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this offering memorandum entitled "Description of the Notes."

Company . . . . Nine Dragons Paper (Holdings) Limited

Notes Offered . . . . US$300,000,000 7.875% senior notes due 2013 (the "Notes")

Maturity Date . . . . April 29, 2013

Subsidiary Guarantees. . . . . The Notes will be guaranteed on a senior basis by certain subsidiaries of the Company (the "Subsidiary Guarantors").

Issue Price. . . . . 99.493% plus accrued interest, if any, from the issue date

Interest Rate and Payment Dates. Interest on the Notes will be payable at the rate of 7.875% per annum, payable semi-annually in arrears on April 29 and October 29 of each year, beginning on October 29, 2008.

In certain circumstances following a ratings downgrade the rate of interest applicable to the Notes may be increased as further described under "Description of the Notes — Interest Rate Step-Up upon Ratings Downgrade."

Ranking of the Notes . . . . The Notes and the Subsidiary Guarantees will be the senior direct debt obligations of the Company and the Subsidiary Guarantors, respectively. The Notes and each Subsidiary Guarantee will:

- be effectively subordinated to all of the existing and future secured debt of the Company and the Subsidiary Guarantors, to the extent of the value of the assets securing such debt;

- be effectively subordinated to all existing and future obligations of our subsidiaries in the PRC;

- rank senior in right of payment to all of the existing and future debt of the Company and the Subsidiary Guarantors expressly subordinated in right of payment to the Notes and the Subsidiary Guarantees; and

- subject to the foregoing, be equal in right of payment ("*pari passu*") with all existing and future senior debt of the Company and the Subsidiary Guarantors.

Withholding Taxes; Additional Amounts	The Company and each of the Subsidiary Guarantors will make all payments in respect of the Notes and the Subsidiary Guarantees without deduction or withholding for or on account of any present or future taxes or other governmental charges in Bermuda or any other relevant taxing jurisdiction, unless it is obligated by law to deduct or withhold taxes or governmental charges. If the Company or any Subsidiary Guarantor is obligated by law to deduct or withhold taxes or governmental charges in respect of the Notes or the Subsidiary Guarantees, the Company or such Subsidiary Guarantor will pay, subject to certain exceptions, the holders of the Notes such additional amounts so that the net amount received by the holders after such deduction or withholding will not be less than the amount the holders of the Notes would have received if such taxes or governmental charges had not been withheld or deducted. See "Description of the Notes — Additional Amounts."
Optional Redemption	Except as set forth below, the Notes will not be redeemable at the option of the Company prior to maturity. At any time prior to the Maturity Date, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.
Optional Tax Redemption	The Notes are redeemable, in whole but not in part, at the Company's option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of redemption, in the event of a change in tax law requiring the imposition of withholding taxes in the PRC, Bermuda or any other relevant taxing jurisdiction, in certain cases in excess of specified amounts. See "Description of the Notes — Redemption for Taxation Reasons."
Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, we will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date. See "Description of the Notes — Repurchase of Notes upon a Change of Control Triggering Event."
Certain Covenants	The Indenture governing the Notes will contain covenants that will limit, among other things, our ability and the ability of certain of our existing and future subsidiaries to: • incur certain liens; • permit any subsidiary that is not a Subsidiary Guarantor to guarantee certain indebtedness; and

- consolidate or merge with or into, or sell substantially all of our assets to, another person.

These limitations are subject to exceptions and qualifications described under the section entitled "Description of the Notes."

Use of Proceeds	We estimate the net proceeds from this offering, after deducting the underwriting discount and other estimated expenses payable in connection with this offering, will be approximately US$294.2 million. We intend to use substantially all of the net proceeds to fund capital expenditures or to refinance existing bank loans and other borrowings that were incurred to fund capital expenditures. See "Use of Proceeds."
Transfer Restrictions	The Notes have not been registered under the Securities Act and are subject to certain restrictions on transfer and resale. See "Plan of Distribution" and "Transfer Restrictions."
Listing and Trading of the Notes .	Notes sold to qualified institutional buyers will be eligible for trading in The PORTAL Market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. Any Notes traded on the SGX-ST will be traded in a minimum board lot size of US$200,000 or its equivalent in foreign currencies, for so long as the Notes are listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or the Notes.
Further Issues	We may, from time to time, without notice to or the consent of the holders of the Notes, issue additional Notes, which will form a single series with the Notes. See "Description of the Notes — Further Issues."
Governing Law	The Notes and the Indenture governing the Notes will be governed by, and shall be construed in accordance with, the laws of the State of New York.
Trustee, Registrar, Principal Paying Agent and Transfer Agent	HSBC Bank USA, National Association

See "Risk Factors," beginning on page 15, for a discussion of certain risks involved in investing in the Notes.

Summary Consolidated Financial and Other Data

The following table presents our summary financial and other data. The summary financial data as of and for each of the fiscal years ended June 30, 2006 and 2007 (except for EBITDA data) is derived from our consolidated financial statements for those years and as of the dates indicated. Our consolidated financial statements as of and for each of the fiscal years ended June 30, 2006 and 2007 have been audited by PricewaterhouseCoopers, Certified Public Accountants.

The summary consolidated financial data as of and for the six months ended December 31, 2007 included elsewhere in this offering memorandum is derived from our unaudited condensed consolidated financial statements for the six months ended December 31, 2007, which have been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable PricewaterhouseCoopers to obtain assurance that they would become aware of all significant matters that might be identified in an audit. They do not express an audit opinion. These unaudited financial statements include all adjustments, consisting of normal recurring items, which we consider necessary for a fair presentation of our financial position and results of operations. Our financial condition and results of operations as of and for the six months ended December 31, 2007 should not be taken as an indication of our expected financial condition and results of operations as of and for the full fiscal year ending June 30, 2008. The financial statements have been prepared and presented in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Certain Differences Between HKFRS and U.S. GAAP." The summary financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Income Statement Information

	Year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions, except per share and percentage data)					
Sales	7,902.2	9,837.7	1,348.6	4,638.5	6,690.4	917.2
Cost of goods sold	(6,041.3)	(7,308.8)	(1,001.9)	(3,434.5)	(5,114.2)	(701.1)
Gross profit	1,860.9	2,528.9	346.7	1,204.0	1,576.2	216.1
Other gains — net	357.0	311.2	42.7	148.9	125.1	17.1
Selling and marketing costs	(172.8)	(195.4)	(26.8)	(96.8)	(144.4)	(19.8)
Administrative expenses	(233.9)	(351.3)	(48.2)	(140.5)	(287.2)	(39.4)
Operating profit	1,811.2	2,293.4	314.4	1,115.6	1,269.7	174.0
Finance costs	(294.8)	(131.4)	(18.0)	(85.3)	(64.6)	(8.9)
Profit before income tax	1,516.4	2162.0	296.4	1,030.3	1,205.1	165.1
Income tax expense	(116.3)	(101.7)	(13.9)	(55.0)	(126.4)	(17.3)
Profit for the year/period	1,400.1	2,060.3	282.5	975.3	1,078.7	147.8

	Year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions, except per share and percentage data)					
Profit attributable to:						
Equity holders of the Company	1,374.8	2,003.4	274.7	948.1	1,056.2	144.7
Minority interests	25.3	56.9	7.8	27.2	22.5	3.1
Earnings per share for profit attributable to equity holders of the Company						
— basic	0.4072	0.4794	0.0657	0.23	0.25	0.0343
— diluted	0.4043	0.4703	0.0645	0.22	0.24	0.0329
Dividend	95.5	494.7	67.8	65.6	72.1	9.9
OTHER FINANCIAL DATA						
EBITDA(1)	1,985.1	2,669.2	365.9	1,273.0	1,597.3	219.0
EBITDA Margin(2)	25.1	27.1	27.1	27.4	23.9	23.9

(1) *EBITDA for any period consists of operating profit before extraordinary gains and expenditures plus depreciation expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year/period under HKFRS to our definition of EBITDA.*

(2) *EBITDA margin is calculated by dividing EBITDA by revenue.*

Consolidated Balance Sheet Information

	As of June 30,			As of December 31,	
	2006	2007		2007	
	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in millions)		
ASSETS					
Non-current assets					
Property, plant and equipment	8,625.5	13,802.7	1,892.2	17,321.2	2,374.5
Land use rights	592.1	949.3	130.1	1,094.8	150.1
Intangible asset	146.7	146.7	20.1	146.7	20.1
	9,364.3	14,898.7	2,042.4	18,562.7	2,544.7
Current assets					
Inventories	932.0	1,502.5	206.0	1,565.9	214.7
Trade and other receivables	1,559.0	2,188.1	300.0	2,806.4	384.7
Derivative financial instruments	—	24.9	3.4	5.5	0.8
Restricted cash	200.6	—	—	262.7	36.0
Bank and cash balances	2,816.7	1,748.2	239.7	691.7	94.8
	5,508.3	5,463.7	749.1	5,332.2	731.0
Total assets	14,872.6	20,362.4	2,791.5	23,894.9	3,275.7
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	4,141.3	6,179.2	847.1	6,191.8	848.8
Other reserves	902.0	1,056.2	144.8	1,190.1	163.1
Retained earnings					
– Proposed dividend	95.5	429.1	58.8	72.1	9.9
– Unappropriated retained earnings	2,402.6	3,848.4	527.6	4,794.9	657.3
	7,541.4	11,512.9	1,578.3	12,248.9	1,679.1
Minority interests	94.9	123.1	16.9	147.5	20.2
Total equity	7,636.3	11,636.0	1,595.2	12,396.4	1,699.3
LIABILITIES					
Non-current liabilities					
Deferred government grants	27.8	17.2	2.4	17.0	2.3
Borrowings	2,743.9	4,088.9	560.5	6,759.8	926.7
Deferred income tax liabilities	226.8	281.8	38.6	346.0	47.4
	2,998.5	4,387.9	601.5	7,122.8	976.4
Current liabilities					
Derivative financial instruments	—	7.4	1.0	7.8	1.1
Trade and other payables	1,987.4	1,766.6	242.2	2,102.7	288.3
Current income tax liabilities	67.4	21.4	2.9	47.0	6.4
Dividend payable	6.1	—	—	—	—
Borrowings	2,176.9	2,543.1	348.7	2,218.2	304.2
	4,237.8	4,338.5	594.8	4,375.7	600.0
Total liabilities	7,236.3	8,726.4	1,196.3	11,498.5	1,576.4
Total equity and liabilities	14,872.6	20,362.4	2,791.5	23,894.9	3,275.7
Net current assets	1,270.5	1,125.2	154.3	956.5	131.0
Total assets less current liabilities	10,634.8	16,023.9	2,196.7	19,519.2	2,675.7

Summary Consolidated Cash Flow Statement

	For the year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions)					
Cash flows from operating activities						
Net cash generated from operating activities	1,067.1	756.1	103.7	885.3	475.9	65.2
Cash flows from investing activities						
Net cash (used in)/ generated from investing activities	(1,454.1)	(5,524.0)	(757.3)	(2,712.6)	(3,626.3)	(497.1)
Cash flows from financing activities						
Net cash generated from/ (used in) financing activities	2,556.0	3,727.0	510.9	(129.7)	2,126.7	291.5
Net increase/(decrease) in bank and cash balances	2,169.0	(1,040.9)	(142.7)	(1,957.0)	(1,023.7)	(140.4)
Bank and cash balances at the end of the year/period	2,816.7	1,748.2	239.7	848.4	691.7	94.8

An investment in the Notes is subject to a number of risks. You should carefully consider the following risk factors, together with all other information contained in this offering memorandum, before purchasing the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

Risks Relating to Our Business

We may be unable to complete our expansion projects on schedule, within budget or at all.

We are in the process of further increasing our design production capacity and, based on existing commitments and negotiations with equipment suppliers, have plans to increase our design production capacity of packaging paperboard to approximately 10.55 mtpa by the end of 2009. We are constructing two additional production bases, one in Chongqing and one in Tianjin and have also entered into an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam. In aggregate, we plan to purchase and install 13 new paper machines in our Dongguan, Taicang, Chongqing and Tianjin bases and in Vietnam. Moreover, we plan to construct a shipping pier in Chongqing and power plants and water treatment facilities as supporting infrastructure for our Chongqing and Tianjin bases. We anticipate that these expansion projects will increase our design production capacity of packaging paperboard by approximately 5.20 mtpa, or 97.2%. We also plan to introduce several new products in the near future, including light-weight high-performance corrugating medium, high-value specialty board products such as insulating paper and capacitor tissue paper, wood pulp and bamboo pulp and non-aseptic and aseptic liquid packaging board. We also expect to expand our operations further to the extent that market opportunities, the availability of financing and other factors make it desirable to do so. For example, we have recently acquired a site in Sichuan Province and have commenced the site formation work for pulp and paper factories. See "Business — Integrated Operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures."

Our expansion projects involve engineering, construction, regulatory and other significant risks that may delay or prevent the successful completion or operation of these projects or significantly increase our costs. In addition, while we have expanded rapidly in the past, we have not previously undertaken an expansion program of the size and scope we are currently considering. Potential risks and uncertainties relating to our expansion projects include, but are not limited to, the following risks:

- delays in the delivery and installation of manufacturing equipment;
- shortages of, and price increases with respect to, energy supplies, materials, construction equipment and skilled labor;
- low utilization rates before the new paper machines commence commercial production;
- labor disputes or work stoppages or disputes with or defaults by contractors and subcontractors;
- design or construction changes, costs or requirements related to compliance with environmental or other laws and regulations;
- failure or delay in securing the necessary governmental approvals, permits and licenses or land use rights;

- changes in environmental or other laws or policies applicable to power plants, shipping piers, construction projects, wastewater treatment facilities or our industry in general;

- engineering or equipment problems or defective plans and specifications for our production facilities;

- fire, typhoons, earthquakes and other natural disasters;

- a downturn in the economy; and

- changes to plans and specifications for additional facilities necessitated by changes in market conditions.

Our ability to successfully complete our expansion plans on schedule is also subject to our ability to access the capital resources we need to support such plans. See "— We may not have adequate capital resources to provide for the substantial capital requirements required to implement our business strategies, including our planned expansion projects."

In addition, we may selectively seek strategic acquisitions or joint venture investment opportunities in the future. For instance, we have recently acquired a site for the development of pulp and paper factories in Sichuan Province and are seeking to acquire a majority equity interest in an existing paper manufacturer in Vietnam. We are also exploring the development of pulp manufacturing and resource ventures. Our ability to consummate and effectively integrate these and any future acquisitions or joint venture investment opportunities on terms that are favorable to us may be limited by the number of attractive acquisition targets and joint venture partners, internal demands on our resources and our ability to obtain financing on satisfactory terms, if at all.

Furthermore, while we have experience in building and operating major production bases in Dongguan and Taicang, we do not have comparable experience in Chongqing, Sichuan Province, Tianjin or Vietnam. Our planned Chongqing and Tianjin production bases and our proposed production facilities in Sichuan and Vietnam may not operate at planned design production capacity or may cost more to operate than we expect. We cannot assure you that we will be able to successfully complete the construction of these facilities, the installation of the new paper machines and the commencement of commercial operations according to our schedule, or at all. Moreover, as we have not yet completed negotiations on our planned acquisitions in Sichuan and Vietnam, we cannot assure you that we can successfully complete such negotiations or that any such expansion plans will be completed on time or at all. As we enter into new markets, we will also be subject to additional regulatory restrictions and compliance procedures. We may also have difficulty establishing or integrating our new product lines into our existing business model.

Any delays or difficulties in implementing our expansion plans could result in increased financing costs associated with our expansion projects and the loss or delayed receipt of revenue or a failure to meet profit and earnings projections, any of which could have a material adverse effect on our business, financial condition and results of operations.

We may not have adequate capital resources to provide for the substantial capital requirements required to implement our business strategies, including our planned expansion projects.

Our operations are capital intensive, and we regularly make capital expenditures to expand our operations, maintain our equipment, increase our operating efficiency and comply with environmental laws and regulations. Our total capital expenditures were approximately RMB5,760.1 million in fiscal year 2007 and were used for the construction of factory buildings and the purchase of buildings, machinery, equipment and land use rights.

We currently have plans for significant capacity expansion projects and diversification of our product line, which will involve significant capital expenditures. See "Business — Integrated Operations." Based on existing commitments and current negotiations, we estimate that our aggregate capital expenditures for fiscal years 2008 and 2009 will be RMB9,773.0 million, representing approximately RMB6,753.7 million and RMB3,019.3 million, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures." Depending on market conditions and opportunities, we may seek to further expand our production capacity and product lines in the future.

We may not be able to raise funds that are required to implement our business strategies and expansion plans on commercially acceptable terms, or at all. If we cannot obtain additional funds when required, we may not be able to fund the necessary capital expenditures, including to upgrade or purchase additional plants and equipment, or to implement our business strategies and expansion plans fully or at all. In addition, our operations require substantial working capital, including payment for purchases of raw materials and manufacturing overhead and our working capital requirements will increase along with our expansion. If we are unable to satisfy our working capital needs or to repay our debt obligations as they become due when we seek to fund the necessary capital expenditures or implement our business strategies, we may be subject to creditors' actions or be forced to adopt an alternative strategy that may include reducing production, delaying capital expenditures, selling assets, refinancing our indebtedness or seeking equity capital. Moreover, if we incur additional debt to cover the cost of implementing our business strategies and expansion plans, risks related to our indebtedness would intensify. Any of the above could impede the implementation of our business strategies and expansion plans or prevent us from entering into transactions that would otherwise benefit our business on commercially reasonable terms or at all and adversely affect our business, financial condition and results of operations.

If we expand our operations outside of China, we may face added business, political, regulatory, operational, financial and economic risks, any of which could materially harm our financial performance and hinder our growth.

We may continue to expand our operations beyond China if attractive opportunities arise. However, we have limited experience in operating in these new markets and could face considerable challenges in our expansion into such markets. These risks include the following:

- our lack of local presence and familiarity of business and employment practices and conventions in these new markets;

- the cost and difficulty of complying with a wide variety of foreign laws and regulations, including unfamiliar regulatory requirements;

- volatility in local economies and currency exchange rates;

- changes in political, regulatory or economic conditions in a foreign country or region; and

- failure of the anticipated market demand for our products outside of China to materialize.

Any of the foregoing risks could harm our expansion efforts and materially and adversely affect our business, financial condition and results of operations.

We may experience difficulties managing our growth.

We have grown rapidly over the past few years and intend to significantly expand our design production capacity and product portfolio in the future. See "Business — Integrated Operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures." We also plan to expand the coverage of our distribution network. These expansion plans have presented, and continue to present, significant challenges for our management and administrative systems, resources and supporting infrastructure. We cannot assure you that we will not experience issues such as capital constraints, operational difficulties at new locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. We also cannot assure you that our expansion plans will not adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition and results of operations. Specifically, our planned expansion of our design production capacity and product portfolio will require substantially increased supplies of raw materials and utilities and corresponding increases or expansion of supporting infrastructure, such as water treatment facilities, transportation infrastructure and staff. Moreover, our ability to increase sales in new markets will depend on whether we can build on our existing relationships or establish new relationships with customers and distributors in such markets. If we fail to develop and maintain management and administrative systems, resources and supporting infrastructure to keep pace with our planned growth, we may experience difficulties managing our growth and our business, financial condition and results of operations could be materially and adversely affected.

A material disruption of our operations could adversely affect our business and results of operations.

Our operations, including our transportation and delivery systems, are subject to uncertainties and contingencies beyond our control that could result in a material disruption of our operations and adversely affect our business and results of operations. These include industrial accidents, fires, floods, droughts, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labor difficulties and disruptions of public infrastructure such as roads, ports or pipelines.

Our operations require significant and stable supplies of water, electricity and steam. These requirements will increase substantially as we expand our design production capacity. Any of the events listed above, as well as power interruptions or rationing, could disrupt or restrict supply of such utilities. We have experienced power shortages and disruptions in the past, most recently in fiscal year 2005, and may in the future experience such disruptions again.

Any such disruption of our operations or transportation and delivery systems could cause us to limit or delay our production, prevent us from meeting customer orders, increase our costs of production or require us to make unplanned capital expenditures, each of which could adversely affect our business, financial condition and results of operations.

We rely on ACN, a company wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, for a substantial majority of our supplies of recovered paper and may have difficulty obtaining the quantities of recovered paper we require if ACN were unable to provide us with an adequate supply of recovered paper for any reason.

Recovered paper is the primary raw material for packaging paperboard products. We do not own or control any source of recovered paper. We purchase from ACN, a related party that is wholly owned by two of our Controlling Shareholders, Ms. Cheung Yan and Mr. Liu Ming Chung, a substantial majority of the recovered paper we use in producing our paperboard products. In the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, purchases of recovered paper from ACN amounted to approximately RMB2,591.7 million, RMB2,922.4 million and RMB1,839.9 million, which constituted approximately 78.9%, 65.2% and 56.3%, respectively, of our total purchases of recovered paper and approximately 42.9%, 40.0% and 36.0%, respectively, of our total cost of goods sold. We cannot assure you that, in the event that ACN were unable to provide adequate supply of recovered paper to us, due to a change in control, a disruption to its operations or for other reasons, or if they cease or reduce the supply of recovered paper to us for any reason, we would be able to substitute our supply from ACN by increasing the supply from other existing suppliers or from new suppliers, in the near term, or at all. Our business, financial condition and results of operation could be adversely affected if we were unable to find alternative supplies of recovered paper of the same quality at competitive prices and in the same quantity.

Our contract with ACN for recovered paper supplies expires on June 30, 2008, but is renewable at our option for successive terms of three years upon its expiration, based on prices determined by reference to the prevailing price in the recovered paper market in China comparable to those offered by third party independent suppliers. Failure by ACN to fulfill its obligations under such contractual arrangements may have an adverse effect on our business, financial condition and results of operations. See "Business — Raw Materials" and "Related Party Transactions."

We may not be able to obtain land use rights certificates for certain land used in our current operations and for land held for future use.

Under PRC law, we are required to obtain land use rights certificates for land used in our operations. We currently use various parcels of land in Dongguan on which we constructed or plan to construct, among other things, pipes and reservoirs for water access and roads used in our operations. Although we have signed land transfer agreements with or obtained certain land title documents from the previous owners or the local governments, we may not receive land use rights certificates because most of this land is collectively-owned land which may not be eligible for private transfer under PRC laws and regulations. We cannot assure you that the relevant authorities or a third party would not challenge the transfer of the land to us or our right to possess or use the land, which may result in us losing possession of the land or our previous investment in the land or otherwise limit our ability to use and enjoy the land. Any material interruption to our use of, or the loss of the rights to use, the land could result in a material disruption of our operations or loss of our investment in the land and the related facilities, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we will continue to acquire land in connection with our expansion. Based on our expansion plans, we plan to acquire land use rights for approximately 2.4 million sq.m. of land for our Chongqing base, approximately 2.4 million sq.m. of land for our Tianjin base. See "Business — Integrated Operations." As of December 31, 2007, we have acquired land use rights certificates for approximately 1.4 million sq.m. of land in Chongqing and have also entered into land transfer agreements for approximately 1.06 million sq.m. of land in Tianjin. We have not yet finalized our land transfer agreements for the remaining 1.34 million sq.m. of land in Tianjin and have not obtained the land use rights certificates with respect to the remaining 1.0 million sq.m. of land in Chongqing or any of the land in Tianjin. In connection with these land acquisitions, we have paid land premiums in the aggregate amount of RMB210.1 million and will pay land premiums of RMB5.8 million in fiscal years 2008 and 2009 to acquire the remainder of these land parcels. We cannot assure you that we will be able to acquire the land use rights for the remaining plots of land. Although we have entered into land transfer agreements with holders of the land in Tianjin, we cannot assure you that the government will issue us land use rights certificates for such land. If we are unable to obtain land use rights for such additional land or are unable to locate alternative land for future use on terms acceptable to us, or at all, we may not be able to implement our expansion plans as scheduled or within budget.

Our current operations require a substantial number of regulatory licenses, approvals and permits. We have not obtained several of such documents, some of which are material to our current operations.

Our current operations require us to obtain a number of regulatory licenses, approvals and permits. In addition, we plan to expand our business to cities and provinces in which we do not currently operate. Accordingly, we require, and will continue to require, relevant licenses, approvals and permits at the national, municipal, provincial and/or ministerial levels. See "Regulation" for more information. We have not received several significant licenses, approvals or permits related to certain of our key operations. These licenses, approvals, permits and related third party verifications include:

- approvals from local development and reform committees relating to the installation and the production capacity of 10 of our paper machines;
- approvals from the relevant local construction committee or environment protection agency for the construction of certain paper machines, the pier in Chongqing and an office building in Dongguan;
- approval certificates relating to changes of shareholders and capital increases;
- verification reports for capital increases or approvals for an extension of the deadline to increase the capital of three of our subsidiaries in Dongguan, two in Chongqing and 10 in Tianjin;
- water-drawing licenses for three of our subsidiaries;
- the environmental impact appraisal report for one of our paper machines;
- renewal of the pollutant discharge permit for one of our subsidiaries; and
- approval for increased production capacity for two of our paper machines in operation.

Where we believe such licenses, approvals or permits are material to our business, we are in the process of applying for them. In certain instances, we have not applied for licenses, approvals or permits where we believe they are not essential to obtain. We cannot assure you that we will obtain licenses, approvals or permits necessary for our operations, or that upon the expiration of our existing licenses, approval or permits, we will be able to successfully renew them. In addition, if the relevant authorities enact new regulations, we cannot assure you that we will be able to successfully meet their requirements. If we fail to obtain or renew necessary regulatory licenses, approvals and permits, we may have to cease construction or operation of these machines and projects, lose our business licenses and be subject to fines and other penalties, which could have a material adverse effect on our business, financial condition and results of operations. We are expanding our operations to other sites in the PRC, including Chongqing, Sichuan Province, Tianjin, and Vietnam, where we do not possess the same level of familiarity with the regulatory and business environment and in which we will require relevant licenses, approvals and permits under relevant laws and regulations. We cannot assure you that we will obtain the relevant licenses, approvals and permits or that, once obtained, our experience in our current locations will be fully relevant in the new locations. Any failure to obtain or renew regulatory licenses, approvals and permits in a timely manner and any unforeseen difficulties arising from the unfamiliar locations may adversely affect our expansion plans, future operations and financial performance.

We may be subject to losses that might not be covered in whole or in part by insurance.

Our business and properties may be adversely affected due to the occurrence of typhoons, earthquakes, floods, droughts, fire or other natural disasters or similar events at our production bases. Should an accident occur, it may cause significant property damage and personal injuries. Consistent with customary practice in China, we do not carry any business interruption insurance, third-party liability insurance for personal injury or environmental damage arising from accidents at our production bases or relating to our operations or product liability insurance against claims or liabilities that may arise from products sold by us. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital invested in the affected property, as well as the anticipated future revenue derived from the manufacturing activities conducted at that property. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

We may be subject to liability in connection with industrial accidents at our production sites.

Our operations involve the operation of heavy machinery, and industrial accidents resulting in employee injuries or deaths may occur. For example, in January 2006, we experienced a serious industrial accident, resulting in the deaths of two employees and the minor bodily injury of a third employee. Since that date, we have experienced three other serious industrial accidents, each of which resulted in the death of an employee. We cannot assure you that other industrial accidents at our production sites, whether due to machinery malfunctions or other reasons, will not occur in the future. In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines or penalties for violation of applicable PRC laws and regulations. We may also be subject to business interruptions or negative publicity as a result of equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of such accidents. These types of accidents or enhanced safety measures imposed by PRC government authorities could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our business, financial condition and results of operations.

We may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly U.S. dollars.

The majority of our sales are denominated in Renminbi. However, a substantial portion of our sales, borrowings, capital expenditures and operating expenses are denominated in currencies other than the Renminbi, principally the U.S. dollar. For the six months ended December 31, 2007, approximately 42.3% of our sales were denominated in non-Renminbi currencies, although certain sales are denominated in other currencies but paid in Renminbi. As of December 31, 2007, 51.1% of our borrowings were denominated in Renminbi, with the balance in non-Renminbi currencies, principally U.S. dollars. Following completion of this offering, the proportion of our non-Renminbi denominated borrowings will increase significantly. Our purchases of recovered paper and kraft pulp which were largely denominated in U.S. dollars accounted for 61.3% of our cost of sales for the six months ended December 31, 2007.

Pursuant to reforms of the exchange rate system announced by the People's Bank of China ("PBOC") on July 21, 2005, Renminbi-to-foreign currency exchange rates were allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar since then. The central parity rate of the Renminbi rose to RMB6.9993 to US$1.00 on April 14, 2008, bringing the currency's total appreciation to more than 15% since reform of the exchange rate system began in July 2005. On May 18, 2007, and effective on May 21, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenue, earnings and financial position, and the value of any dividends payable to us by our PRC subsidiaries. For example, an appreciation of the Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms are implemented and result in depreciation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar-denominated indebtedness and other obligations and operating expenses. Such a depreciation could also adversely affect the value, translated or converted to U.S. dollars or otherwise, of our earnings. Accordingly, volatility of the Renminbi against the U.S. dollar may have a material impact on our results of operations and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. We utilize derivative financial instruments such as foreign currency forward contracts and cross-currency interest rate swaps to hedge our exposure to foreign currency risk. Following the offering of the Notes, we may also enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. Each of the Initial Purchaser and its affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

The interests of our Controlling Shareholders may conflict with the interests of holders of the Notes and the Company.

The Controlling Shareholders, in the aggregate, beneficially own approximately 70.15% of the Company's issued shares as of March 31, 2008. Subject to our bye-laws and applicable laws and regulations, our Controlling Shareholders will continue to have the ability to exercise a controlling influence over our management, policies and business by controlling the composition of our Board, determining the timing and amount of our dividend payments and approving significant corporate transactions, including mergers and acquisitions, approving our annual budgets and other significant corporate actions. The interests of our Controlling Shareholders may not be consistent with our interests or those of our creditors, including holders of the Notes. To the extent that there are conflicts of interest between our Controlling Shareholders and us or our creditors, we cannot assure you that the Controlling Shareholders will not cause us to enter into transactions or take, or omit to take, other actions or make decisions that conflict with the best interests of our creditors, including holders of the Notes.

In addition, certain of our Controlling Shareholders have ownership interests in a number of companies in China and the United States, including companies that are involved in businesses related to our business or that have entered into, or may enter into, business transactions with us. Although our Controlling Shareholders currently conduct business with us, we cannot assure you that they will continue to do so. For further information about the business transactions between us and the Controlling Shareholders, see "Related Party Transactions."

We depend on the continued service of our senior management team and our ability to attract and retain talented personnel.

We have been, and will continue to be, dependent on the continued service of our senior management team, the details of which are included in "Management" in this offering memorandum. In particular, the experience and contributions of the three executive directors, Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, are crucial to our success and the loss of their services could materially impair our ability to operate and impede the execution of our strategies. We do not carry key person insurance and may not be able to replace such persons within a reasonable period of time or with a person of equivalent expertise and experience, which could materially and adversely affect our business, financial condition and results of operations.

We will require an increased number of experienced and competent executives and engineers to manage our existing operations and support our future growth. Competition for such personnel may be intense. We may not be able to successfully attract and retain the personnel that we may require. In addition, we may need to offer superior compensation and other benefits in order to attract and retain key personnel in the future, and we therefore cannot assure you that we will have the resources to fully meet our staffing needs. Any failure to attract and retain qualified personnel could have a negative impact on our ability to maintain our competitive position and to grow our business.

Our financial performance and operating results could be adversely affected by our indebtedness and rising interest rates.

External financing comprises a significant portion of our funding. As of December 31, 2007, our total borrowings amounted to approximately RMB8,978.0 million, of which RMB2,218.2 million represented borrowings due within less than one year. As of such date, our total borrowings as a percentage of total assets was 37.6%. We may incur significant indebtedness in the future to finance our operations and expansion, which could further increase our gearing ratio. To the extent we incur such additional indebtedness, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. See "— Risks Relating to the Notes — We have significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations."

In addition, we are exposed to interest rate risk resulting from fluctuations in interest rates. As of December 31, 2007, our borrowings were denominated in Renminbi, U.S. dollars, HK dollars and Euros with RMB4,585.9 million, or 51.1%, denominated in Renminbi and the remaining RMB4,392.1 million, or 48.9%, denominated in U.S. dollars, HK dollars or Euros. Most of our Renminbi bank borrowings are short-term bank borrowings linked to interest rates published by the PBOC, which are adjusted by the PBOC from time to time. Most of our U.S. dollar bank borrowings and HK dollar bank borrowings are at floating rates, with the balance at fixed rates. Our floating rate U.S. dollar bank borrowings are pegged to the London Interbank Offered Rate ("LIBOR") and our floating rate HK dollar bank borrowings are pegged to the Hong Kong Interbank Offered Rate ("HIBOR").

Increases in interest rates would increase interest expenses relating to our outstanding floating rate borrowings and increase the cost of new debt including rolled over short-term loans. Although we intend to use a portion of our net proceeds from the Notes to refinance a portion of our borrowings, a significant increase in prevailing interest rates could substantially increase our finance costs, which could adversely affect our financial condition and results of operations. An increase or decrease of our effective interest rate by 50 basis points would increase or decrease, respectively, our interest expenses by approximately RMB34.5 million annually, based on total borrowings of approximately RMB8,978.0 million as of December 31, 2007.

Future expansions of production capacity may be limited by NDRC policies on market share.

On October 15, 2007, the NDRC issued the "Paper Manufacturing Industry Development Policy." The policy aims for further development of the paper manufacturing industry and encourages enterprises engaged in the paper manufacturing industry to expand production capacity through mergers and acquisitions. However, the policy provides that if a single category of paper product from an enterprise or group has more than a 35% share of the domestic market, the relevant government authorities will not approve any application or filing for any production project for the same paper product by such enterprise or group. In addition, the policy provides that if an enterprise's or group's aggregate production capacity of paper and paperboard exceeds 20% of the total domestic consumption of paper and paperboard for the current year, the NDRC or local development and reform committee will not approve any application or filing for any production project for paper and pulp products (製漿造紙) by such enterprise or group. The new policy also specifically emphasizes environmental protection and water-saving targets. The policy does not define "enterprise," "group," "single category of paper product," "market share," "production project" or "domestic market consumption" and it is unclear how the NDRC or local development and reform committee will interpret and implement this policy. We have not received all of the approvals for our existing expansion plans that we will require under the policy, and we will need to receive such approvals on a timely basis if our expansion plans are to proceed on schedule. If we fail to receive such approvals, we will not be able to proceed with the expansion on schedule or as planned, and if we have commenced construction or operations of the project, we may be required to cease construction or operations and may also be subject to fines and penalties. At present, we do not believe that our current market share for any of our products exceeds the relevant thresholds set out in the policy. However, as we currently plan on significantly expanding our design production capacity, we cannot assure you that the relevant government authorities will find that, as of today or during the implementation of our expansion plans, our market share does not exceed such thresholds. In such case, the NDRC or local development and reform committee may refuse to approve such expansion plans, which will limit our ability to grow and adversely affect our business, financial condition and results of operations.

Any loss of or significant reduction in the preferential tax treatment we currently enjoy could significantly increase our income tax expenses.

Pursuant to applicable PRC tax laws in effect before January 1, 2008, foreign-invested enterprises established in China were generally subject to state and local foreign-invested enterprise income tax at statutory rates of 30% and 3% respectively. Domestic enterprises in China were subject to enterprise income tax at the statutory rate of 33%. However, PRC state and local tax laws provide for a number of preferential tax schemes applicable to various enterprises, industries and locations. Dongguan Nine Dragons Paper Industries Company Limited (東莞玖龍紙業有限公司) ("Dongguan Nine Dragons"), one of our principal production subsidiaries, has been paying enterprise income tax at a rate of 15% at the central level and 3% at the local level.

On March 16, 2007, the National People's Congress of China enacted the Enterprise Income Tax Law (the "EIT Law"), which became effective on January 1, 2008. In December 2007, the State Counsel issued the Implementation Rules for the EIT Law (the "Implementation Rules") and the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law (the "Transition Preferential Policy Circular"), which also became effective on January 1, 2008. According to the EIT Law and the Implementation Rules, foreign-invested enterprises and domestic companies will be subject to EIT at a uniform rate of 25%. Certain enterprises qualifying as "high and new technology enterprises strongly supported by the State" may enjoy preferential tax rate at 15%. However, the relevant government authorities under the State Council have not issued guidance on how to interpret the term "high and new technology enterprises strongly supported by the State." It is unclear whether Dongguan Nine Dragons will qualify as a "high and new technology enterprise strongly supported by the State." If it does not so qualify, Dongguan Nine Dragons will be subject to increased enterprise income tax at a rate of up to 25% starting from January 1, 2008.

In addition, prior to the introduction of the EIT Law, "foreign-invested advanced technology enterprises" located within advanced technology industry development zones approved by the central government were eligible for an enterprise income tax rate of 15% instead of 24%, which would otherwise be applicable to foreign-invested manufacturing enterprises located in Guangdong Province. Dongguan Nine Dragons was certified by the local government as a foreign-invested advanced technology enterprise even though it is not located within such a zone. In the past, such favorable treatment was granted to Dongguan Nine Dragons by the local tax authority and has not been challenged by the central tax authority. The central tax authority may take a contrary view and determine that Dongguan Nine Dragons should retroactively be subject to enterprise income tax at a rate of 24% and require Dongguan Nine Dragon to pay enterprise income tax at the additional 9% for periods during which it paid income tax at the rate of 15%.

An increase in the enterprise income tax rate, and any related tax penalties, for Dongguan Nine Dragons, whether for the historical periods or future periods, could significantly increase our income tax expenses.

We may incur higher non-deductible value-added tax expenses.

We have recorded non-deductible value-added tax expenses related to our export sales (including sales to foreign-invested processing enterprises) in our "cost of goods sold" using the "actual record" method (帳實法) under applicable PRC tax regulations, pursuant to which we calculate these expenses based on our actual export sales records. The alternate method of calculation available under PRC tax regulations is the "proportional" method (比例法), pursuant to which the non-deductible value-added tax expenses are calculated based on the ratio of export sales to total sales. PRC tax authorities may require a taxpayer to use the "proportional" method if they find that the taxpayer does not maintain adequate records that distinguish domestic sales from export sales and corresponding purchases of raw materials. We cannot assure you that the relevant tax authorities will not find that our records with respect to domestic and export sales and purchases of raw materials are inadequate to qualify us to use the "actual record" method when calculating non-deductible value-added tax expenses. As such, they may require us to apply the "proportional" method for future periods or retroactively. In such case, the tax authorities may reassess our tax payable for past or future periods, which could expose us to a significant tax liability, which could have a material adverse effect on our financial condition.

Non-compliance with PRC laws and regulations relating to housing fund contributions could adversely affect our financial condition.

Under the relevant PRC laws and regulations, business enterprises in China are required to make contributions to a government-administered housing fund at a rate of not less than 5% of each employee's salary on a monthly basis, and must register the housing fund payment information with the relevant government housing fund management centers. An employer who fails to make such mandatory contributions on behalf of its employees may be ordered by the local housing fund management centers to make up such contribution within a stipulated time frame. According to the Regulation on the Administration of Housing Funds, if an entity fails to duly pay the housing fund or register the housing fund payment information for its employees, it will be ordered by the housing fund management center to make up the procedures within a time limit; if it fails to make up the procedures within the time limit, it shall be subject to a fine of up to RMB50,000.

Seven of our subsidiaries in Chongqing, Inner Mongolia and Dongguan have not fully paid the housing fund as required by PRC law. If we are deemed by the relevant government authorities to have breached the relevant housing fund regulations and rules, we may be required to make housing fund contributions for the employees of these seven subsidiaries retroactively. If we fail to make up the procedures within the time limit, we may also be subject to fines. If we are required to make retroactive payment, together with fines, our financial condition may be adversely affected.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

On June 29, 2007, the National People's Congress of China enacted the Labor Contract Law (勞動合同法), which became effective on January 1, 2008. Compared to the Labor Law (勞動法), the Labor Contract Law establishes more restrictions and increases the cost to employers to terminate employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law, an employer is obligated to sign an unlimited term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. The employer also has to pay compensation to employees if the employer terminates an unlimited term labor contract. Unless an employee refuses to extend an expired labor contract, such compensation is also required when the labor contract expires. Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these new protective labor measures, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future.

We may be involved in legal and other proceedings arising from our operations from time to time.

We may be involved from time to time in disputes with various parties involved in the manufacturing, distribution and sale of our products such as suppliers, customers, partners and others. These disputes may lead to legal and other proceedings, and may cause us to suffer significant costs and delays. In addition, we may have disagreements with regulatory bodies and governmental authorities in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that may result in financial losses and delays in the execution of our business strategies. See "Business — Legal Proceedings."

Risks Relating to Our Industry

The supply of, and demand for packaging paperboard products is affected by economic conditions in China and export markets.

The demand for our products is generally influenced by economic conditions represented by export sales in China and in consumer spending and industrial output in China, the United States, Europe and other export markets. The demand for packaging paperboard products in China has been increasing substantially compared to other countries in the past as a result of China's role as a global manufacturing and export center, which generates demand for packaging paperboard products as packaging material for both domestic and export sales. We cannot assure you, however, that such trend will continue in the future. If industry participants add new capacity or increase capacity utilization rates for packaging paperboard products, thereby causing supply to exceed demand for our products, we may experience downward price pressure or decreased sales volume of our products. In addition, demand for our products will be adversely affected if there is an economic slowdown in China, the United States, Europe or other export markets of our customers, which could also result in downward price pressure and decreased sales volumes for our products. These and other factors that may affect the average selling prices and sales volume of our products are beyond our control and we have little influence over the timing and extent of price changes resulting from economic conditions in China and export markets, which could adversely affect our business, financial condition and results of operations.

Prices of raw materials can be volatile and fluctuate, and such price increases would lead to a higher cost of goods sold, which could adversely affect our results of operations.

The principal raw materials for our packaging paperboard products are recovered paper, kraft pulp and chemicals. The availability and price of such commodities depends on a number of factors outside of our control, including general economic conditions, environmental and conservation regulations and other factors. Fluctuations in demand in China, elsewhere in Asia and globally and changes in utilization rates and recycleability may also affect recovered paper prices. The market for recovered paper is highly competitive and any increase in worldwide demand for products manufactured, in whole or in part, from recovered paper may lead to an increase in the prices we must pay for recovered paper. As a result of various factors, the prices of recovered paper, kraft pulp and chemicals can also be volatile and have increased in recent years. We may be unable to adjust the prices for our products to fully recover significant increases in raw material prices, which could adversely affect our business, financial condition and results of operations. In addition, as we expand our production capacity, we will need more raw materials to satisfy our increased production. We seek to significantly increase our purchases of recovered paper within China in the next few years. We may choose to or be required to offer more favorable terms to our suppliers (such as providing quicker payments or paying higher prices) when we expand our supplier network. We cannot assure you that we will be able to secure sufficient supplies at costs that support our growth and maintain our profitability. Increases in prices for recovered paper, kraft pulp, or chemicals, or significant interruptions in the supply of recovered paper, kraft pulp or chemicals, whether as a result of supply shortages, increased demand, drought, socio-economic factors or other causes, could have a material and adverse effect on our business, financial condition and results of operations. In the event of a significant interruption in the supply of raw materials, we would seek to obtain supplies from alternative sources, but we cannot assure you that we would be able to obtain supplies from such sources or that such supplies would be available at affordable prices.

Increasing coal costs and disruption in the supply of coal may adversely affect our results of operations.

We use coal as fuel for our coal-fired power plants that supply electricity and steam for our operations at our Dongguan base in Guangdong Province and our Taicang base in Jiangsu Province. The price of coal can also be volatile and has fluctuated in recent years. We purchase coal on a monthly basis and we do not currently hedge our commodity price risk. We may be unable to adjust the prices for our products to fully recover significant increases in coal prices, which could adversely affect our financial condition and results of operations. Any sustained increases in coal prices could reduce our operating margins.

Furthermore, significant interruptions in the supply of coal, whether as a result of supply shortages, increased demand, increased prices of alternative energy sources, socio-economic factors or other causes, could have a material and adverse effect on our business, financial condition and results of operations. In the event of a significant interruption in the supply of coal, we would seek to obtain supplies from alternative sources, but we cannot assure you that we would be able to obtain supplies from such sources or that such supplies would be available at affordable prices.

The markets for our products are highly competitive.

The markets for packaging paperboard products are highly competitive. Our packaging paperboard products compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price. If we are unable to anticipate and respond to changing customer preferences or control our costs in connection with our planned expansion, raw materials and energy, we may not be able to compete effectively. In addition, while we enter into cooperation agreements with certain of our key customers, we normally do not enter into long-term supply contracts with pricing and volume terms, but rather, supply our customers based on purchase orders that we receive from time to time. We cannot assure you that we will retain our current customers or that their purchases will be at the same volume as they have been in the past.

Under China's foreign investment rules, foreign investment in paper manufacturing is permitted. A number of foreign companies have established packaging paperboard manufacturing enterprises in China, and others may do so in the future, in which case we may face increasing competition from such enterprises, which may have greater access to financial resources, higher levels of vertical integration and longer operating histories. If we are unable to maintain our operating efficiency and economies of scale, we may not be able to compete effectively. In addition, as part of China's obligation subsequent to its accession to the World Trade Organization, China has reduced the import tariffs on certain paper products. Effective from January 1, 2005, the import tariff for kraftlinerboard was reduced to 5%, and the import tariff for corrugating medium was reduced to 7.5%. We cannot assure you that the PRC government will not further reduce such import tariffs in the future. Further reductions in import tariffs could result in decreased prices for the products of our overseas competitors.

Moreover, temporary dumping of paperboard products by foreign competitors can occur in periods of low demand and oversupply. Recently, there have been instances of dumping of packaging paperboard in China from the U.S. and various Asian countries. On September 30, 2005, the Ministry of Commerce issued the final arbitration of anti-dumping investigation on imported unbleached kraftlinerboard or linerboard originating from the U.S., Thailand, the Republic of Korea and Taiwan, which assessed anti-dumping duties ranging from 7.0% to 65.2% on relevant companies in the U.S., Thailand, the Republic of Korea and Taiwan. These anti-dumping duties became effective on September 30, 2005 and will last five years. As a consequence, we expect stronger competition in China from such foreign competitors in 2010 after these anti-dumping duties lapse, which could adversely affect our business, financial condition and results of operations.

We also face competition from producers of packaging made from other materials that are suitable for packaging. Specifically, we face competition from producers of packaging using metals, foils and plastics. The prices that we can charge for paperboard packaging products are therefore constrained by the availability of such substitutes. With increased competition, we may be required to lower prices, which may reduce our margins and profitability.

Our operations are subject to comprehensive present and future environmental regulation and involve significant expenditures for compliance with regulations.

Our operations involve the use of significant amounts of water (creating large volumes of effluent), industrial chemicals (requiring careful handling and disposal), the production of electric power (requiring the burning of various types of fuel) and the generation of solid and liquid waste by-products, including wastewater, sludge and gaseous emissions. As a result, we are subject to extensive national and local environmental laws and regulations. These environmental laws and regulations impose stringent standards regarding water discharge, airborne emissions, the use, handling, discharge and disposal of solid waste and hazardous materials, noise pollution and remediation of environmental contamination.

We cannot assure you that we are or will at all times be in full compliance with all of the environmental requirements that apply to our operations. Any failure, or any claim that we have failed, to comply with environmental laws and regulations could cause delays in our production and capacity expansion and affect our public image, either of which could harm our business. In addition, any failure to comply with these laws and regulations or the occurrence of accidental leakage of wastewater, airborne emissions, hazardous material, noise or unanticipated environmental contamination could subject us to substantial fines, clean-up costs, other environmental liabilities or require us to suspend or modify our operations. Any of these events could have a material adverse effect on our business, financial condition and results of operations. Further, environmental laws and regulations may become more stringent in the future. We have made and expect to continue to make necessary capital and other expenditures for environmental compliance. The adoption of new laws and regulations in the PRC relating to environmental compliance could require us to make capital expenditures in excess of what was anticipated, which may adversely affect our business, financial condition and results of operations.

Risks Relating to the PRC

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

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

The PRC economy differs from the economies of most developed countries in many respects, including but not limited to its structure, the amount of government involvement, the level of infrastructure development, its growth rate, the level of capital reinvestment, governmental policies related to foreign exchange and the allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations.

Our ability to successfully expand our business operations in China depends on a number of factors, including macroeconomic and other market conditions, and credit availability from lending institutions. The PRC government has recently articulated the need to control economic growth and tighten the increase in lending. Stricter lending policies in China may affect our ability to obtain financing, thus reducing our ability to implement our expansion strategies. We cannot assure you that future governmental measures to restrict increases in lending will not be implemented, or that, if implemented, will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

The PRC economy has been transitioning from a planned economy to a market oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

We cannot assure you that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on our current or future business, results of operations or financial condition.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies, including the Notes. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to make interest and principal payments under the Notes.

PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our shareholders that are PRC residents to personal liability, limit our ability to contribute capital into or provide loans to our PRC subsidiary, limit our subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

SAFE has promulgated several regulations, including the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular No. 75, issued on October 21, 2005, and its implementation rules, or SAFE Circular No. 106, issued in May 2007, which require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies are required to register those investments with the local branch of SAFE. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of SAFE, to reflect any material change involving that offshore company's round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, and the PRC subsidiaries of the relevant offshore company are required to urge the PRC resident shareholders to do so. If any PRC shareholder fails to make the required initial SAFE registration or update the previously filed registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries.

Mr. Zhang Cheng Fei, our executive director, a PRC resident and beneficial owner of Best Result Holdings Limited ("Best Result") holds 10.0% and 15.874% of its interest in Best Result through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust, respectively. Mr. Zhang Cheng Fei is the settlor of both The Zhang Family Trust and The Golden Nest Trust. Best Result, in turn, owns approximately 69.0% of our Company. Mr. Zhang Cheng Fei, has applied for the registration of his interest in us and is communicating with the local branch of SAFE whether such registration is required. The local branch of SAFE has not responded to Mr. Zhang's inquiry. However, as advised by our PRC legal counsel, Jun He Law Offices, under PRC law, the investment held by Mr. Zhang Cheng Fei in Best Result Holdings Limited shall be registered with SAFE. We cannot assure you that the local SAFE will not require Mr. Zhang's registration to be completed or that the registration will be completed in a timely manner or at all. In addition, due to uncertainty concerning the reconciliation of these SAFE rules with other approval or registration requirements, it remains unclear how these rules, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot assure you that all of our shareholders who are PRC residents, including Mr. Zhang, will comply with our request to make or update any applicable registrations or comply with other requirements required by these rules or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from this offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

Our operations are subject to the uncertainty of the PRC legal system which could limit the legal protection available to potential investors.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited precedential value. Since 1979, the

PRC government has promulgated laws and regulations governing economic matters in general such as foreign investment, corporate organization and governance, commerce, taxation and trade. Although legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular, these laws, regulations and legal requirements are relatively new and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve greater uncertainties than those in jurisdictions under common law systems. These uncertainties could limit the legal protections available to you. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of any violation by us of these policies or rules until some time after such violation. In addition, litigation in China may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and PRC withholding taxes on interest we pay on the Notes.

Under PRC tax laws effective prior to January 1, 2008, dividends, interest and other amounts paid to foreign investors by foreign-invested enterprises, such as amounts paid to us by our operating subsidiaries in China, were exempt from PRC withholding tax. Under the EIT Law and the implementation rules which both took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax purposes. The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

We hold our shareholders' meetings and board meetings outside China and keep our shareholders' list outside China. Most of our directors are also based outside China. However, most of our senior management are currently based inside China and we keep our books of account inside China. The above elements may be relevant for the tax authorities to determine whether we are PRC resident enterprises for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we intend to take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for EIT purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. Furthermore, we would be obligated to withhold PRC income tax of up to 7% on payments of interest and certain other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest and other amounts would be regarded as being derived from sources within the PRC. In addition, if we fail to do so, we may be subject to fines and other penalties. Similarly, any gain realized by such non-resident enterprise investor from the transfer of the Notes would be regarded as being derived from sources within the PRC and accordingly would be subject to a 10% PRC withholding tax.

It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC.

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or other countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

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

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

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

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Provisions") issued by six PRC ministries including the MOFCOM, effective from September 8, 2006, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign funded enterprise to conduct asset merger and acquisition. It stipulates that the business scope upon acquisition of domestic enterprises must conform to the Foreign Investment Industrial Guidance Catalog (外商投資產業指導目錄，2007年修訂) issued by the NDRC and the MOFCOM, which restricts the scope of permitted foreign investment. It also provides the takeover procedures for equity interests in domestic companies.

Our PRC legal advisors have advised us that there are uncertainties as to how the recent M&A Provisions will be interpreted or implemented. If we decide to acquire a PRC company, we cannot assure you that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement any acquisition strategy and adversely affect our business and prospects.

Acts of God, war or terrorism could affect our business directly or indirectly.

Our business is affected by the general economic conditions in China and other parts of the world. Acts of God such as natural disasters including inclement weather or earthquakes could directly affect our clients, our water sources in the Pearl and Yangtze Rivers, our modes of transportation or our facilities. War, terrorist attacks and other hostilities may also cause damage or disrupt our operations. Additionally, acts of God, war or terrorism in any part of the world, potential, threatened or otherwise could adversely affect our operations and profitability by causing a general economic downturn in China or elsewhere.

Risks Relating to the Notes

The Notes do not contain restrictive financial or operating covenants.

The Indenture governing the Notes will contain various covenants intended to benefit the interests of the Noteholders that limit our ability to, among other things:

- incur certain liens;
- permit any subsidiary that is not a Subsidiary Guarantor to guarantee certain indebtedness; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

The Indenture governing the Notes, however, does not contain restrictive financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us. In addition, the Indenture does not contain any other covenants designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating or the rating of the Notes as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders. Subject to the terms of our existing corporate debt and other credit facilities, we may incur substantial additional indebtedness in the future.

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations primarily through our PRC subsidiaries. The Notes will not be guaranteed by any of our current or future PRC subsidiaries. Our primary assets are ownership interests in our subsidiaries which are held through our investment holding companies incorporated in the British Virgin Islands and Hong Kong that do not have any material operations or assets other than their shareholdings in their respective subsidiaries. Accordingly, even though we hold interests in important business operations and assets through these entities, none of them will guarantee our obligations under the Notes.

Creditors, including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on the PRC subsidiaries' assets that would be prior to the claims of the holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our PRC subsidiaries (including obligations of our PRC subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our PRC subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2007, our PRC subsidiaries had total borrowings in the amount of RMB5,558.4 million and capital commitments of RMB15,683.5 million. The Notes and the Indenture do not restrict the ability of our PRC subsidiaries to incur indebtedness or issue guarantees. In addition, our secured creditors or those of any Subsidiary Guarantors would have priority as to our assets or the assets of the Subsidiary Guarantors securing the related obligations over claims of the holders of the Notes.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest or principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes. Our ability to utilize cash resources we have from our subsidiaries to finance the needs of other subsidiaries is subject to the same restrictions.

PRC laws and regulations permit the payment of dividends only out of net profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. In practice, our PRC subsidiaries may declare dividends once a year at the end of each financial year. In addition, some of our PRC subsidiaries are subject to certain restrictions on dividend distribution under their loan agreements with their banks. See "Description of Other Material Indebtedness." As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet our payment obligations required by the Notes and there could be restrictions on payments required to pay off the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require approval by SAFE prior to any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries and require such loans to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the 10% withholding tax on the interest payable in any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event.

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture governing the Notes does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture governing the Notes also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

The insolvency laws of Bermuda may differ from U.S. bankruptcy law or those of another jurisdiction with which the holders of the Notes are familiar.

Because we are incorporated under the laws of Bermuda, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay intercompany loans. As a substantial portion of our sales are denominated in Renminbi, our PRC subsidiaries receive substantially all of their revenue in Renminbi. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of intercompany loans, evidence of the registration of the loan with SAFE). Pursuant to the EIT Law, which became effective in January 1, 2008, if we are deemed a "non-resident enterprise," dividends distributed to us by our PRC subsidiaries and interest payments made to us by our PRC subsidiaries, are subject to a 10% withholding tax. Prior to making such interest payments, the relevant PRC subsidiary must also present evidence of payment of the 10% withholding tax. We intend to use a substantial portion of the proceeds from this offering to repay a portion of our borrowings. If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, including the failure of SAFE to approve the registration of the relevant intercompany loans or to approve the payments under such loans, the PRC subsidiary will be unable to pay us interest and principal, when due, on the relevant intercompany loans, which may affect our ability to satisfy our obligations under the Notes.

Because our PRC subsidiaries may only pay dividends annually, we may not have sufficient funds available to pay amounts due under the Notes.

We currently conduct, and expect to continue to conduct, our operations through our joint ventures and wholly foreign-owned enterprises, or WFOEs, in the PRC. Under their articles of association adopted in accordance with PRC regulations, the joint ventures and WFOEs are only allowed to declare dividends once a year but may distribute dividends multiple times during a year. We cannot assure you that the cash from such dividends will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

We have significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the Notes, a significant amount of indebtedness.

Our significant indebtedness could have important consequences for you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. The Indenture governing the Notes does not restrict us from incurring additional debt and contingent liabilities. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of our financing arrangements also impose operating and financial restrictions on our business which prohibit us from incurring additional indebtedness unless we are able to satisfy certain financial ratios, and contain other restrictions. See "Description of Other Material Indebtedness." Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Such restrictions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture governing the Notes, there could be a default under the terms of these agreements or the Indenture governing the Notes, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture governing the Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture governing the Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

A trading market for the Notes may not develop, and there are restrictions on resales of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received for the listing of the Notes on the SGX-ST and the Notes will be designated for trading on The PORTAL Market, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchaser intends to make a market in the Notes, but the Initial Purchaser is not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes may be lowered or withdrawn in the future.

The Notes have been assigned a rating of BBB- by Standard and Poor's Ratings Services and BBB- by Fitch Ratings Inc. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes. In addition, under the terms of the Indenture, a suspension, reduction or withdrawal of a rating assigned to the Notes will result in an increase in the interest rate applicable to the Notes, by an amount of up to 2.00% per annum, which will increase our interest expense and adversely affect our results of operations.

The price and trading volume of the Notes following the offering may be highly volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchaser or our respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the packaging paperboard manufacturing industry are derived from publicly available and other external sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchaser or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from U.S. GAAP. See "Summary of Certain Differences Between HKFRS and U.S. GAAP."

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to companies in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

Risks Relating to the Subsidiary Guarantees

Our initial Subsidiary Guarantors do not currently have significant operations.

None of our current PRC subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that may be organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. In addition, certain of our other investment holding subsidiaries, including certain dormant companies, will not provide Subsidiary Guarantees upon issuance of the Notes. See "Description of the Notes — The Subsidiary Guarantees" for a list of the Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

- was insolvent or rendered insolvent by reason of such incurrence;

- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

We estimate the net proceeds from this offering, after deducting the underwriting discount and other estimated expenses payable in connection with this offering, will be approximately US$294.2 million. We intend to use substantially all of the net proceeds to fund capital expenditures or to refinance existing bank loans and other borrowings that were incurred to fund capital expenditures.

We may adjust the foregoing plan in response to changing market conditions and circumstances. In these situations, we will carefully evaluate the situation and may reallocate the use of proceeds.

EXCHANGE RATES

PRC

The PBOC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

On May 18, 2007, the PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in the Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**Low**	**Average[(1)]**	**High**	**Period End**
	(RMB per US$1.00)			
2004	8.2764	8.2768	8.2774	8.2765
2005	8.0702	8.1998	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6072	7.8127	7.2946
October	7.4800	7.5069	7.5158	7.4800
November	7.3300	7.4212	7.4582	7.3850
December	7.2946	7.3682	7.4120	7.2946
2008				
January	7.1818	7.2405	7.2946	7.1818
February	7.1100	7.1644	7.1973	7.1115
March	7.011	7.072	7.111	7.012
April (up to April 21)	6.984	7.0024	7.0185	6.9996

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant monthly periods in 2007 and 2008, which is determined by averaging the daily rates during that period.

On April 21, 2008, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US$1.00 to RMB6.9996 as certified for customs purposes by the Federal Reserve Bank of New York.

Hong Kong

The Hong Kong dollar is freely convertible into the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. The Hong Kong government has indicated its intention to maintain the link at that rate. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link at HK$7.80 to US$1.00, or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	Low	Average[1]	High	Period End
	(HK$ per US$1.00)			
2004	7.7632	7.7891	7.8010	7.7723
2005	7.7514	7.7755	7.7999	7.7533
2006	7.7506	7.7685	7.7928	7.7771
2007	7.7497	7.8019	7.8289	7.7984
October	7.7502	7.7553	7.7694	7.7502
November	7.7573	7.7773	7.7890	7.7874
December	7.7879	7.7983	7.8073	7.7984
2008				
January	7.7961	7.8044	7.8107	7.7961
February	7.7807	7.7963	7.8012	7.7807
March	7.7642	7.7813	7.7897	7.7819
April (up to April 21)	7.7863	7.7903	7.7939	7.7936

(1) *Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant monthly periods in 2007 and 2008, which is determined by averaging the daily rates during that period.*

On April 21, 2008, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 to HK$7.7936 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION

The following table sets forth on an actual basis our unaudited borrowings and capitalization as of December 31, 2007 and as adjusted to give effect to the issuance of the Notes, but before the application of the proceeds therefrom:

	As of December 31, 2007			
	Actual		As Adjusted	
	(RMB)	(US$)	(RMB)	(US$)
	(in millions)			
Current borrowings[1]				
Short-term bank borrowings	1,378.2	188.9	1,378.2	188.9
Current portion of long-term bank borrowings	40.0	5.5	40.0	5.5
Short-term financing bills[2]	800.0	109.7	800.0	109.7
Total current borrowings[3]	2,218.2	304.1	2,218.2	304.1
Non-current borrowings[1][4]				
Non-current portion of long-term bank borrowings	6,759.8	926.7	6,759.8	926.7
Notes to be issued	—	—	2,188.4	300.0
Total non-current borrowings[3]	6,759.8	926.7	8,948.2	1,226.7
Total borrowings[5]	8,978.0	1,230.8	11,166.4	1,530.8
Capital and reserves attributable to equity holders of the Company:				
Share capital (HK$0.10 par value per share, 4,294,035,000 shares issued and fully paid)	6,191.8	848.8	6,191.8	848.8
Other reserves	1,190.1	163.1	1,190.1	163.1
Retained earnings				
— Proposed dividend	72.1	9.9	72.1	9.9
— Unappropriated retained earnings	4,794.9	657.3	4,794.9	657.3
Total capital and reserves	12,248.9	1,679.1	12,248.9	1,679.1
Total capitalization[6]	19,008.7	2,605.8	21,197.1	2,905.8

(1) As of December 31, 2007, RMB5,558.4 million of our current and non-current borrowings had been incurred by our PRC subsidiaries.

(2) Short-term financing bills include the First Phase RMB Short-term Financing Bills and Second Phase RMB Short-term Financing Bills we issued on September 18, 2007 and October 23, 2007, respectively, with a face value of RMB400 million each. See "Description of Other Material Indebtedness — First and Second Phase RMB Short-Term Financing Bills."

(3) As of December 31, 2007, our consolidated capital commitments and operating lease commitments were RMB15,683.5 million (US$2,150.0 million) and RMB2.1 million (US$0.3 million), respectively. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources — Contractual Obligations" and Note 20 to the Condensed Consolidated Interim Financial Information as of and for the six months ended December 31 2007.

(4) Non-current borrowings include long-term bank borrowings and exclude the current portion of long-term bank borrowings.

(5) As of December 31, 2007, borrowings of RMB268.1 million were secured by our assets including restricted cash and other assets.

(6) Total capitalization includes total non-current borrowings plus total capital and reserves.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected financial data as of and for each of the fiscal years ended June 30, 2006 and 2007 (except for EBITDA data) is derived from our consolidated financial statements for those years and as of the dates indicated. Our consolidated financial statements as of and for each of the fiscal years ended June 30, 2006 and 2007 have been audited by PricewaterhouseCoopers, Certified Public Accountants.

The selected consolidated financial data as of and for the six months ended December 31, 2007 included elsewhere in this offering memorandum is derived from our unaudited condensed consolidated financial statements for the six months ended December 31, 2007, which have been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable PricewaterhouseCoopers to obtain assurance that they would become aware of all significant matters that might be identified in an audit. They do not express an audit opinion. These unaudited financial statements include all adjustments, consisting of normal recurring items, which we consider necessary for a fair presentation of our financial position and results of operations. Our financial condition and results of operations as of and for the six months ended December 31, 2007 should not be taken as an indication of our expected financial condition and results of operations as of and for the full fiscal year ending June 30, 2008. The financial statements have been prepared and presented in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Certain Differences Between HKFRS and U.S. GAAP." The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Consolidated Income Statement Information

	Year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions, except per share and percentage data)					
Sales	7,902.2	9,837.7	1,348.6	4,638.5	6,690.4	917.2
Cost of goods sold	(6,041.3)	(7,308.8)	(1,001.9)	(3,434.5)	(5,114.2)	(701.1)
Gross profit	1,860.9	2,528.9	346.7	1,204.0	1,576.2	216.1
Other gains — net	357.0	311.2	42.7	148.9	125.1	17.1
Selling and marketing costs	(172.8)	(195.4)	(26.8)	(96.8)	(144.4)	(19.8)
Administrative expenses	(233.9)	(351.3)	(48.2)	(140.5)	(287.2)	(39.4)
Operating profit	1,811.2	2,293.4	314.4	1,115.6	1,269.7	174.0
Finance costs	(294.8)	(131.4)	(18.0)	(85.3)	(64.6)	(8.9)
Profit before income tax	1,516.4	2162.0	296.4	1,030.3	1,205.1	165.1
Income tax expense	(116.3)	(101.7)	(13.9)	(55.0)	(126.4)	(17.3)
Profit for the year/period	1,400.1	2,060.3	282.5	975.3	1,078.7	147.8

	Year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions, except per share and percentage data)					
Profit attributable to:						
Equity holders of the Company	1,374.8	2,003.4	274.7	948.1	1,056.2	144.7
Minority interests	25.3	56.9	7.8	27.2	22.5	3.1
Earnings per share for profit attributable to equity holders of the Company						
— basic	0.4072	0.4794	0.0657	0.23	0.25	0.0343
— diluted	0.4043	0.4703	0.0645	0.22	0.24	0.0329
Dividend	95.5	494.7	67.8	65.6	72.1	9.9
OTHER FINANCIAL DATA						
EBITDA(1)	1,985.1	2,669.2	365.9	1,273.0	1,597.3	219.0
EBITDA Margin(2)	25.1	27.1	27.1	27.4	23.9	23.9

(1) EBITDA for any period consists of operating profit before extraordinary gains and expenditures plus depreciation expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year/period under HKFRS to our definition of EBITDA.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

Consolidated Balance Sheet Information

	As of June 30,			As of December 31,	
	2006	2007		2007	
	(RMB)	(RMB)	(US$)	(RMB)	(US$)
			(in millions)		
ASSETS					
Non-current assets					
Property, plant and equipment	8,625.5	13,802.7	1,892.2	17,321.2	2,374.5
Land use rights	592.1	949.3	130.1	1,094.8	150.1
Intangible asset	146.7	146.7	20.1	146.7	20.1
	9,364.3	14,898.7	2,042.4	18,562.7	2,544.7
Current assets					
Inventories	932.0	1,502.5	206.0	1,565.9	214.7
Trade and other receivables	1,559.0	2,188.1	300.0	2,806.4	384.7
Derivative financial instruments	—	24.9	3.4	5.5	0.8
Restricted cash	200.6	—	—	262.7	36.0
Bank and cash balances	2,816.7	1,748.2	239.7	691.7	94.8
	5,508.3	5,463.7	749.1	5,332.2	731.0
Total assets	14,872.6	20,362.4	2,791.5	23,894.9	3,275.7
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	4,141.3	6,179.2	847.1	6,191.8	848.8
Other reserves	902.0	1,056.2	144.8	1,190.1	163.1
Retained earnings					
– Proposed dividend	95.5	429.1	58.8	72.1	9.9
– Unappropriated retained earnings	2,402.6	3,848.4	527.6	4,794.9	657.3
	7,541.4	11,512.9	1,578.3	12,248.9	1,679.1
Minority interests	94.9	123.1	16.9	147.5	20.2
Total equity	7,636.3	11,636.0	1,595.2	12,396.4	1,699.3
LIABILITIES					
Non-current liabilities					
Deferred government grants	27.8	17.2	2.4	17.0	2.3
Borrowings	2,743.9	4,088.9	560.5	6,759.8	926.7
Deferred income tax liabilities	226.8	281.8	38.6	346.0	47.4
	2,998.5	4,387.9	601.5	7,122.8	976.4
Current liabilities					
Derivative financial instruments	—	7.4	1.0	7.8	1.1
Trade and other payables	1,987.4	1,766.6	242.2	2,102.7	288.3
Current income tax liabilities	67.4	21.4	2.9	47.0	6.4
Dividend payable	6.1	—	—	—	—
Borrowings	2,176.9	2,543.1	348.7	2,218.2	304.2
	4,237.8	4,338.5	594.8	4,375.7	600.0
Total liabilities	7,236.3	8,726.4	1,196.3	11,498.5	1,576.4
Total equity and liabilities	14,872.6	20,362.4	2,791.5	23,894.9	3,275.7
Net current assets	1,270.5	1,125.2	154.3	956.5	131.0
Total assets less current liabilities	10,634.8	16,023.9	2,196.7	19,519.2	2,675.7

Consolidated Cash Flow Statement

	For the year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions)					
Cash flows from operating activities						
Net cash generated from operating activities	1,067.1	756.1	103.7	885.3	475.9	65.2
Cash flows from investing activities						
Net cash (used in)/ generated from investing activities	(1,454.1)	(5,524.0)	(757.3)	(2,712.6)	(3,626.3)	(497.1)
Cash flows from financing activities						
Net cash generated from/ (used in) financing activities	2,556.0	3,727.0	510.9	(129.7)	2,126.7	291.5
Net increase/(decrease) in bank and cash balances	2,169.0	(1,040.9)	(142.7)	(1,957.0)	(1,023.7)	(140.4)
Bank and cash balances at the end of the year/period	2,816.7	1,748.2	239.7	848.4	691.7	94.8

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

The following discussion should be read in conjunction with our consolidated financial information together with the accompanying notes included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between HKFRS and U.S. GAAP."

This section includes forward-looking statements. All statements, other than statements of historical facts, included in this section that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. These statements are based on assumptions and analyzes we made in light of experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Such forward-looking statements involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections entitled "Risk Factors" and "Business" and elsewhere in this offering memorandum.

OVERVIEW

We are the largest producer in Asia, and one of the largest producers in the world, of containerboard products, in terms of worldwide capacity and market share, based on data from RISI Inc. as of January 25, 2008. We manufacture primarily containerboard products, including linerboard, high-performance corrugating medium and certain types of coated duplex board. We also produce unbleached kraft pulp through our joint venture subsidiary, ND Xing An, which we primarily sell to third parties but also use for our own production. We believe the level of integration and scale of our operations enables us to efficiently produce a broad range of high quality packaging paperboard products at a low cost.

Our operations have grown significantly since our inception in 1995. Our current aggregate design production capacity for packaging paperboard is 5.35 mtpa. We now operate fifteen technologically advanced paper machines imported mainly from Europe, North America and Japan, which are located in our two production bases in China, with three factories at our Dongguan base in the Pearl River Delta region and one factory at our Taicang base in the Yangtze River Delta region. As we have increased our design production capacity, our sales have grown significantly. Our sales increased from RMB7,902.2 million in fiscal year 2006 to RMB9,837.7 million in fiscal year 2007, representing a growth rate of 24.5%. For fiscal years 2006 and 2007 and the six months ended December 31, 2007, our net profit was RMB1,400.1 million, RMB2,060.3 million and RMB1,078.7 million, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The major factors affecting our financial condition and results of operations include the following:

Business Environment

Global and regional trends in supply and demand for our principal products have a direct effect on our sales volumes and the prices we charge for our products.

The demand for our products is generally influenced by economic conditions represented by export sales in China and in consumer spending and industrial output in China, the United States, Europe and other export markets of our customers. The demand for packaging paperboard products in China has been increasing rapidly as a result of China's role as a global manufacturing and export center, which generates demand for packaging paperboard products as packaging material for both domestic and export sales.

The supply of packaging paperboard products is principally affected by the addition of new production capacity, the closing of existing plants, and the level of imports and exports. In recent years, China has imported packaging paperboard products from overseas due to a shortfall in the domestic supply and increasing demand in China. Consequently, we have expanded our capacity significantly in recent years.

Capacity

Our design production capacity has increased rapidly in recent years, enabling us to increase our sales volume substantially and to improve our economies of scale, each of which has contributed significantly to our overall results of operations. We believe that as we continue to expand our design production capacity, we will be well-positioned to take advantage of growth in demand for packaging paperboard products.

The following table sets forth our design production capacity for our products as of the dates indicated.

	Design Production Capacity[(1)]					
	As of June 30,					As of December 31,
	2003	2004	2005	2006	2007	2007
	(mtpa)					
Packaging paperboard products	1.00	1.95	2.80	3.30	4.50	5.35
Unbleached kraft pulp	–	0.10	0.10	0.10	0.12	0.12

(1) *"Design production capacity" is management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights. Typically, it takes several months after commencement of production for testing to be completed and for a paper machine to begin operating at a commercially viable level.*

During fiscal year 2007, we increased our design production capacity of packaging paperboard products to 4.50 mtpa, through:

- the commencement of production of PM11 in January 2007 in Dongguan with a design production capacity of 0.50 mtpa of coated duplex board; and

- the commencement of production of PM16 and PM17 in January 2007 in Taicang with a design production capacity of 0.70 mtpa of high-performance corrugating medium.

In the six months ended December 31, 2007, we further increased our design production capacity of packaging paperboard products to 5.35 mtpa, through:

- the commencement of production of PM12 and PM13 in Dongguan in August 2007 with a design production capacity of 0.80 mtpa of linerboard; and

- the upgrade of PM8 in Taicang in August 2007, increasing its design production capacity from 0.45 mtpa to 0.50 mtpa of linerboard.

We are in the process of further increasing our design production capacity and, based on existing commitments and negotiations with equipment suppliers, have plans to increase our design production capacity of packaging paperboard to approximately 10.55 mtpa by the end of 2009. We are constructing two additional production bases, one in Chongqing and one in Tianjin. In aggregate, we are planning on adding 13 new paper machines to our Dongguan, Taicang, Chongqing, Tianjin bases and in Vietnam.

Availability and Cost of Raw Materials

Recovered paper, which is waste paper that can be collected and re-used and, to a lesser extent, kraft pulp and chemicals, represent the most significant production costs for our paperboard packaging operations. Like other global commodities, supplies of recovered paper, kraft pulp and chemicals are limited and their prices are subject to volatility based on international supply and demand. Any substantial increase in the costs of these raw materials (particularly recovered paper, which accounted for 53.4%, 53.7% and 55.6% of our cost of goods sold during the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007) could adversely affect our business, financial condition and results of operations. Recently, prices for recovered paper, unbleached kraft pulp and chemicals have increased, resulting in corresponding increases in our production costs. The availability and price of such commodities depends on a number of factors outside of our control, including general economic conditions, environmental and conservation regulations and other factors. In addition, as we expand our production capacity, we will need more raw materials to satisfy our increased production. We seek to significantly increase our purchases of recovered paper within China in the next few years. We may choose to or be required to offer more favorable terms to our suppliers (such as providing quicker payments or paying higher prices) when we expand our supplier network. In order to meet our performance targets, we will need to secure sufficient supplies at costs that support our growth and maintain our profitability. Fluctuations in demand in China and elsewhere in Asia and changes in utilization rates and recycleability may also affect recovered paper prices. Our financial condition and results of operations may be materially and adversely affected if we are not able to secure sufficient supply to support our growth and to the extent we are unable to adjust the prices for our products to fully recover increases in raw material prices.

Geographic Coverage

Our customers are primarily corrugators who use our containerboard products to manufacture corrugated containers for their end user customers, as well as coated duplex board packaging and printing companies that manufacture printed packaging boxes according to the specifications of their end user customers. In order to maintain our competitiveness, it is important that our operations be located in close proximity to both our customers and the customers who use the containers made from our products, so that we can control transportation costs and turnaround times for orders. As such, we have established production bases in areas we consider to be key manufacturing and export centers in China. To the extent that the key manufacturing and export centers change, either within China or outside China, to places such as Vietnam, our performance and results of operations will be affected. With a view to capturing business opportunities in growing markets, we plan to expand our geographic coverage to new markets in Tianjin, Chongqing, Sichuan Province and Vietnam.

Equipment Utilization

Increases or decreases in equipment utilization rates can have a significant effect on unit costs and gross profit margins. We generally achieve lower equipment utilization rates and lower yields during the start-up phase of a new paper machine, which is typically several months from commencement of production. We seek to reduce start-up time for our new machines to achieve design production capacity and quality within the shortest possible time. Equipment utilization for a particular paper machine is affected by shutdown time resulting from unscheduled repairs and maintenance, paper tears and other malfunctions requiring the shutdown of equipment and required adjustments to machines for product changes, including changes to product specifications. Our vendor-trained, in-house maintenance team enables shorter response times, which contribute to minimizing shutdown time.

Changes to product specifications also affect our utilization rate due to the shutdown time required for making adjustments to machinery. Our multiple production lines allow us to manufacture products with a variety of basis weights and grades simultaneously, thus minimizing equipment shutdowns for product and specification changes while still maintaining a diversified and flexible product portfolio. As a part of our expansion plans, we expect to add new paper machines to our existing bases, which we expect to reduce this type of shutdown. In addition, due to the advanced design of many of our machines, they can shift from the production of one type of product to another either without stopping the production run or with only a brief shutdown, which is ordinarily scheduled to coincide with routine monthly maintenance.

Product Mix

Our product mix affects margins as different products and specifications may provide differing margins depending on the market at a particular point in time. In order to meet market demand at different points in time, we may change our product mix, which could affect our margins.

Moreover, because many of our customers have specialized needs, we can charge a premium for customizing certain products to customer specifications, which allows us to achieve better margins. For example, the size, versatility and number of our paper machines allow us to offer a diversified product portfolio with various types, grades, burst indices, stacking strengths, basis weights, printability and brands to meet a variety of customer requirements. The width of our machines also allows us to produce products in a large variety of sizes, increasing our flexibility to meet customer demands. Similarly, our multiple production lines enable us to rapidly and efficiently adjust our product mix to offer a diversified product portfolio. Our five principal products are available in 40 different basis weights and over 1,000 different size and type specifications. Additionally, we are developing new products to diversify our revenue stream including light-weight high-performance corrugating medium, which we expect to yield higher margins. We are also planning to develop high-value specialty board products such as insulating paper and capacitor tissue paper, wood pulp and bamboo pulp as well as non-aseptic and aseptic liquid packaging board. We believe that such products will be in high demand in our product markets and will command higher selling prices than normal packaging paper products.

Sales Volumes and Average Realized Selling Prices

Our results of operations are affected by sales volumes and average realized selling prices of our products, which in turn are affected by market demand and supply. The tables below set forth the sales volumes of our principal products for the periods indicated.

	Year ended June 30,			Six months ended December 31,		
	2006	2007	Increase	2006	2007	Increase
	Sales volume	Sales volume	%	Sales volume	Sales volume	%
	(in tonnes, except for percentages)					
Linerboard	1,550,081	1,699,569	9.6	812,881	907,719	11.7
High-performance corrugating medium	834,038	1,027,113	23.1	511,260	706,172	38.1
Coated duplex board	375,597	542,740	44.5	260,284	457,379	75.7
Total packaging paperboard	2,759,716	3,269,422	18.5	1,584,425	2,071,270	30.7
Unbleached kraft pulp	65,808	87,863	33.5	36,206	36,585	1.0
Total	2,825,524	3,357,285	18.8	1,620,631	2,107,855	30.1

The tables below set forth the weighted average realized selling prices, net of sales tax, of our products for the periods indicated.

	Year ended June 30,			Six months ended December 31,		
	2006	2007	Increase	2006	2007	Increase
	Amount	Amount	%	Amount	Amount	%
	(RMB per tonne, except for percentages)					
Linerboard	2,933	3,068	4.6	3,015	3,293	9.2
High-performance corrugating medium	2,295	2,412	5.1	2,382	2,702	13.4
Coated duplex board	3,234	3,276	1.3	3,174	3,606	13.6
Weighted average for packaging paperboard	2,781	2,896	4.1	2,837	3,160	11.4
Unbleached kraft pulp	3,446	4,192	21.6	3,974	3,941	-0.8

DESCRIPTION OF COMPONENTS OF RESULTS OF OPERATIONS

Sales

We generate sales revenue from sales of linerboard, high-performance corrugating medium, coated duplex board and unbleached kraft pulp. We record sales net of discounts and, in the case of domestic sales, net of discounts and value-added taxes after the elimination of intercompany transactions within our Group. See " — Cost of Goods Sold — Valued-added taxes" below. We recognize sales when we have delivered products to the customer, the customer has accepted the products and collectibility of the relevant receivables is reasonably assured.

The following tables set forth a breakdown of our total sales by product type for the periods indicated.

	Years ended June 30,			Six months ended December 31,		
	2006	2007	Increase	2006	2007	Increase
	Amount	Amount	%	Amount	Amount	%
	(in millions of RMB, except for percentages)					
Linerboard	4,546.6	5,213.7	14.7	2,450.7	2,988.9	22.0
High-performance corrugating medium	1,914.1	2,477.5	29.4	1,217.8	1,907.8	56.7
Coated duplex board	1,214.6	1,778.2	46.4	826.1	1,649.5	99.7
Total packaging paperboard	7,675.3	9,469.4	23.4	4,494.6	6,546.2	45.6
Unbleached kraft pulp	226.9	368.3	62.3	143.9	144.2	0.2
Total	7,902.2	9,837.7	24.5	4,638.5	6,690.4	44.2

We do not have significant direct exports. However, as a result of China's role as a global manufacturing and export center, we make a significant portion of our sales to foreign-invested processing enterprises. The following table sets forth a breakdown of our sales by type of currency denomination for the periods indicated.

	Years ended June 30,				Six months ended December 31,	
	2006		2007		2007	
	Amount	%	Amount	%	Amount	%
	(in millions of RMB, except for percentages)					
Sales denominated in:						
RMB	4,734.3	59.9	5,675.1	57.7	3,858.3	57.7
Foreign currencies(1)	3,167.9	40.1	4,162.6	42.3	2,832.1	42.3
Total	7,902.2	100.0	9,837.7	100.0	6,690.4	100.0

(1) Represents primarily sales made to foreign-invested processing enterprises for further export to customers overseas which are typically denominated in HK dollars or U.S. dollars.

Cost of Goods Sold

Cost of goods sold represents the direct costs of production, which includes primarily raw materials costs, manufacturing overhead and direct staff costs, adjusted for changes in finished goods.

Raw materials. Recovered paper and, to a lesser extent, kraft pulp and chemicals are the principal raw materials used in the manufacture of our products and represent the largest component of cost of goods sold. Raw materials comprised 78.2%, 78.3% and 79.2% of cost of goods sold in fiscal years 2006, 2007 and the six months ended December 31, 2007, respectively. During the fiscal years 2006 and 2007 and the six months ended December 31, 2007, recovered paper accounted for a 53.4%, 53.7% and 55.6% of our total cost of goods sold. The prices for raw materials can be volatile and have increased in recent years. Domestic and global demand for products manufactured in whole or in part from such raw materials, including our products, may cause prices to continue to fluctuate, and we may be unable to transfer future increases in costs of these raw materials to our customers. See "Risk Factors — Risks Relating to Our Industry — Prices of raw materials can be volatile and fluctuate, and such price increases would lead to a higher cost of goods sold, which could adversely affect our results of operations."

Manufacturing overhead. Manufacturing overhead primarily includes energy costs and depreciation of fixed assets relating to production.

Our energy costs comprise primarily the costs of coal, water and third-party electricity. In fiscal years 2006, 2007 and the six months ended December 31, 2007, energy costs comprised 11.6%, 12.7% and 12.7% of our costs of goods sold, respectively. We use coal as fuel for our coal-fired power plants that supply electricity and steam to our production bases. To lower our coal costs, since September 2005, we have purchased all of our coal directly from coal distributors and have arranged our own shipping for such purchases. Our Taicang pier, which allows us to directly receive coal deliveries, has helped lower our coal transportation costs. Our coal- and solid waste-fired power plants achieve savings of up to approximately one-third compared to the cost of purchasing electricity from third parties. See "Risk Factors — Risks Relating to Our Industry — Increasing coal costs and disruption in the supply of coal may adversely affect our results of operations." In January 2008, we brought generating Units 8 and 9 of our Dongguan power plant online, which increased our total installed power generation capacity to 615 MW. We sell our excess electricity to the regional power grid.

We depreciate our property, plant and equipment on a straight line basis starting from the year in which the relevant fixed assets are available for use. In fiscal years 2006 and 2007 and the six months ended December 31, 2007, depreciation of RMB277.3 million, RMB289.4 million and RMB180.6 million, respectively, was expensed in cost of goods sold, comprising 4.6%, 4.0% and 3.5%, respectively, of our total cost of goods sold for each period.

Value-added tax. For our sales to PRC customers (other than foreign-invested processing enterprises), the value-added taxes we pay the tax authorities represent the difference between the value-added tax amounts we collect from our customers (as part of the selling prices) and the value-added tax amounts we paid our PRC suppliers (as part of the purchase prices). Such value-added taxes are deducted from the gross sales proceeds when we record sales and are not included in our cost of goods sold. For export sales (including sales to foreign-invested processing enterprises and direct exports), however, we do not collect value-added taxes. For such sales, we record the value-added tax expenses, including the value-added taxes that have been reflected in the payment to our PRC suppliers and the value-added taxes on the "value added" by our production, as "non-deductible value-added tax for export sales" under "cost of goods sold." To the extent possible, when we price our products for export sales, we take into account the value-added taxes that we have incurred. Our profit margin may be affected to the extent that we are not able to pass on to our export sales customers such value-added tax expenses.

Prior to September 2006, the PRC government exempted raw materials used in products manufactured for export sales by foreign-invested processing enterprises in China from value-added taxes. As a result, historically, the packaging paperboard products that we sold to foreign-invested processing enterprise customers for their further processing and export were exempted from value-added taxes. The PRC government eliminated such tax exemption in September 2006 in Tax Circular No. 139 (財稅 (2006) 139號) issued by the State Administration of Taxation (國家稅務總局) (the "New VAT Regulation"). However, certain aspects of the implementation of the New VAT Regulation are unclear. We have since made provisions for value-added taxes for our export sales based on our management's assessment of our value-added tax liability with respect to export sales. We recorded a significant increase in "non-deductible value-added tax for export sales" for the six months ended December 31, 2007 primarily due to an increase in our export sales as well as additional value-added tax provisions for export sales made in prior periods pursuant to a reassessment of our value-added tax liability for export sales under the New VAT Regulation.

In addition, we have recorded non-deductible value-added tax expenses related to our export sales using the "actual record" method. In the event that the PRC tax authorities find that we cannot use the "actual record" method when calculating non-deductible value-added tax expenses and therefore require us to use the "proportional" method, our non-deductible value-added tax expenses may increase, thereby increasing our cost of goods sold and affecting our profit margin. See "Risk Factors — Risks Related to our Business — We may incur higher non-deductible value-added tax expenses."

Other Gains — Net

Other gains — net primarily consists of revenue from sales of scrap materials (materials salvaged from recovered paper that we cannot use, such as metals, plastics and certain types of paper), sales of excess electricity generated by our power plants, interest income, net foreign exchange income and sales of transportation services, net gain or loss arising from changes in fair value of derivative financial instruments and negative goodwill recognized in connection with acquisition of subsidiaries.

Net foreign exchange gains represent (i) the net foreign exchange gains realized on our purchases and sales denominated in foreign currencies and (ii) the net increase or decrease in value (in Renminbi terms) of our foreign currency-denominated bank and cash balances resulting from the appreciation or depreciation of Renminbi against the respective foreign currencies since the preceding balance sheet date. If the purchases or sales are settled during the reporting period, net foreign exchange gains are recognized when these transactions are settled, using the exchange rates prevailing on the settlement dates of such transactions; in other cases, net foreign exchange gains are recognized on the current balance sheet date using the foreign exchange rates prevailing on that date. Sales from transportation services are recognized when the services are rendered. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized immediately in "other gains — net." During the two years ended June 30, 2007 and the six months ended December 31, 2007, we did not carry any derivative financial instruments that qualify for hedge accounting. Negative goodwill arises when the consideration paid for an equity acquisition is lower than the market value of the acquired company and is recognized during the period when the acquisition is complete.

Selling and Marketing Costs

Selling and marketing costs consist primarily of transportation costs for delivery of our products to our customers, sales and marketing staff salaries and benefits, expenses relating to maintenance of trucks and forklifts and warehousing storage costs.

Administrative Expenses

Administrative expenses consist primarily of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, amortization of land use rights and pension contributions.

Finance Costs

Finance costs consist primarily of interest on bank borrowings less interest capitalized and bills discount charges. Finance costs also includes the effect of net foreign currency exchange losses on our borrowings.

Income Taxation

We and our subsidiaries are incorporated in different jurisdictions, and are subject to different taxation regimes. Under the current laws of Bermuda, we are not subject to tax on ordinary income or capital gains. Under the current laws of the British Virgin Islands, our British Virgin Islands subsidiaries are exempt from income tax on foreign derived income. In addition, there are no withholding taxes in the British Virgin Islands. Our revenue is primarily derived from our operations in China and our income tax expenses are incurred primarily in China.

Before the new EIT law became effective on January 1, 2008, Chinese companies generally paid enterprise income tax at a rate of 30% at the central level and 3% at the local level, subject to preferential tax schemes applicable to various enterprises, industries and locations. The new EIT Law adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and terminates most of the current tax exemption, reduction and preferential schemes under previous tax laws and regulations. Enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them for a period of five years from January 1, 2008, during which the income tax rate will increase gradually from 15% to 25%, or in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. See "Regulation — Tax." Dongguan Nine Dragons, one of our principal production subsidiaries, has been paying enterprise income tax at a preferential rate of 15% at the central level and 3% at the local level. It is unclear whether Dongguan Nine Dragons will continue to enjoy the preferential tax treatment. See "Risk Factors — Risks Relating to Our Business — Any loss of or significant reduction in the preferential tax treatment we currently enjoy could significantly increase our income tax expenses." Dongguan Sea Dragon Paper Industries Company Limited (東莞海龍紙業有限公司) ("Dongguan Sea Dragon"), Nine Dragons Paper Industries (Taicang) Company Limited (玖龍紙業(太倉)有限公司) ("Taicang Nine Dragons"), Sea Dragon Paper Industries (Taicang) Company Limited (海龍紙業(太倉)有限公司) ("Taicang Sea Dragon") and Dongguan Land Dragon Paper Industries Company Limited (東莞地龍紙業有限公司) ("Dongguan Land Dragon"), which previously paid enterprise income tax at a rate of 24% at the central level and 3% at the local level, are subject to enterprise income tax at the uniform rate of 25% from January 1, 2008. Our other major subsidiaries have been paying enterprise income tax at a rate of 30% at the central level and 3% at the local level and are subject to enterprise income tax at the uniform rate of 25% from January 1, 2008.

In addition to preferential tax treatments at the company level, profit attributable to most of our paper machines have also enjoyed income tax exemptions for one to two years commencing from the first profit-making year and a 50% reduction of income tax for the subsequent one to three years. The 50% reduction is calculated based on the enterprise income tax rate to which the subsidiary operating the paper machines is subject and such reduced tax rate may increase as the base rate applicable to the operating subsidiary increases during the five-year transitional period. As our paper machines commenced operations in different periods and their respective first profitable year varies, their tax exemption and reduction periods began at different times and will gradually expire at different times. For example, tax exemption for PM6 and PM7 at Dongguan Nine Dragon ended on December 31, 2006 and profit attributable to these machines was taxed at the rate of 7.5% for the 12 months ended December 31, 2007. Tax exemption for PM5 and PM8 at Taicang Nine Dragon ended on December 31, 2006 and profit attributable to these machines were taxed at the rate of 12% for the 12 months ended December 31, 2007. The expiration of tax exemption for profit attributable to these machines have caused our income tax to increase for the six months ended December 31, 2007.

In fiscal years 2006 and 2007 and the six months ended December 31, 2007, our income tax expense was RMB116.3 million, RMB101.7 million and RMB126.4 million, respectively, and our effective income tax rate was 7.7%, 4.7% and 10.5%, respectively. We expect our income tax expense to increase after the expiration of the various preferential tax treatments we currently enjoy. See "Risk Factors — Risks Relating to Our Business — Any loss of or significant reduction in the preferential tax treatment we currently enjoy could significantly increase our income tax expenses."

Pursuant to the EIT Law, which became effective January 1, 2008, dividends distributed by our PRC subsidiaries to us or our non-PRC subsidiaries are subject to withholding tax at a rate of 5% for enterprises incorporated in Hong Kong and 10% for enterprises incorporated outside of Hong Kong if we or our non-PRC subsidiaries, as the case may be, are deemed a "non-resident enterprise."

Profit Attributable to Minority Interests

Profit attributable to minority interests relates to the proportion of profit attributable to minority shareholders in our non-wholly owned subsidiaries.

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with HKFRS, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the reported amounts of revenues and expenses during each reporting period and (iii) the disclosure of our commitments, contingent assets and liabilities at the end of each reporting period. We continually evaluate these estimates based on our own experience, knowledge and our assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are inherently uncertain. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from these estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reading our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

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 our business, net of value-added tax, return, rebate and discount after eliminating sales within the group companies. We recognize revenue when the amount of revenue can be reliably measured. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Generally, sales of goods and scrap materials are recognized when we have delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Fair Value Estimation

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

Value-added Taxes on Export Sales

Our export sales are subject to value-added taxes under relevant PRC tax regulations. The interpretations on relevant value-added taxes regulations of our management may be different from that of the relevant tax bureaus. The ultimate tax determination is uncertain and we recognize these liabilities based on management's best estimates. See "— Description of Components of Results of Operations — Value-added tax." 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 value-added taxes in the period in which such determination is made.

Provisions

Provisions are recognized when we have 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 recognized 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 recognized 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 recognized as interest expense.

Derivative Instruments

Derivative instruments, mainly our cross currency interest rate swaps and currency forward contracts, are initially recognized at fair value on the date in which the derivative contract is entered into. Changes in fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within other gains — net. During the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, we did not carry any derivative financial instruments that qualify for hedge accounting. Due to the complexity of valuation of cross currency interest rate swaps, we engaged an independent valuer to determine their fair value as of June 30, 2007.

Trade Receivables

We are required to estimate the collectibility of our trade receivables and bills receivable. A considerable amount of judgment is required to assess the ultimate realization of these receivables, including the current credit-worthiness of each customer. Significant changes in provisions may occur in the future due to changes in financial positions of our customers or our assessment of our customers' credit-worthiness and other macroeconomic factors.

Valuation of Share Options

We have adopted two share option plans as part of our employee and director compensation. We record expenses for option grants as part of employee benefit expense. We determine the amount to be expensed over the vesting period by reference to the fair value of the options. The fair value of options granted under these plans was determined using the Binomial valuation model and the Black-Scholes valuation model, and included assumptions relating to the risk free rate, the expected dividend yield, the expected volatility of the market price of our shares and the expected life of the option. At the time of grant, we based our valuation on a valuation by Vigers Appraisal & Consulting and on each balance sheet date, we revise our estimates of the number of options we expect to become exercisable and recognize the difference on our original estimates.

Net Realizable Value of Inventories

We estimate the net realizable value of inventories by using the selling price of our products in the ordinary course of business, less estimated costs of completion and selling expenses. Our estimates are based on current market conditions as well as our historical experience. Our estimates may not accurately reflect market conditions in future periods and these amounts could change as a result of changes in market conditions.

Impairment of Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets and is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for purposes of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The recoverable amount of a cash-generating unit is determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a specified period. Cash flows beyond the specified period are extrapolated using an estimated rate of return on equity.

Useful Lives of Plants and Machinery

Our management determines the estimated useful lives and related depreciation expenses for our manufacturing plants and machinery. These estimates are based on the expected lifespan of the paper machines and could change significantly as a result of technological innovations in response to industry cycles. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or will write off or write down technologically obsolete or non-strategic assets that have been abandoned or sold.

RESULTS OF OPERATIONS

Six Months Ended December 31, 2007 Compared to Six Months Ended December 31, 2006

Sales

Our sales increased 44.2% to RMB6,690.4 million in the six months ended December 31, 2007 from RMB4,638.5 million in the six months ended December 31, 2006 primarily due to increases in our sales volume and average realized selling prices of our packaging paperboard products. During the six months ended December 31, 2007, our sales of packaging paperboard products totaled approximately 2.1 million tonnes, representing an increase of 485,000 tonnes, or 30.6%, as compared to the six months ended December 31, 2006. The increase in total sales volume of packaging paperboard products reflected the full period contribution of PM11, PM16 and PM17, as well as the commencement of operations of PM12 and PM13 and the upgrade of the design production capacity of PM8 by 0.05 mtpa in August 2007.

The weighted average realized selling price of our packaging paperboard products increased by 11.4% to RMB3,160 per tonne in the six months ended December 31, 2007 from RMB2,837 per tonne in the six months ended December 31, 2006. The weighted average realized selling prices per tonne for linerboard, high-performance corrugating medium and coated duplex board increased by 9.2%, 13.4% and 13.6%, respectively, in the six months ended December 31, 2007 as compared to the six months ended December 31, 2006. The increase in average realized selling prices of our packaging paperboard products in the six months ended December 31, 2007 compared to the six months ended December 31, 2006 were primarily due to increased market demand for our products, the transfer of a portion of the increased raw material costs to our customers by charging higher prices and increased sales (as a percentage of total sales) of coated duplex board products, which generally have a higher selling price than other packaging paperboard products.

Our sales of unbleached kraft pulp products increased to approximately 36,585 tonnes in the six months ended December 31, 2007 from approximately 36,206 tonnes in the six months ended December 31, 2006, representing an increase of approximately 1.1%. The weighted average realized selling price per tonne for our unbleached kraft pulp decreased 0.8% to approximately RMB3,941 in the six months ended December 31, 2007 from approximately RMB3,974 in the six months ended December 31, 2006.

Cost of Goods Sold

Our cost of goods sold increased 48.9% to RMB5,114.2 million in the six months ended December 31, 2007 from RMB3,434.5 million in the six months ended December 31, 2006. The increase was primarily due to an increase in sales volumes, a significant increase in prices of raw materials, particularly recovered paper and pulp and increased non-deductible value-added tax for export sales. The increase in non-deductible value-added tax for export sales was primarily due to an increase in our export sales as well as additional value-added tax provisions for export sales made in prior periods pursuant to a reassessment of our value-added tax liability for export sales under the New VAT Regulation. See "— Description of Components of Results of Operations — Value-added tax."

Gross Profit

As a result of the foregoing, our gross profit increased 30.9% to RMB1,576.2 million in the six months ended December 31, 2007 from RMB1,204.0 million in the six months ended December 31, 2006. Our gross margin was 23.6% in the six months ended December 31, 2007 compared to 26.0% in the six months ended December 31, 2006. The decrease in gross margin resulted primarily from the increase in raw materials costs, principally for recovered paper, which grew at a faster rate than the increase in our average realized selling prices.

Other Gains — Net

Our other gains — net, decreased to RMB125.1 million in the six months ended December 31, 2007 from RMB148.9 million in the six months ended December 31, 2006. This decrease was due primarily to a decrease in sales of electricity and the net loss arising from the change in fair value of our cross currency interest rate swap, partially offset by increases in negative goodwill recognized in connection with the acquisition of Qian Wei and sales of scrap materials. Sales of electricity decreased primarily because we used more electricity we produced for our own packaging paperboard production.

Selling and Marketing Costs

Our selling and marketing costs increased 49.2% to RMB144.4 million in the six months ended December 31, 2007 from RMB96.8 million in the six months ended December 31, 2006. The increase in selling and marketing costs was due primarily to larger sales volumes and geographical coverage. However, our selling and marketing costs as a percentage of sales remained stable at 2.1% for the six months ended December 31, 2006 and 2007.

Administrative Expenses

Our administrative expenses increased 104.4% to RMB287.2 million in the six months ended December 31, 2007 from RMB140.5 million in the six months ended December 31, 2006. Our administrative expenses as a percentage of sales increased from 3.0% in the six months ended December 31, 2006 to 4.3% in the six months ended December 31, 2007. These increases were primarily a result of an increase in expenses of RMB87.1 million relating to share options granted under our share option schemes and additional management and administrative costs to support the commencement of operations of our planned expansion.

Operating Profit

Our operating profit increased 13.8% to RMB1,269.7 million in the six months ended December 31, 2007 from RMB1,115.6 million in the six months ended December 31, 2006. As a percentage of sales, our operating profit margin decreased to 19.0% in the six months ended December 31, 2007 from 24.0% in the six months ended December 31, 2006.

Finance Costs

Our finance costs decreased 24.3% to RMB64.6 million in the six months ended December 31, 2007 from RMB85.3 million in the six months ended December 31, 2006, primarily as a result of exchange gains on our foreign currency denominated borrowings, partially offset by an increase in interest expense. Exchange gains on foreign currency denominated borrowings increased from RMB27.1 million to RMB152.2 million primarily due to continued appreciation of the Renminbi, combined with an increase in foreign currency denominated borrowings in our loan portfolio. Interest on bank borrowings increased from RMB104.5 million to RMB187.8 million primarily due to additional borrowings raised to fund the expansion of our design production capacity.

Income Tax Expense

Our income tax expense increased to RMB126.4 million in the six months ended December 31, 2007 from RMB55.0 million in the six months ended December 31, 2006. Our effective tax rate increased to 10.5% for the six months ended December 31, 2007 from 5.3% for the six months ended December 31, 2006. The increases were primarily due to (i) the expiration of the full exemption periods of the preferential tax treatment for PM5, PM6, PM7 and PM8 on December 31, 2006; these paper machines were major revenue contributors to our sales in the six months ended December 31, 2007, and (ii) increased deferred income tax expenses as a result of an increase in fixed assets, including PM11, PM12, PM13, PM16 and PM17, which has longer estimated useful lives of under HKFRS than under PRC GAAP for depreciation purposes, resulting in deferred income tax expenses.

Profit for the Period

As a result of the above, our profit for the six months ended December 31, 2007 was RMB1,078.7 million, an increase of RMB103.4 million, or 10.6%, from RMB975.3 million in the six months ended December 31, 2006. Our profit margin for the period was 16.1% in the six months ended December 31, 2007 and 21.0% in the six months ended December 31, 2006.

2007 Compared to 2006

Sales

Our sales increased 24.5% to RMB9,837.7 million in fiscal year 2007 from RMB7,902.2 million in fiscal year 2006 primarily due to our increased sales volumes and to a lesser extent, an increase in average realized selling prices of our products. In fiscal year 2007, our sales of packaging paperboard products totaled approximately 3,269,000 tonnes, representing an increase of 509,000 tonnes, or 18.4%, as compared to fiscal year 2006. The increase of total sales volume in packaging paperboard products reflected the full year contribution in fiscal year 2007 by PM9 and PM10, which commenced operations in December 2005, as well as partial year contributions from PM11, PM16 and PM17, which commenced operations in January 2007.

The weighted average realized selling price of our packaging paperboard products increased 4.1% to RMB2,896 per tonne in fiscal year 2007 from RMB2,781 per tonne in fiscal year 2006. The weighted average realized selling prices per tonne for linerboard, high-performance corrugating medium and coated duplex board increased by 4.6%, 5.1% and 1.3%, respectively, in fiscal year 2007 as compared to fiscal year 2006. The increase in average realized selling prices of our products in fiscal year 2007 compared to fiscal year 2006 were primarily due to increased market demand for our products and the transfer of increased raw material costs to our customers by charging higher prices.

Similarly, our sales of unbleached kraft pulp products increased to approximately 88,000 tonnes from approximately 66,000 tonnes in fiscal year 2006, representing an increase of approximately 33.3%. The increase in total sales volume of unbleached kraft pulp products reflected the increase in our capacity from 0.10 mtpa to 0.12 mtpa. The average realized selling price per tonne for our unbleached kraft pulp increased 21.6% to approximately RMB4,192 in fiscal year 2007 from approximately RMB3,446 in fiscal year 2006, primarily due to increased market demand.

Cost of Goods Sold

Our cost of goods sold increased 21.0% to RMB7,308.8 million in fiscal year 2007 from RMB6,041.3 million in fiscal year 2006. Our cost of goods sold increased in fiscal year 2007 compared to fiscal year 2006 primarily due to increased production volumes from PM9, PM10, PM11, PM16 and PM17.

Gross Profit

As a result of the foregoing, our gross profit increased 35.9% to RMB2,528.9 million in fiscal year 2007 from RMB1,860.9 million in fiscal year 2006. Our gross margin was 25.7% in fiscal year 2007 compared to 23.5% in fiscal year 2006. The increase in gross margin resulted primarily because average realized selling prices increased at a rate faster than the increase in our raw materials costs, principally for recovered paper. In fiscal year 2007, the gross margin of packaging paperboard products increased to 25.4% from 23.4% in fiscal year 2006 and the gross margin of kraft pulp increased to 34.0% from 27.2% in fiscal year 2006.

Other Gains — Net

Our other gains — net, decreased 12.8% to RMB311.2 million in fiscal year 2007 from RMB357.0 million in fiscal year 2006. Other gains — net decreased primarily due to a decrease in interest income and sales of electricity, partially offset by an increase in net exchange gains and net gain arising from change in value of cross currency interest rate swaps.

Sales of electricity decreased from RMB150.1 million in fiscal year 2006 to RMB123.2 million in fiscal year 2007 as a result of our increase in design production capacity, which resulted in higher electricity consumption in fiscal year 2007 as our production volume increased.

Selling and Marketing Costs

Our selling and marketing costs increased 13.1% to RMB195.4 million in fiscal year 2007 from RMB172.8 million in fiscal year 2006. The increase in selling and marketing costs was due primarily to increased sales volumes. Our selling and marketing costs as a percentage of sales decreased to 2.0% in fiscal year 2007 from 2.2% in fiscal year 2006.

Administrative Expenses

Our administrative expenses increased 50.2% to RMB351.3 million in fiscal year 2007 from RMB233.9 million in fiscal year 2006. Our administrative expenses as a percentage of sales increased from 3.0% in fiscal year 2006 to 3.6% in fiscal year 2007. These increases were primarily a result of expenses of RMB102.4 million on share options granted under our share option schemes. We also incurred additional management and administrative costs to support the commencement of operation of new paper machines.

Operating Profit

Our operating profit increased 26.6% to RMB2,293.4 million in fiscal year 2007 from RMB1,811.2 million in fiscal year 2006. This increase was in line with the increase in our gross profit and which was partially offset by a decrease in other gains — net and an increase in selling and marketing costs and administrative expenses. As a percentage of sales, our operating profit margin decreased to 23.3% in fiscal year 2007 from 22.9% in fiscal year 2006.

Finance Costs

Our finance costs decreased 55.4% to RMB131.4 million in fiscal year 2007 from RMB294.8 million in fiscal year 2006, as a result of exchange gains on foreign currency borrowings attributable to the appreciation of the Renminbi against the U.S. dollar during fiscal year 2007 and lower interest rates on our short-term borrowings in part due to our improved financial position following our IPO.

Income Tax Expense

Our income tax expense decreased to RMB101.7 million in fiscal year 2007 from RMB116.3 million in fiscal year 2006. Our effective tax rate decreased to 4.7% in fiscal year 2007, from 7.7% in fiscal year 2006. The decreases in income tax expense and effective tax rate were due primarily to a reversal of prior years' PRC enterprise income tax provision as we believed that such provision was no longer necessary.

Profit for the Year

As a result of the above, our profit for the year for fiscal year 2007 was RMB2,060.3 million, an increase of RMB660.2 million, or 47.2%, from RMB1,400.1 million for fiscal year 2006. Our profit margin for the year was 20.9% in fiscal year 2007 and 17.7% in fiscal year 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to invest in additional manufacturing facilities and equipment, service our indebtedness and fund working capital and normal recurring expenses. To date, we have financed our cash requirements through a combination of internal resources, bank borrowings, the proceeds of our IPO, an equity share placement in April 2007 and the issuance of short-term financing bills in Renminbi.

As of December 31, 2007, we had bank and cash balances of RMB691.7 million, excluding restricted cash of RMB262.7 million, and approximately RMB5,866.1 million of undrawn bank loans and overdraft facilities.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	For the year ended June 30,			Six months ended December 31,		
	2006	2007		2006	2007	
	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
	(in millions)					
Net cash generated from operating activities	1,067.1	756.1	103.7	885.3	475.9	65.2
Net cash (used in)/generated from investing activities	(1,454.1)	(5,524.0)	(757.3)	(2,712.6)	(3,626.3)	(497.1)
Net cash generated/(used in) from financing activities	2,556.0	3,727.0	510.9	(129.7)	2,126.7	291.5
Net increase/(decrease) in bank and cash balances	2,169.0	(1,040.9)	(142.7)	(1,957.0)	(1,023.7)	(140.4)
Bank and cash balances at the end of the year/period	2,816.7	1,748.2	239.7	848.4	691.7	94.8

Cash generated from operating activities

Cash from operating activities reflects profit for the period adjusted for non-cash items, such as depreciation and amortization, and the effects of changes in working capital (such as increases or decreases in inventory, trade and other receivables and trade and other payables) as well as payments of interest and income tax.

Net cash generated from operating activities was RMB475.9 million in the six months ended December 31, 2007 as compared to RMB885.3 million in the six months ended December 31, 2006. Cash generated from operations before changes in working capital increased to RMB1,592.5 million in the six months ended December 31, 2007 compared to RMB1,311.5 million in the six months ended December 31, 2006. In the six months ended December 31, 2007, changes in working capital contributed a cash outflow of RMB823.0 million, primarily due to (i) an increase in trade and other receivables of RMB861.4 million and (ii) an increase in inventory of RMB59.4 million, partially offset by an increase in trade and other payables of RMB97.8 million. Interest paid of RMB251.1 million and income tax paid of RMB42.5 million also contributed to the cash outflow in the six months ended December 31, 2007.

Net cash generated from operating activities was RMB756.1 million in fiscal year 2007 as compared to RMB1,067.1 million in fiscal year 2006. Cash generated from operations before changes in working capital increased to RMB2,752.2 million in fiscal year 2007 compared to RMB2,055.8 million in fiscal year 2006. In fiscal year 2007, changes in working capital contributed a cash outflow of RMB1,631.6 million, primarily due to (i) a decrease in trade and other payables of RMB603.0 million, (ii) an increase in inventory of RMB571.5 million and (iii) an increase in trade and other receivables of RMB457.1 million. Interest paid of RMB271.8 million and income tax paid of RMB92.7 million also contributed to the cash outflow in fiscal year 2007.

Net cash generated from operating activities was RMB1,067.1 million and cash generated from operations before changes in working capital was RMB2,055.8 million in fiscal year 2006. In fiscal year 2006, changes in working capital contributed a cash outflow of RMB618.1 million, primarily due to (i) a decrease of trade and other payables of RMB536.4 million and (ii) an increase in trade and other receivables of RMB148.4 million, partially offset by a decrease of inventories of RMB66.7 million. Interest paid of RMB345.9 million and income tax paid of RMB24.7 million also contributed to the cash outflow in fiscal year 2006.

The increases in trade and other receivables in fiscal years 2006 and 2007 and the six months ended December 31, 2007 were primarily due to increases in our production and sales. The decreases of trade and other payables in fiscal years 2006 and 2007 were primarily due to a decrease in bills payable.

Cash used in investing activities

Cash used in investing activities primarily represents capital expenditures for property, plant and equipment and acquisitions of land use rights.

Net cash used in investing activities in the six months ended December 31, 2007 amounted to RMB3,626.3 million, of which RMB3,511.2 million related to purchases of property, plant and equipment and RMB110.3 million related to acquisitions of land use rights. The property, plant and equipment purchased during this period mainly included PM18, PM19, PM27 and PM28 at our Dongguan base, PM20, PM21, PM29 and PM30 at our Taicang base, PM22 and PM23 at our planned Chongqing base and PM25 and PM26 at our planned Tianjin base. The acquisitions of land use rights were made in relation to our Tianjin base.

Net cash used in investing activities in fiscal year 2007 amounted to RMB5,524.0 million, of which RMB5,345.0 million related to purchases of property, plant and equipment and RMB234.9 million related to acquisitions of land use rights. The property, plant and equipment purchased during this period mainly included PM11, PM12, PM13, PM18 and PM19 at our Dongguan base, PM16, PM17, PM20 and PM21 at our Taicang base, PM22 and PM23 at our planned Chongqing base and PM25 and PM26 at our planned Tianjin base. The acquisitions of land use rights were made in relation to our Dongguan base and our planned Chongqing base.

Net cash used in investing activities in fiscal year 2006 amounted to RMB1,454.1 million, of which RMB1,528.8 million related to purchases of property, plant and equipment, and RMB100.5 million related to acquisitions of land use rights. The property, plant and equipment purchased during this period mainly included PM9, PM10, PM11, PM12 and PM13 at our Dongguan base, and PM16 and PM17 at our Taicang base. The acquisitions of land use rights were made in relation to our Dongguan base and ND Xing An. Cash used in investing activities in fiscal year 2006 was partially offset by interest received of RMB117.7 million mainly from the deposit of subscription funds for our IPO in March 2006.

Cash from financing activities

Cash from financing activities primarily represents proceeds from equity and debt offerings and borrowings, offset mainly by repayments of borrowings.

Net cash generated from financing activities in the six months ended December 31, 2007 amounted to RMB2,126.7 million, reflecting primarily bank borrowings of RMB5,924.1 million, partially offset by repayment of borrowings of RMB3,425.8 million.

Net cash from financing activities increased RMB1,171.0 million to RMB3,727.0 million in fiscal year 2007 from RMB2,556.0 million in fiscal year 2006. Net cash from financing activities in fiscal year 2007 reflected primarily proceeds from borrowings of RMB8,783.0 million as well as proceeds from our share placement in April 2007 of RMB2,011.0 million, partially offset by repayment of borrowings of RMB6,987.6 million. In fiscal year 2006, net cash from financing activities amounted to RMB2,556.0 million, reflecting primarily proceeds from borrowings of RMB6,165.6 million and proceeds from our IPO in March 2006 of RMB4,051.2 million, partially offset by repayment of borrowings of RMB7,477.3 million.

Indebtedness

As of December 31, 2007, we had total borrowings of RMB8,978.0 million, comprising RMB1,378.2 million in short-term bank borrowings, RMB800.0 million in short-term financing bills, RMB40.0 million in current portion of long-term bank borrowings and RMB6,759.8 million in long-term borrowings.

As of June 30, 2007 and December 31, 2007, RMB3.3 million and RMB268.1 million, respectively, of our total borrowings were secured by our assets, including properties and restricted cash. The increase in secured debt was mainly related to the issuance of letters of credit and certain arbitrage activities. See "— Restricted Cash."

As of December 31, 2007, RMB4,585.9 million, or 51.1% of our borrowings, were denominated in Renminbi, RMB3,246.2 million, or 36.2%, were denominated in U.S. dollars, RMB1,103.4 million, or 12.3%, were denominated in HK dollars and RMB42.5 million, or 0.5%, were denominated in Euros.

The following table sets forth the maturity of our borrowings as of the dates indicated.

	As of June 30,		As of December 31,
	2006	2007	2007
	(RMB in thousands)		
Within 1 year	2,176,875	2,543,082	2,218,198
Between 1 and 2 years	1,537,000	1,028,259	2,787,803
Between 2 and 5 years	1,016,901	3,057,392	3,584,572
Wholly repayable within 5 years	4,730,776	6,628,733	8,590,573
Over 5 years	190,000	3,276	387,440
Total borrowings	4,920,776	6,632,009	8,978,013

Restricted Cash

Restricted cash mainly represents deposits of cash in banks as security for borrowings related to the issuance of letters of credit and certain arbitrage activities. As of December 31, 2007, our restricted cash totaled RMB262.7 million.

During the six months ended December 31, 2007, we engaged in some arbitrage activities. In these cases, we borrowed U.S. dollar-denominated loans from banks with maturities ranging from three months to one year. The loans are repayable in U.S. dollars based on an exchange rate between Renminbi and U.S. dollars fixed at the time of borrowing. We are required to place or pledge deposits in Renminbi or Japanese Yen equivalent to the loan amount based on the pre-fixed exchange rate. These loans will be repaid by automatic deduction from the pledged deposits on their respective maturity dates. Both the loans and the deposits carry interest. At approximately the same time of the borrowing, we entered into a currency forward contract to purchase U.S. dollars at the pre-fixed exchange rate as applied to the loan on the maturity date of the loan. As of December 31, 2007, restricted cash related to this kind of transactions totaled RMB166.4 million.

In some cases, banks may require us to place deposits with the banks to secure the issuance of letters of credit. As of December 31, 2007, such restricted cash deposit amounted to RMB96.3 million.

Dividends

Going forward, we expect to pay dividends of not less than 20% of our profits attributable to equity holders in each fiscal year to our shareholders. The amount of dividends will be subject to the discretion of our Board and will be dependent upon our future operations, earnings, financial condition, business needs, prospects, cash requirements and availability and other factors as the Board may deem relevant at such time.

For fiscal years 2006 and 2007, we declared and paid interim or final dividends totaling RMB95.5 million and RMB494.7 million, respectively. For the six months ended December 31, 2007, we have declared interim dividends of approximately RMB72.1 million which is expected to be paid in 2008. As our Company did not list on The Stock Exchange of Hong Kong Limited until March 3, 2006, our dividend payment for fiscal year 2006 was only based on our results of operations during the period from March 3, 2006 to June 30, 2006.

Capital Expenditures

The packaging paperboard manufacturing business is highly capital intensive. We have incurred substantial capital expenditures for our operations and expansion and will continue to incur significant capital expenditures, including expenditures for construction and installation of new manufacturing facilities, purchase and installation of new equipment and land acquisitions for our production bases.

The following table sets forth information on our historical and planned capital expenditures for the periods indicated.

	Year ended June 30,			
	2006	2007	2008	2009
			(planned)	(planned)
	(in millions of RMB)			
Equipment	897.0	4,517.3	4,279.4	1,715.9
Buildings	104.3	171.1	421.9	234.7
Land	79.6	220.9	101.0	—
Supporting facilities	71.7	616.3	1,509.5	578.6
Others[(1)]	261.2	234.5	441.9	490.1
Total capital expenditures	1,413.8	5,760.1	6,753.7	3,019.3

(1) Represents primarily capital expenditures related to miscellaneous ancillary projects and purchases of assets, new projects under planning, upgrade of machinery, construction of roads and property maintenance.

Our capital expenditures for the six months ended December 31, 2007 were RMB3,833.6 million, which were incurred primarily in connection with (i) the construction of factory buildings, (ii) purchase of plant and machinery, and equipment, including PM18 and PM19 at our Dongguan base, PM20, PM21, PM29 and PM30 at our Taicang base, PM22 and PM23 at our Chongqing base and PM25 and PM26 at our Tianjin base, and (iii) acquisitions of land use rights including the land use rights in relation to our Tianjin base.

Our total capital expenditures for fiscal year 2007 were incurred primarily in connection with (i) the construction of factory buildings, (ii) purchases of plant, machinery, equipment, including PM11, PM12, PM13, PM18 and PM19 at our Dongguan base, PM16, PM17, PM20 and PM21 at our Taicang base and PM22 and PM23 at our planned Chongqing base, and (iii) acquisitions of land use rights in Dongguan and Taicang including the land use rights in relation to our Dongguan base and our Chongqing base.

Our capital expenditures in fiscal year 2006 were incurred primarily in connection with (i) purchases of property, plant and equipment, including PM9, PM10, PM11, PM12 and PM13 at our Dongguan base and PM16 and PM17 at our Taicang base, (ii) acquisition of land use rights, including the land use rights in relation to our Dongguan base and ND Xing An, and (iii) the payment for the acquisition of Nine Dragons Paper Industries Co., Ltd., Millennium Scope Limited, River Dragon Paper Industries Co., Ltd. and Emperor Dragon Paper Industries Co., Ltd. by Zhang's Enterprise Company Limited, now our indirect wholly owned subsidiary (the "Acquisition").

We estimate that our total aggregate capital expenditures for fiscal year 2008 and 2009 will be RMB9,773.0 million, representing approximately RMB6,753.7 million for fiscal year 2008 and RMB3,019.3 million for fiscal year 2009. Our planned major projects for 2008 and 2009 include 13 new paper machines for our Dongguan, Taicang, Chongqing and Tianjin bases and for our planned Vietnam facility as well as supporting facilities, including power plants and truck fleets for our Chongqing and Tianjin bases and a shipping pier in Chongqing. We also plan to use a portion of such capital expenditures toward the development of our proposed acquisition in Vietnam.

We have funded our historical capital expenditures through a combination of internal resources, bank borrowings, the proceeds from our IPO and an equity share placement in April 2007. We expect to fund the majority of our total planned capital expenditures in fiscal years 2008 and 2009 with proceeds from this offering and internally generated cash flow. Our capital expenditure plans are subject to changes based upon the execution of our business plan, the progress of our capital projects, our financial performance, market conditions and our outlook for future business conditions. To the extent that we do not generate sufficient cash flows from our operations to meet our working capital needs or our capital expenditure plans, we may revise our capital expenditure plans or seek additional debt or equity financing. We cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

Contractual Obligations

The following table sets forth the scheduled maturities of our material contractual obligations as of December 31, 2007.

	Payments Due by Period			
	Total	Less than 1 year	2-5 years	After 5 years
	(in millions of RMB)			
Debt obligations	8,978.0	2,218.2	6,372.4	387.4
Operating lease obligations[1]	2.1	2.1	–	–
Capital expenditures	5,625.5	4,676.2	949.3	–
Total contractual obligations	14,605.6	6,896.5	7,321.7	387.4

(1) Represents primarily payment for leasing of property.

MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates, changes in selling prices for our products and costs of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates. Most of our Renminbi-denominated bank borrowings are short-term bank borrowings linked to the interest rates published by the PBOC, which are adjusted by the PBOC from time to time. As of December 31, 2007, substantially all of our non-Renminbi denominated bank borrowings were floating rate bank borrowings. As of December 31, 2007, RMB4,392.1 million, or 48.9%, of our borrowings were denominated in U.S. or HK dollars and Euros. Our floating rate U.S. dollar bank borrowings are pegged to LIBOR and our floating rate HK dollar bank borrowings are pegged to HIBOR. Increases in interest rates would increase our interest expenses relating to our outstanding floating rate bank borrowings and increase the cost of new debt, including rolled over short term bank borrowings. An increase or decrease of our effective interest rate by 50 basis points would increase or decrease, respectively, our interest expenses by approximately RMB34.5 million annually, based on total borrowings of RMB8,978.0 million as of December 31, 2007. We do not currently hedge our exposure to interest rate risks for our floating rate bank borrowings, although we have entered into interest rate swap transactions exchanging between HIBOR-based and LIBOR-based bank borrowings.

Foreign Currency Risk

We are exposed to foreign currency risk, as a portion of our sales and purchases are denominated in U.S. and HK dollars. In fiscal year 2007 and the six months ended December 31, 2007, 57.7% and 57.7%, respectively, of our sales were denominated in Renminbi and 42.3% and 42.3%, respectively, were denominated in foreign currencies, primarily U.S. and HK dollars. In addition, as of December 31, 2007, RMB4,392.1 million, or 48.9%, of our borrowings were denominated in U.S., HK dollars or Euros.

Moreover, the Notes are denominated in U.S. dollars and our purchases of recovered paper and kraft pulp, our principal raw materials, and plant and equipment are typically denominated in U.S. dollars, Euros, Great Britain Pounds or Japanese Yen.

To offset the impact of currency exchange rate fluctuations, we assess from time to time our exposure to currency risk and utilize derivative financial instruments such as foreign currency forward contracts and cross currency interest rate swaps to hedge our exposure to foreign currency risk on certain transactions. Foreign exchange risks are also partially offset by our foreign currency denominated purchases and the principal payments on foreign currency denominated borrowings.

Commodity Price Risk

We are also exposed to commodity price risk resulting from changes in the prices of our raw materials, including recovered paper, kraft pulp, chemicals and coal. As global commodities, prices for recovered paper, kraft pulp, chemicals and coal are principally dependent on the supply and demand dynamics in the global market. We do not currently hedge our exposure to fluctuations in the price of commodities such as recovered paper, kraft pulp, chemicals and coal, but may do so in the future.

NON-GAAP FINANCIAL MEASURES

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- net interest expense;
- amortization of intangible assets;
- income tax expense; and
- depreciation.

EBITDA is not a standard measure under either U.S. GAAP or HKFRS. As the packaging paperboard business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS and U.S. GAAP measure to EBITDA is profit for the year/period. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year/period under HKFRS to our definition of EBITDA for the periods indicated:

	Year ended June 30,		Six months ended December 31,	
	2006	**2007**	**2006**	**2007**
	(RMB in millions)			
			(unaudited)	
Profit for the year/period	1,400.1	2,060.3	975.3	1,078.7
Adjustments:				
Net interest expense[(1)]	132.4	148.7	79.0	166.4
Income tax expense	116.3	101.7	55.0	126.4
Depreciation[(2)]	315.0	342.8	157.2	214.7
Amortization of intangible assets.	21.3	15.7	6.5	11.1
EBITDA	1,985.1	2,669.2	1,273.0	1,597.3

(1) Net interest expense represents interest on borrowings less interest capitalized and interest income in the respective periods.

(2) Depreciation represents depreciation expense in cost of goods sold, selling and marketing costs and administrative expenses.

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under HKFRS or U.S. GAAP. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. You should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

The information in the section below has been derived, in part, from various government publications unless otherwise indicated. This information has not been independently verified by us or the Initial Purchaser or any of our and their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

Overview of the Global Containerboard Industry

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

The global demand for containerboard products has grown significantly in the last decade. The demand for containerboard products is generally influenced by economic conditions, and in particular, by consumer spending, industrial output and export sales.

As a result, the demand for containerboard is generally correlated with the growth in GDP. Containerboard prices are primarily influenced by demand, primarily from corrugators and paperboard packaging companies, and by supply. According to RISI Inc., Asia's containerboard consumption increased at a compound annual growth rate of 8.6% from approximately 44.1 mtpa in 2005 to approximately 52.0 mtpa in 2007.

The supply of containerboard products is principally affected by the building of new capacity by manufacturers of such products, equipment utilization rates and the level of imports and exports. The global containerboard markets are highly competitive. Many of the major producers are located in North America, Europe and Asia. According to RISI Inc., global containerboard capacity increased at a compound annual growth rate of 4.0% from approximately 127.4 mtpa in 2005 to approximately 137.9 mtpa in 2007.

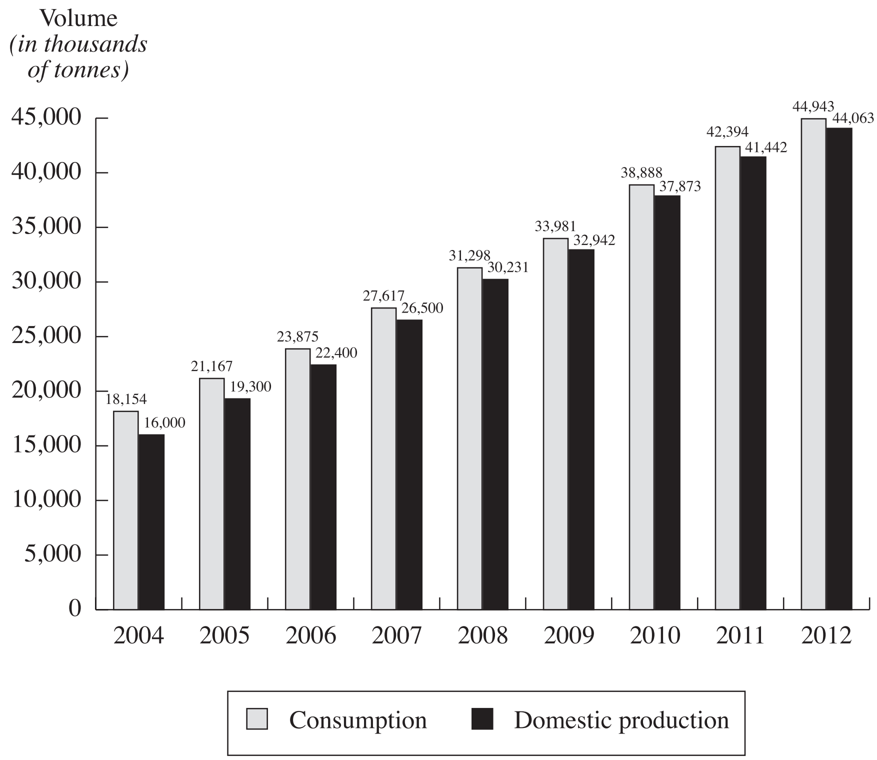
The Containerboard Industry in China

Overview

The growth in demand for containerboard products in China has primarily been driven by economic growth as reflected by the increase in consumer spending, industrial output and export sales from China to overseas countries. Export sales have been reinforced by China's role as a global manufacturing and export center which generated a significant amount of demand for containerboard products for use as packaging and shipping materials for export sales of manufactured products. According to RISI Inc., China's containerboard consumption increased at a CAGR of 14.2% from approximately 21.2 mtpa in 2005 to approximately 27.6 mtpa in 2007 and is projected to further grow to approximately 44.9 mtpa in 2012, representing a projected CAGR of 10.2% from 2007 to 2012.

From 2005 to 2007, the consumption of containerboard products has been exceeding the domestic production of such products, resulting in an increase in imports of containerboard products to meet the shortfall in domestic supply. The shortage in domestic supply of containerboard products has also resulted in the expansion of the capacity of containerboard manufacturers in China to meet such demand. According to RISI Inc.'s projection, China's containerboard consumption is projected to continue to exceed China's domestic containerboard production in the next ten years.

The following chart sets forth China's historical consumption and production of containerboard, excluding coated duplex board, from 2004 to 2007 and projected consumption and production of containerboard from 2008 to 2012.



Source: *RISI Inc. (updated March 26, 2008)*

The Demand for Containerboard Products in China

The rapid economic growth in China in recent years resulted in increased consumer spending and a fast growing domestic market. For 2005, 2006 and 2007, China's year on year GDP increased at a CAGR of 10.4%, 11.1% and 11.4%, respectively, all of which contributed to substantially increased demand for containerboard products.

The containerboard manufacturing industry is largely driven by regional demand. The major containerboard manufacturers in China are primarily located in the coastal provinces in northern, eastern and southern China with convenient transportation links and facilities to where manufacturing enterprises are concentrated. In 2006, the top five containerboard manufacturing provinces in China in terms of design production capacity were all located in coastal provinces in China to meet the regional demand from manufacturing enterprises. We operate out of Guangdong Province in southern China and Jiangsu Province in eastern China to meet the substantial amount of demand from manufacturing enterprises in these regions. Based on data from the China Paper Association, in 2006, Guangdong Province was the largest containerboard manufacturing province and Jiangsu Province was the third largest containerboard manufacturing province in terms of design production capacity in 2006.

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

The following table sets forth China's consumption volume of linerboard and corrugating medium from 2005 to 2007.

	Year ended December 31,			CAGR
	2005	2006	2007	2005-2007
	(in thousand of tonnes)			(%)
Linerboard	11,565	13,243	15,445	15.6
Corrugating medium	9,602	10,632	12,172	12.6
Total	21,167	23,875	27,617	14.2

Source: RISI Inc.

The Supply of Containerboard Products in China

According to RISI Inc., China's containerboard capacity increased at a compound annual growth rate of 16.5% from approximately 21.0 mtpa in 2005 to approximately 28.5 mtpa in 2007.

The following table sets forth China's domestic containerboard production from 2005 to 2007.

	Year ended December 31,			CAGR
	2005	2006	2007	2005-2007
	(in thousand of tonnes)			(%)
Linerboard	10,545	12,380	14,575	17.6
Corrugating medium	8,755	10,020	11,925	16.7
Total	19,300	22,400	26,500	17.2

Source: RISI Inc.

From 2005 to 2007, the consumption of containerboard products exceeded the domestic production of such products. As a result, between 2005 and 2007, China imported containerboard products from overseas to meet the shortfall in domestic supply.

The following table sets forth China's net import of containerboard products from 2005 to 2007.

	Year ended December 31,			CAGR
	2005	2006	2007	2004-2006
	(in thousand of tonnes)			(%)
Linerboard	1,020	863	870	(7.6)
Corrugating medium	847	612	247	(46.0)
Total	1,867	1,475	1,117	(22.7)

Source: RISI Inc.

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

According to the China Paper Association, a national trade association among paper manufacturers in China which provides its members with regulatory and market information relating to the PRC paper manufacturing industry, China's consumption of coated duplex board increased at a compound annual growth rate of approximately 12.9% from approximately 7.31 million tonnes in 2004 to approximately 9.31 million tonnes in 2006. During the same period, China's production of coated duplex board increased at a compound annual growth rate of approximately 19.5% from approximately 6.30 million tonnes in 2004 to approximately 9.0 million tonnes in 2006.

The following table sets forth the top five containerboard manufacturing provinces in terms of design production capacity in China in 2006.

Provinces	**As of December 31, 2006**
	(in thousands of tonnes)
Guangdong Province	6,108[1]
Shandong Province	3,365[1]
Jiangsu Province	2,489[1]
Zhejiang Province	1,643[1]
Hebei Province	1,340[1]
Total	14,945[1]

Source: The China Paper Association

(1) Does not take into account an estimated 7.40 mtpa of capacity in China which has not been specifically tracked and with respect to which a portion may be located in these provinces.

Raw Materials

The main raw materials used to produce containerboard are recovered paper and kraft pulp. Due to the short supply of such raw materials in China, paper manufacturers import most of such raw materials for their production requirements. There are multiple suppliers of varying sizes in the recovered paper markets in North America, China, Europe, Japan, Australia and elsewhere in the world. A majority of China's recovered paper imports used for production of paper products in China are imported from North America, Europe, Japan and Australia. Kraft pulp imports used for production of paper products in China are primarily imported from North America, South Africa, Chile, Brazil, Russia and New Zealand. According to the China Paper Association, imported recovered paper represented approximately 48.5% and approximately 46.5% of China's total consumption of recovered paper in 2005 and 2006, respectively. Imported kraft pulp represented approximately 67.2% and approximately 60.2% of China's total consumption of pulp in 2005 and 2006, respectively.

According to the China Paper Association, the average price of imported recovered paper decreased by approximately 2.9% from US$144.2 per tonne in 2005 to US$140.1 per tonne in 2006. The average price of imported kraft pulp increased by approximately 12.5% from US$490.8 per tonne in 2005 to US$551.9 per tonne in 2006.

China's consumption of recovered paper and pulp has increased rapidly to meet the raw materials requirements of increased production from 2004 to 2006. The following table sets forth China's consumption of recovered paper and kraft pulp from 2004 to 2006.

	Year ended December 31,			CAGR
	2004	2005	2006	2004-2006
	(in thousand of tonnes)			(%)
Raw materials				
Recovered paper pulp	23,050	28,100	33,800	21.1
Kraft pulp	9,700	11,300	13,220	16.7

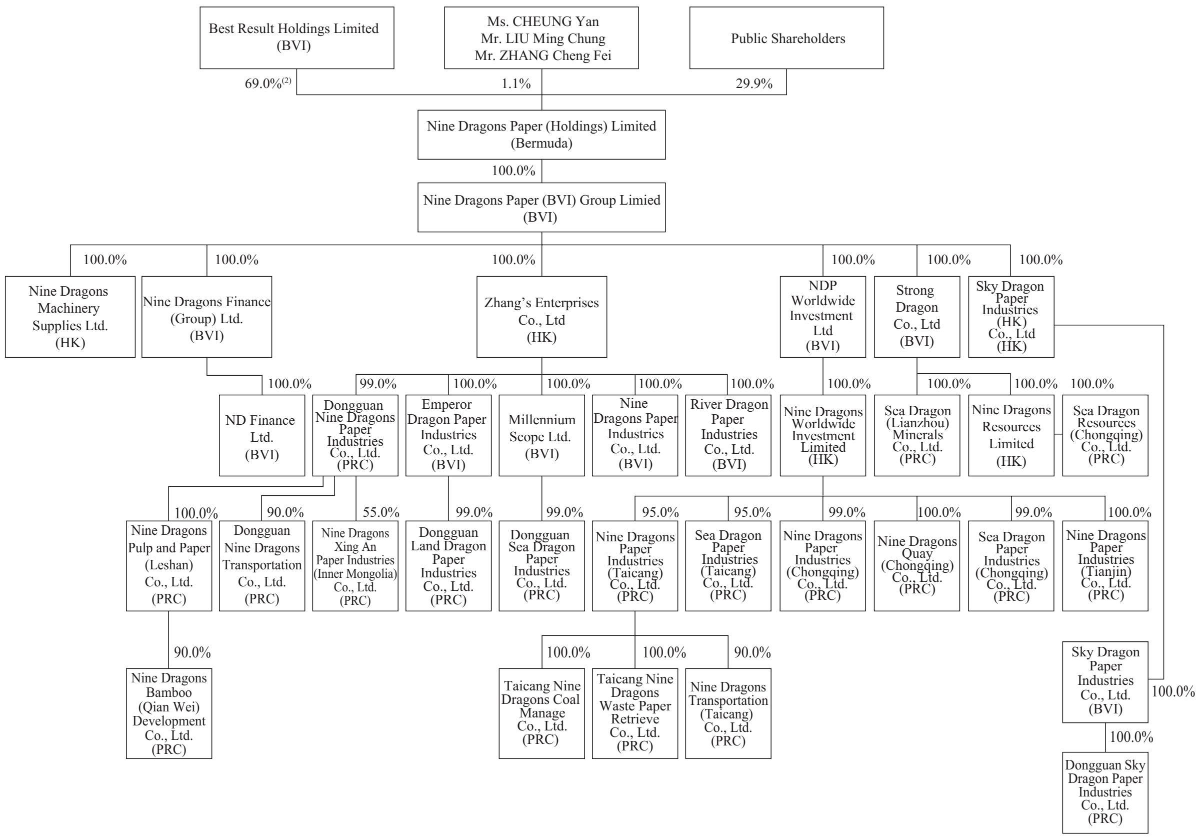
Source: The China Paper Association

Competition

The overall paper manufacturing industry in China, including the containerboard manufacturing industry, is relatively fragmented with a large number of manufacturers. Consequently, the paper manufacturing industry in China is characterized by a limited number of large manufacturers. As of December 31, 2007, although there were a large number of containerboard manufacturers in China, only a few, including us, had a design production capacity of more than one mtpa, based on data from RISI Inc.

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

The following chart sets forth our simplified corporate structure as at March 31, 2008[1]:



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(1) *This chart presents the principal holding companies and operating companies that we considered to be material to our business as of March 31, 2008. Not all of the corporate entities in our Group are presented, as some of such entities are currently without significant assets or operations. However, certain of these companies may be involved in our expansion or other future plans.*

(2) *The issued share capital of Best Result is held as to 34.516% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association, as the administrative trustee of YC 2006 QuickGRAT, as to 2.557% by Ms. Cheung and as to 37.053% by Ms. Cheung and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust and as to 10.0% and 15.874% by Mr. Zhang Cheng Fei through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust, respectively. Mr. Zhang Cheng Fei is the settlor of both The Zhang Family Trust and The Golden Nest Trust. Each of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result.*

History and Restructuring

Our paper manufacturing operations are primarily located in three factories in China, with two in Dongguan, Guangdong Province, in the Pearl River Delta region and one in Taicang, Jiangsu province, in the Yangtze River Delta region. Since our inception in 1995, we have rapidly increased our packaging paperboard design production capacity to 5.35 mtpa in 2007. We have also been successful in becoming the preferred supplier to a number of customers that use our packaging paperboard products as raw materials to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally recognized brand names.

On February 16, 2004, as part of our strategy to secure our future raw material supply of unbleached kraft pulp, we established ND Xing An in Zhalantun, Inner Mongolia. We hold a 55% interest in ND Xing An while the remaining interest is held by China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司). As of December 31, 2007, ND Xing An had the capacity to produce 0.12 million tonnes of long-fibered unbleached kraft pulp. ND Xing An obtains its raw materials, which are wood logs and wood chips, from the extensive softwood forests in Inner Mongolia owned and managed by China Inner Mongolia Forestry Industry Co., Ltd.

In January 2005, our Group undertook the Acquisition in order to increase operational efficiencies and geographical coverage. Specifically, Zhang's Enterprise Company Limited, now our indirect, wholly owned subsidiary, acquired the entire share capital of:

(a) Nine Dragons Paper Industries Co., Ltd. ("NDP Industries"), an investment company which previously held the entire share capital of Taicang Nine Dragons, through an exchange of shares;

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

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

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

Descriptions of each of these acquisitions is set forth below.

NDP Industries is a company incorporated in the British Virgin Islands on March 6, 2002 that previously held the entire interest in Taicang Nine Dragons. Before the Acquisition, NDP Industries was wholly owned by Mr. Zhang Cheng Fei. Effective January 1, 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of NDP Industries from Mr. Zhang Cheng Fei for an aggregate consideration of RMB295 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 69,315 shares to Mr. Zhang Cheng Fei. The number of consideration shares was determined with reference to the fair value of NDP Industries and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers Appraisal & Consulting Ltd., or Vigers, an independent valuer and the number of shares in issue. In December 2007, NDP Industries transferred its 95% interest in Taicang Nine Dragons to Nine Dragons Worldwide Investment Limited ("Nine Dragons Worldwide"), a wholly owned subsidiary of the Group. The remaining 5% interest was acquired by Dongguan Nine Dragons Transportation Company Limited, another subsidiary of our Group.

MSL

MSL is a company incorporated in the British Virgin Islands on August 21, 2000 that holds a 99% interest in Dongguan Sea Dragon. Before the Acquisition, MSL was owned as to approximately 71.7% by Mr. Zhang Cheng Fei, as to approximately 14.2% by Ms. Cheung Yan and as to approximately 14.1% by Mr. Liu Ming Chung. Effective January 1, 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of MSL from Mr. Zhang Cheng Fei, Ms. Cheung Yan and Mr. Liu Ming Chung for an aggregate consideration of RMB255 million, which was satisfied by the issue by Zhang's Enterprises Company Limited of 37,551 shares to Mr. Zhang Cheng Fei, 7,430 shares to Ms. Cheung Yan and 7,400 shares to Mr. Liu Ming Chung. The number of consideration shares was determined with reference to the fair value of MSL and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers, an independent valuer, the transferors' respective shareholding interests held in MSL and the number of shares in issue.

River Dragon Paper Industries Co., Ltd.

River Dragon Paper Industries Co., Ltd. is a company incorporated in the British Virgin Islands on May 9, 2002 that previously held the entire interest in Taicang Sea Dragon, which holds certain of our Group's land use rights and power generation assets in Taicang. In December 2007, River Dragon transferred its 95% interest in Taicang Sea Dragon to Nine Dragons Worldwide. The remaining 5% interest was acquired by Taicang Nine Dragons Transportation Company Limited, another subsidiary of our Group. Taicang Sea Dragon currently does not engage in the manufacture of paper. Before the Acquisition, River Dragon Paper Industries Co., Ltd. was wholly owned by Mr. Zhang Cheng Fei. On January 1, 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of River Dragon Paper Industries Co., Ltd. from Mr. Zhang Cheng Fei for an aggregate consideration of RMB167 million, which was satisfied by the issue of 39,239 shares to Mr. Zhang Cheng Fei by Zhang's Enterprises Company Limited. The number of consideration shares was determined with reference to the fair value of River Dragon Paper Industries Co., Ltd. and Zhang's Enterprises Company Limited as at the date of the Acquisition based on the business valuation carried out by Vigers, an independent valuer, and the number of shares in issue.

Emperor Dragon Paper Industries Co., Ltd.

Emperor Dragon Paper Industries Co., Ltd. is a company incorporated in the British Virgin Islands on March 6, 2002 that holds a 99% interest in Dongguan Land Dragon. Dongguan Land Dragon was not involved in any business transaction and had no material assets or liabilities as at the date of the Acquisition. Before the Acquisition, Emperor Dragon Paper Industries Co., Ltd. was wholly owned by Mr. Zhang Cheng Fei. Effective January 1, 2005, Zhang's Enterprises Company Limited acquired the entire issued share capital of Emperor Dragon Paper Industries Co., Ltd. from Mr. Zhang Cheng Fei for a cash consideration of RMB1.00. Subsequent to the Acquisition, the paper machine of Dongguan Sea Dragon became our Group's PM4 and the paper machine of Taicang Nine Dragons became our Group's PM5, allowing our Group to expand its geographical coverage to include the Yangtze River Delta region to capture the increasing demand from the growing manufacturing industries in that region. PM4 has a design production capacity to produce 0.45 mtpa of coated duplex board. The addition of PM4 to our Group as a result of the Acquisition added coated duplex board to our Group's product portfolio. PM5 has a design production capacity to produce 0.50 mtpa of kraftlinerboard. The addition of PM5 to our Group as a result of the Acquisition further contributed to our Group's design production capacity of kraftlinerboard.

Formation of Nine Dragons Paper (BVI) Group Limited as an Investment Holding Company

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

We were incorporated in Bermuda as an exempted company with limited liability on August 17, 2005. In preparation for our IPO, we and our subsidiaries underwent a Reorganization on December 30, 2005. Pursuant to the Reorganization, we acquired the entire issued share capital of NDP (BVI) from Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Ms. Chang Siu Hon for RMB2,386.7 million through our issuance of 2,985,800,000 shares to Best Result Holdings Limited ("Best Result"), credited as fully paid, at the direction of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei and 13,200,000 shares to Max Dragon Profits Limited, credited as fully paid, at the direction of Ms. Chang Siu Hon and the crediting as fully paid of the 1,000,000 nil-paid shares then held by Best Result. As a result, Nine Dragons Paper (Holdings) Limited became the holding company of our Group. Immediately after the Reorganization, the issued shares of NDP (BVI) were the only assets of Nine Dragons Paper (Holdings) Limited.

We accounted for the Acquisition under the purchase method, and therefore included the results of the Acquired Subsidiaries from the effective date of the Acquisition, which was January 1, 2005. As at March 31, 2008, Nine Dragons Worldwide holds Taicang Sea Dragon and Taicang Nine Dragons. River Dragon Paper Industries Co., Ltd. previously held Taicang Sea Dragon, which held certain of our land use rights and power plant assets as at January 1, 2005.

Share Placement

On April 16, 2007, we raised HK$2.0 billion through the placement of 125,000,000 new shares at HK$16.28 per share. On April 16, 2007, we entered into an agreement with Best Result, UBS AG, BNP Paribas Capital (Asia Pacific) Limited and JP Morgan Securities (Asia Pacific) Limited to place 125,000,000 shares of our Company to independent investors at a price of HK$16.28 per share, on a fully underwritten basis ("Placing Agreement"). Concurrently with the share placement, Best Result subscribed for 125,000,000 new shares at HK$16.28 per share. The new shares represented approximately 3.0% of the then issued share capital of the Company as at the date of the agreement and approximately 2.91% of the issued share capital of the Company as enlarged by the subscription.

Overview

We are the largest producer in Asia, and one of the largest producers in the world, of containerboard products, in terms of worldwide capacity and market share, based on data from RISI Inc. as of January 25, 2008. We manufacture primarily containerboard products, including linerboard, high-performance corrugating medium and certain types of coated duplex board. We also produce unbleached kraft pulp through our joint venture subsidiary, ND Xing An, which we primarily sell to third parties but also use for our own production. We believe the level of integration and scale of our operations enables us to efficiently produce a broad range of high quality packaging paperboard products at a low cost.

Our operations have grown significantly since our inception in 1995. Our current aggregate design production capacity for packaging paperboard is 5.35 mtpa. We now operate fifteen technologically advanced paper machines imported mainly from Europe, North America and Japan, which are located in our two production bases in China, with three factories at our Dongguan base in the Pearl River Delta region and one factory at our Taicang base in the Yangtze River Delta region. As we have increased our design production capacity, our sales have grown significantly. Our sales increased from RMB7,902.2 million in fiscal year 2006 to RMB9,837.7 million in fiscal year 2007, representing a growth rate of 24.5%. For fiscal years 2006 and 2007 and the six months ended December 31, 2007, our net profit was RMB1,400.1 million, RMB2,060.3 million and RMB1,078.7 million, respectively.

We are in the process of further increasing our design production capacity and, based on existing commitments and negotiations with equipment suppliers, have plans to increase our design production capacity by approximately 5.20 mtpa, or 97.2% by the end of 2009. We are constructing two additional production bases, one in Chongqing and one in Tianjin, and have entered into an agreement to acquire a site in Sichuan Province and have signed an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam to further expand our design production capacity, diversify our product mix and extend our geographic coverage. In aggregate, we are planning on adding 13 new paper machines across our Dongguan, Taicang, Chongqing and Tianjin bases and in Vietnam. We believe that our new facilities in Chongqing, Tianjin, Sichuan and Vietnam will enable us to take advantage of demand for packaging paperboard products in central-western, northern and north-eastern China and to cultivate business opportunities in Southeast Asia.

We believe that our increasingly integrated operations have enhanced our competitive position and profitability in the packaging paperboard market. We own and operate extensive facilities to support our manufacturing operations, including coal- and solid waste-fired power plants with an aggregate installed capacity of 615 MW, water treatment systems, a shipping pier capable of accommodating oceangoing vessels of up to 50,000 dwt, truck fleets, warehouses and raw materials yards and other supporting infrastructure. To support our expansion, we will continue to acquire substantial land in Chongqing and Tianjin and are installing comprehensive infrastructure facilities to replicate our integrated operations in Dongguan and Taicang. Based on existing commitments and current negotiations, we estimate that our total aggregate capital expenditures for fiscal years 2008 and 2009 will be RMB9,773.0 million, representing approximately RMB6,753.7 million and RMB3,019.3 million, respectively.

We were incorporated in Bermuda on August 17, 2005 as an exempted company with limited liability and our shares were listed on The Stock Exchange of Hong Kong Limited on March 3, 2006 and trades under the stock code 2689. As of March 31, 2008, we had a market capitalization of approximately HK$27.4 billion.

Competitive Strengths

We are the largest containerboard manufacturer in Asia and the market leader for containerboard products in China

We are the largest producer in Asia, and one of the largest producers in the world, of containerboard products in terms of worldwide capacity and market share, based on data from RISI Inc. as of January 25, 2008. Our current design production capacity for packaging paperboard is 5.35 mtpa and consists of 2.80 mtpa of linerboard, 1.60 mtpa of high-performance corrugating medium and 0.95 mtpa of coated duplex board. Our scale allows us to build our brand name recognition and exercise our pricing power. Our multiple paper machines increase our flexibility by allowing us to manufacture a variety of products simultaneously while minimizing equipment shutdowns required for product and specification changes. We believe that our advanced production facilities allow us to quickly and efficiently adapt to meet customer demands and have helped us build our brand name and reputation as a market leader in the packaging paperboard industry in Asia.

Our production bases are strategically located in close proximity to our key customers, transportation networks and energy and water resources

Each of our current bases in Dongguan and Taicang and our planned bases in Chongqing and Tianjin are located in rapidly developing economic regions of China. Such regions have seen economic growth above the PRC national average and each provides a high concentration of current and potential manufacturing customers. Our Dongguan base is strategically located in the Pearl River Delta, one of the largest carton manufacturing centers in China. Our Taicang base is located in the Yangtze River Delta and is in a major port city bordering Shanghai. Our planned Chongqing base will be located on the Yangtze River coast within a 40-minute drive from the Chongqing city center and our planned Tianjin base will be built in the Ninghe Economic Development Zone next to the Binhai New Area in Tianjin. We believe that the continued development of domestic consumption by local industries in these regions will support demand for our products. Moreover, a majority of our customers are located in close proximity to our production bases, enabling us to deliver our products in a timely and cost-efficient manner.

Both our Dongguan and Taicang bases have access to extensive transportation networks through which we deliver most of our products. The Xinsha port is located adjacent to our Dongguan base and we have constructed a shipping pier at Taicang capable of accommodating oceangoing vessels of up to 50,000 dwt for directly receiving the coal that powers our production bases. Our planned Chongqing and Tianjin bases will also have convenient access to transportation networks through a shipping pier in Chongqing, a public port in Tianjin and rail and highway systems. These transportation and delivery networks help ensure reliable, timely deliveries to our customers and allow us to conveniently source raw materials and energy supplies. The proximity of our bases to major rivers also allows us to draw water supplies for our manufacturing processes.

We are one of China's most efficient packaging paperboard manufacturers

We believe our operational efficiencies enhance our ability to take advantage of continuing growth in the packaging paperboard market in China. We have increased our operational efficiencies primarily through organic growth, a flexible production process and continued focus on vertically integrating our operations.

We have designed our product mix both to meet market demand and to maximize the recycling of water and scrap fiber by-products from the production of one product for use in the production of another product. We utilize a variety of recovered paper grades while maintaining product quality and performance characteristics, providing us with increased flexibility in sourcing raw materials at competitive prices. In addition, some of our paper machines can shift from the production of one type of product to another with little or no interruption, thereby increasing our flexibility to produce different products. We have also assembled a fleet of over 600 large trucks that we use to provide full-year uninterrupted delivery services to customers and for the transportation of raw materials from our piers to our production bases in Dongguan and Taicang. These support facilities provide us with efficient access to energy, water and transportation sources.

To ensure consistency in the quality and management of our various production bases, we centrally train most of our technicians and management in our Dongguan base. This centralized training allows for a smoother transfer of employees between our production bases, allowing us to ramp up production in new facilities at a faster pace. Our fourdrinier kraftlinerboard paper machines are among the largest and fastest in China and our average equipment utilization rate for the six months ended December 31, 2007 was 94.0%.

Our operations enable us to provide a broad range of packaging paperboard products tailored to our customers' needs

We currently have fifteen technologically advanced paper machines with automated Distributed Control Systems ("DCS") and quality control systems. The size, width, versatility and number of our paper machines allow us to offer a diversified product portfolio with various types, grades, burst indices, stacking strengths, basis weights, printability and brands to meet a variety of customer requirements. Our multiple production lines enable us to rapidly and efficiently adjust our product mix to offer a diversified product portfolio. The width of our machines also allows us to produce products in a large variety of sizes, increasing our flexibility to meet customer demands. Our five principal products are available in 40 different basis weights and over 1,000 different size and type specifications.

We believe there are very few containerboard manufacturers in Asia that can match our production scale, speed and flexibility, degree of integration and inventory management which together allow us to accommodate variations in customer requirements and to fill large orders on short notice. We believe this ability has bred loyalty among our customers and allowed us to continue to attract new customers as we are able to efficiently provide consistent quality containerboard products across various specifications.

We have secure sources of high-quality raw materials at competitive prices

Recovered paper and kraft pulp are the principal raw materials used in the manufacture of our products. We source the majority of our recovered paper from ACN, a company wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, under a long-term contract entered into at arm's length and which is renewable at our option. See "Related Party Transactions." Our long-term and stable relationship with ACN enables us to obtain better logistical and pricing terms than might otherwise be available and provides us with priority of supply over other ACN customers. While we source the majority of our recovered paper from ACN, we have been working to continue to diversify our sources of recovered paper in China in order to achieve greater independence from our suppliers.

We produce unbleached kraft pulp, one of the principal raw materials for kraftlinerboard, through ND Xing An, our 55%-owned joint venture subsidiary. ND Xing An has access to extensive softwood forest reserves in Inner Mongolia which are owned and managed by our domestic joint venture partner, enabling us to secure a future supply of unbleached kraft pulp, which is in short supply in China. As of December 31, 2007, ND Xing An had the capacity to produce 0.12 million tonnes of long-fibered unbleached kraft pulp annually. In order to further control raw material costs, we are exploring the development of wood pulp forestry resources and pulp production facilities. Although ND Xing An currently sells a majority of its output to third parties, we have the right to source, in priority to other customers of ND Xing An and at the same price level, up to its entire output of unbleached kraft pulp.

We have developed a large, diversified and stable base of customers

We have developed a large, diversified and stable base of customers and have become the preferred supplier to a number of customers that use our packaging paperboard products to produce corrugated containers and coated duplex board packaging for global manufacturers with internationally-recognized brand names. As of December 31, 2007, we had more than 1,000 customers, consisting of corrugators and coated duplex board packaging and printing companies located in the Pearl River Delta and Yangtze River Delta regions, as well as international paper companies. For the six months ended December 31, 2007, sales to our top five customers accounted for 8.6% of our total revenue and sales to our single largest customer accounted for only 2.7% of our total revenue. In addition, we have a low customer turnover rate, which we believe is the result of the quality and consistency of our products, our ability to provide a broad range of packaging paperboard products to meet customer needs and our superior after-sales services.

We are committed to environmentally responsible practices

We consider the implementation of environmentally responsible practices and the maintenance of high environmental standards to be an essential part of our leadership in the industry and our long-term success. Accordingly, we are committed to setting higher standards for environmental compliance in the industry. We have established a special department to set up environmental protection systems for managing wastewater treatment, emissions, solid waste treatment and noise control and will continue to invest in energy conservation equipment in order to ensure a higher level of energy efficiency in our new paper machines. We also conduct periodic evaluations of our facilities to ensure that we are in compliance with or exceed the relevant minimum standards under PRC environmental laws and regulations. We believe our production bases have attained internationally recognized environmental management standards. We obtained ISO 14001 certification for our environmental management standards in February 2005 and in 2008, our main operating subsidiaries in Dongguan and Taicang were named as Green/Environmental Creditable Enterprises by the Guangdong and Taicang Environmental Protection Bureaus, respectively, based on compliance with domestic environmental regulations.

To minimize the impact of our operations on forest resources, most of the fiber used in our production process comes from recovered paper. We also employ a circulating fluidized bed waste-to-energy boiler in Dongguan, which we believe is the only one of its kind used by paper manufacturers in China, that provides efficient combustion, produces low atmospheric emissions and has the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. We have also added an additional power plant unit at our Dongguan base which is capable of generating steam power from solid waste. Moreover, our water recycling and conservation system and wastewater treatment facilities substantially reduce our water consumption to minimize the impact on water resources. We believe these measures and our environmental record has been a factor in assisting us to obtain required regulatory approvals to expand our capacity.

We are led by an experienced and dedicated international management team

We are led by an experienced and dedicated international management team, particularly our founding shareholders, Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei. These founding shareholders have led us through rapid growth and expansion since our establishment in 1995 and have an average of approximately 18 years of experience in the recovered paper recycling and paper manufacturing businesses. Our senior management team has an average of over eight years' experience in the field. Our board of directors and senior management team includes internationally trained talent with professional qualifications from overseas. Through our management's leadership, vision and drive, and their consistent efforts to implement international best practices, we believe we have become the market leader in China with a respected brand name and one of the largest producers in the world of containerboard products within a short period of time. Many members of our senior management have been with us or our subsidiaries since our establishment.

We maintain a strong commitment to enhancing corporate governance policies

In order to meet or exceed international best practices and to streamline our management processes and strengthen our corporate governance, we maintain four independent non-executive directors and have established a risk control committee which, among other things, ensures effective information exchange, supervises the effectiveness and efficiency of control over activities within and between different departments, identifies and analyzes risks which may impede the achievement of corporate objectives (including risks associated with changes in the regulatory and operating environments) and establishes internal control measures for minimizing and eliminating risks. In addition, we established an audit committee to review and supervise our financial reporting process and maintain an independent system to govern and monitor our recovered paper purchasing process, which includes obtaining bids from multiple suppliers and selecting the successful bid based on objective standards such as price, quality of recovered paper, delivery schedule and services. The bid is then reviewed by one of our independent non-executive directors prior to the placement of our orders and the independent non-executive directors will also conduct a periodic review of the purchase terms and the fairness of our basis for selecting recovered paper suppliers. We believe that the above policies will help us ensure that we maintain a high standard of integrity and ethics in our business activities and ensure compliance with applicable laws and regulations.

Business Strategies

We aim to become the world's leading manufacturer of packaging paperboard products. We will continue to seek opportunities to realize sustainable growth of our business. To achieve this, we plan to focus on the following strategies:

Continue to build on our market leadership position in China to expand into other regions in Asia

We seek to reinforce our market leadership position in China by leveraging our successful experience in the Pearl River Delta and Yangtze River Delta to expand into western and northern China. We believe the commencement of production at our planned facilities in Chongqing and Tianjin will make our products competitive in the western and northern parts of China and increase our overall share of the national market. We plan to purchase and install 13 new paper machines to increase our design production capacity of packaging paperboard from 5.35 mtpa to 10.55 mtpa by the end of 2009. We are continually exploring new investment opportunities to expand our production capacity and to increase our market share, geographic reach and competitiveness. With a view to strengthening our domestic and global market positioning, we have recently acquired a site in Sichuan Province and signed an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam, in order to access the growing Southeast Asian packaging paperboard market.

Continue to enhance operating efficiency

We seek to replicate the success of our production bases in Dongguan and Taicang in our planned bases in Chongqing and Tianjin and at our proposed Sichuan acquisition and intend to continue to enhance our operating efficiencies through upgrading our production processes and equipment and developing our support facilities, we believe that such measures will increase our production volumes and enhance our efficiency and product quality. We will continue to install technologically advanced paper machines to achieve increased design production capacity and quality within the shortest possible time. During fiscal years 2008 and 2009, we intend to purchase and install 13 additional paper machines in our Dongguan, Taicang, Chongqing and Tianjin bases and in Vietnam. To accommodate the increased design production capacity from these new paper machines and to help integrate their production operations, we also plan to build up the supporting infrastructure and logistical support systems at these facilities by constructing a pier in Chongqing and by building power plants, wastewater treatment facilities, water pumping stations and expanding our truck fleets at both our Chongqing and Tianjin bases. We also intend to continue to look for potential cost-saving opportunities in electricity, water, steam and human resources in order to conserve resources.

Further diversify our product offerings

We are actively pursuing opportunities to expand our product lines to allow us to offer a broader range of complementary products to existing and future customers and diversify our revenue streams. By June 2008, we plan to begin production of light-weight high-performance corrugating medium, a product which provides cost advantages to customers due to its lighter weight. Light-weight high-performance corrugating medium is mainly sourced by leading international and Internet retail chains and e-commerce logistics providers. We are currently constructing PM18 and PM21 at our Dongguan and Taicang bases, respectively, which we believe will be among the first facilities with the capacity for industrial scale production of light-weight high-performance corrugating medium outside Europe. We believe this will be the only product line of its kind in Asia. We are currently developing a site in Sichuan Province which will be principally engaged in the production of high-value specialty board products such as insulating paper and capacitor tissue paper, wood pulp and bamboo pulp. We are also planning to develop non-aseptic and aseptic liquid packaging board, which is used in beverage packaging, at our Taicang base. We believe such products will be in high demand and will command higher selling prices than normal packaging paper products.

Further diversify our sources of raw materials

We currently purchase a substantial majority of our recovered paper from overseas markets, including purchases from ACN. As we expand our design production capacity, we plan to significantly increase our purchases of recovered paper within China to reduce overreliance on overseas suppliers and to diversify our sources of raw materials. We plan to build long-term relationships with select local suppliers of recovered paper in order to broaden our supplier base. Recently, we established relationships with several local suppliers of recovered paper and we intend to continue to develop our domestic sourcing policy. Our aim is to significantly increase the proportion of locally-sourced recovered paper in the coming few years.

While the principal component in our packaging paperboard products is recovered paper, we require a substantial quantity of kraft pulp for containerboard production. We are exploring the development or acquisition of wood pulp forestry resources and pulp production facilities. The ability to source kraft pulp internally would provide a stable supply of this raw material, and act as a natural hedge against rising kraft pulp costs. To further optimize our sourcing of raw materials, our research and development staff is working with our suppliers to develop the use of new alternative chemicals to improve product performance and reduce costs.

Attract high caliber employees and continue to emphasize and reward excellent performance

We believe that the quality of our human resources, particularly our management and professional engineers, is critical to our ability to compete effectively. To help us continue to attract and retain domestic and international management and engineering talent, we are constructing an employee training center at our former headquarters in Dongguan which will offer Executive MBA and MBA courses for our middle and high-level management staff through our collaboration with Zhongshan University in Guangzhou. We will also continue to emphasize and reward excellence in performance and provide staff development programs such as periodic in-house and overseas training and internal transfer and promotion systems to improve the overall development of our staff. For example, we adopted two share option schemes for our employees in 2006 and have adopted a performance-based compensation plan in order to help ensure that the pay levels of our employees are competitive.

Products

Our products include packaging paperboard products such as linerboard (kraftlinerboard, testlinerboard and white top linerboard), high-performance corrugating medium and coated duplex board. Each of these products can be produced in a variety of basis weights. We also produce unbleached kraft pulp. The following is a brief description of our products.

Linerboard

Linerboard can be produced in basis weights ranging from 120 to 300 grams per square meter. We produce three types of linerboard, including kraftlinerboard, testlinerboard and white top linerboard.

- *Kraftlinerboard.* Kraftlinerboard is unbleached linerboard manufactured from unbleached kraft pulp and recovered paper. Higher kraft pulp content increases the consistency of appearance and strength of the linerboard. We market our high strength kraftlinerboard under our "Nine Dragons" brand and our standard kraftlinerboard under our "Sea Dragon" brand.

- *Testlinerboard.* Testlinerboard is made entirely from recovered paper, and meets certain customers' requirements for lower cost linerboard or for a more environmentally-friendly product. We market our testlinerboard under our "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 require a white surface for appearance or superior printability. We market our white top linerboard under our "Nine Dragons" brand.

High-performance Corrugating Medium

High-performance corrugating medium can be produced in basis weights ranging from 95 to 145 grams per square meter. 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. We market our high-performance corrugating medium under our "Nine Dragons" brand.

Coated Duplex Board

Coated duplex board can be produced in basis weights ranging from 230 to 450 grams per square meter. It is a type of boxboard with a glossy coated surface on one side for superior printability. Coated duplex board is typically used as packaging material for small boxes that require high quality printability, such as packaging for consumer electronics products, cosmetics and other consumer merchandise. It can also be used in combination with high-performance corrugating medium and linerboard as the outer layer of corrugated board. We market our coated duplex board under our "Nine Dragons" brand.

We manufacture our packaging paperboard products in a broad range of specifications customized for different industrial and customer packaging requirements. Most of the fiber used in the production process of our packaging paperboard products comes from recovered paper. The following table sets forth certain specifications of our primary packaging paperboard products.

Product	**Grades[1]**	**Average burst index**	**Average stacking strength**	**Basis weight**
		(KPa m^2/g)	**(Nm/g)**	**(g/m^2)**
Linerboard	1, 2	2.3-3.9	7.3-11.5	120-300
High-performance corrugating medium	1, 2	—	6.0-9.2	95-145
Coated duplex board	A, B, E, F	—	—	200-500

(1) The grading system for our products is in line with industry practice, i.e., Grade 1 and Grade A products are of the highest quality and the remaining grades are of lesser quality. For the fiscal year ended June 30, 2007, approximately 95% of our linerboard output, measured in tonnes, was Grade 1 and the remaining 5% of our linerboard was Grade 2; approximately 95% of our high-performance corrugating medium output was Grade 1 and the remaining 5% was Grade 2; approximately 89% of our coated duplex board output was Grade A and the remaining 11.0% was Grade B, E or F.

Unbleached kraft pulp

ND Xing An, our joint venture with China Inner Mongolia Forestry Industry Co., Ltd., produces unbleached kraft pulp, one of the primary raw materials for the production of paperboard. Unbleached kraft pulp is made from wood logs and wood chips and produced by the kraft-cooking method. It is mainly used to produce the face layer of kraftlinerboard, all-wood kraft paper and other types of paper for industrial use. We market this product under our "Xiulin" brand. See "— Raw Materials — Kraft Pulp."

The following table sets forth our sales volume for our products for the periods indicated.

	Year ended June 30,			Six months ended December 31,		
	2006	2007	Increase	2006	2007	Increase
	Sales volume	Sales volume	%	Sales volume	Sales volume	%
	(in tonnes, except for percentages)					
Linerboard	1,550,081	1,699,569	9.6	812,881	907,719	11.7
High-performance corrugating medium	834,038	1,027,113	23.1	511,260	706,172	38.1
Coated duplex board	375,597	542,740	44.5	260,284	457,379	75.7
Total packaging paperboard	2,759,716	3,269,422	18.5	1,584,425	2,071,270	30.7
Unbleached kraft pulp	65,808	87,863	33.5	36,206	36,585	1.0
Total	2,825,524	3,357,285	18.8	1,620,631	2,107,855	30.1

We are also planning to begin production of light-weight high-performance corrugating medium, a lighter weight corrugating medium which has the same strength as regular high-performance corrugating medium but is produced from 100% recycled fibers by utilizing advanced technology and industrial practices. We plan to begin production of light-weight high-performance corrugating medium by June 2008. We plan to begin production of high-value specialty board products such as insulating paper and capacitor tissue paper, wood pulp and bamboo pulp at our planned Sichuan factories by 2010. We are also planning to develop the capacity to produce non-aseptic and aseptic liquid packaging board at our Taicang base by 2010.

Integrated Operations

We currently have two production bases in commercial operation, with three factories in Dongguan and one factory in Taicang. We are in the process of further increasing design production capacity and, based on existing commitments and negotiations with equipment suppliers, have plans to increase design production capacity by approximately 5.20 mtpa by the end of 2009. Our major projects include 13 new paper machines for our Dongguan, Taicang, Chongqing, Tianjin base and our planned Vietnam facility and supporting facilities such as power plants and truck fleets in our planned Chongqing and Tianjin bases and a shipping pier in Chongqing. Based on existing commitments and current negotiations, we estimate that our aggregate capital expenditures for fiscal years 2008 and 2009 will be RMB9,773.0 million, representing approximately RMB6,753.7 million and RMB3,019.3 million, respectively.

The following table summarizes key properties and statistics of our production equipment and supporting facilities in each of the Dongguan and Taicang bases, including details of our expansion plans.

Production Base	Land Reserves	Current/Planned Design Production Capacity[1]	Existing Production Equipment	Planned Production Equipment	Supporting Facilities
	(in sq.m.)	(mtpa)			
Dongguan . .	2,400,000	3.65/5.25	PM1, PM2, PM3, PM4, PM6, PM7 PM9, PM10, PM11, PM12 & PM13	PM18, PM19, PM27 & PM28[2]	• power plant with installed capacity of 375 MW • access to public Xinsha port • truck fleet • two freshwater reservoirs • low salinity water desalination plant with planned capacity of 120,000 tonnes of water per day • wastewater treatment plant
Taicang	2,600,000	1.70/3.30	PM5, PM8, PM16 & PM17	PM20, PM21, PM29 & PM30[3]	• power plant with installed capacity of 240 MW • pier which accommodates ships of up to 50,000 dwt and has total annual loading and unloading capacity of 2.7 million tonnes • truck fleet • wastewater treatment plant

(1) "Design production capacity" is management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights. Typically, it takes several months after commencement of production for testing to be completed and for a paper machine to begin operating at a commercially viable level. Planned design production capacity measures our anticipated design production capacity following the completion of our expansion.

(2) PM18 and PM19 are expected to commence production in June 2008. PM27 and PM28 are expected to commence production in June 2009.

(3) PM20 and PM21 are expected to commence production in June 2008. PM29 and PM30 are expected to commence production in June 2009.

Dongguan Base

Our Dongguan production base is located in the Pearl River Delta. We operate three factories in this production base. Our Dongguan base has access to extensive road networks by which we deliver most of our products. We have access to the Xinsha port, which is located adjacent to our production site in Dongguan, to receive direct coal deliveries. Our Dongguan base also has a fleet of trucks supported by GPS systems which helps ensure timely and cost-efficient delivery. Our Dongguan base is connected to the municipal water system, which allows us both to draw water supplies for our manufacturing processes, and to discharge wastewater after treatment to ensure compliance with water discharge standards. As of December 31, 2007, we have obtained land use certificates for approximately 2.4 million sq.m. of land in Dongguan. Our land use rights are for terms of 40 to 50 years.

Our Dongguan base currently produces linerboard, high-performance corrugating medium and coated duplex board. By the end of 2009, we plan to purchase and install four additional paper machines at our Dongguan base, PM18, PM19, PM27 and PM28, which we expect will increase our total design production capacity of packaging paperboard by approximately 1.60 mtpa. PM18 and PM28 will produce light-weight high-performance corrugating medium.

Taicang Base

Our Taicang production base is located in the Yangtze River Delta. We operate one factory in this production base. Our Taicang base has access to extensive road networks by which we deliver most of our products and is located close to abundant water sources from the Yangtze River, which allows us both to draw water supplies for our manufacturing processes, and to discharge wastewater after treatment to ensure compliance with water discharge standards. As of December 31, 2007, we have obtained land use rights certificates for approximately 2.6 million sq.m. of land in Taicang. Our land use rights are for terms of 40 to 50 years.

Our Taicang base currently produces linerboard and high-performance corrugating medium. By the end of 2009, we plan to purchase and install four additional paper machines at our Taicang base, PM20, PM21, PM29 and PM30, which we expect will increase our total design production capacity of packaging paperboard by approximately 1.60 mtpa. PM21 and PM30 will produce light-weight high-performance corrugating medium.

We are also planning to invest in a new paper machine to produce non-aseptic and aseptic liquid packaging board at our Taicang base. Liquid packaging board paper machines are capable of producing various kinds of different 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. The machine is expected to commence production during 2010 and will have an initial design production capacity of 0.52 mtpa. We estimate that our initial funding commitment to establish liquid packaging board manufacturing capabilities will be approximately RMB1,400.0 million.

The following table summarizes the expected composition of our planned production bases and supporting facilities in Chongqing and Tianjin following the completion of our expansion.

Planned Production Base	Planned Land Reserves	Planned Design Production Capacity(1)	Planned Production Equipment	Planned Supporting Facilities	Estimated Date of Commencing Operations or Completing Planned Expansion
	(in sq.m.)	(mtpa)			
Chongqing	2,400,000	0.80	PM22 & PM23	• power plant with an estimated capacity of 120 MW • shipping pier • convenient access to rail spur and expressway • truck fleet • accessible water resources through the Yangtze River • wastewater treatment facility	By June 2008
Tianjin	2,400,000	0.80	PM25 & PM26	• power plant with an estimated capacity of 120 MW • convenient access to rail spur and highway • truck fleet • accessible local water resources • wastewater treatment facility	By the end of 2009

(1) "Design production capacity" is management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights. Typically, it takes several months after commencement of production for testing to be completed and for a paper machine to begin operating at a commercially viable level. Planned design production capacity measures our anticipated design production capacity following the completion of our expansion.

Chongqing Base

In December 2006, we commenced construction of our third production base, in Chongqing. This production base is located near the Yangtze River, within a 40-minute drive from the center of Chongqing city. It will have a shipping pier and direct transportation access via railway and expressway systems and access to abundant water sources from the Yangtze River. Chongqing is a regional hub for the central-western provinces of Hubei, Yunnan, Guizhou and Sichuan and exports to Southeast Asia. We believe that the continued development of local industries in this region will support demand for our products. As of December 31, 2007, we have acquired land use rights certificates for approximately 1.4 million sq.m. of land in Chongqing, but not for the remaining 1.0 million sq.m. of land in Chongqing we anticipate needing for our planned Chongqing base. The Chongqing base will produce linerboard and high-performance corrugating medium. The base will initially consist of two paper machines: PM22, a high-performance linerboard paper machine with a design production capacity of 0.45 mtpa and PM23, a high-performance corrugating medium paper machine with a design production capacity of 0.35 mtpa. Production is expected to commence by June 2008.

Tianjin Base

In November 2007, we commenced construction of our fourth base in Tianjin. Our Tianjin base will service the northern and north-eastern regions of China, where the supply chains are well formed with increasing containerboard demand from key sectors such as food, medicine, high technology and IT products, electronics, textiles and various light industries. The Tianjin base will be situated in the Ninghe Economic Development Zone in Tianjin, next to the Binhai New Area and will have access to water supplies from the Yinghe River. As of December 31, 2007, we have entered into land transfer agreements for approximately 1.06 million sq.m. of land in Tianjin, but not for the remaining 1.34 million sq.m. of land we anticipate needing for our Tianjin base. We have not yet obtained the land use rights certificates for any of the land in Tianjin. The Tianjin base will produce linerboard and high-performance corrugating medium. The base will initially consist of two paper machines: PM25, a high-performance linerboard paper machine with a design production capacity of 0.45 mtpa and PM26, a high-performance corrugating medium paper machine with a design production capacity of 0.35 mtpa. Production is expected to commence by the end of 2009.

The Tianjin base is located 30 kilometers from the Tianjin port and will allow direct access to ocean transportation at lower transportation costs as trans-shipment is not required. The base will also be served by a rail spur for direct movement of coal, raw materials and finished products, and is accessible through a national highway network linking the north-eastern and southern provinces in China. We believe the new Tianjin base will enable us to take advantage of demand for containerboard products in northern and north-eastern China.

Sichuan Acquisition

In December 2007, we entered into preliminary agreements with Sichuan Hang Bang Real Estate Development Company Limited, Sichuan Renhe Construction Investment Company Limited and Sichuan Guo Zhong Investment Company Limited to acquire Sichuan Qian Wei Baiya Paper Co. Ltd ("Qian Wei") and Sichuan Rui Song Paper Co. Ltd. ("Rui Song"). Based on our production plans, Qian Wei and Rui Song will principally be engaged in the production of high-value specialty board products, including insulating paper and capacitor tissue paper, as well as wood pulp and bamboo pulp.

On December 20, 2007, pursuant to our sale and purchase agreement for Qian Wei, we acquired the entire equity interest in Qian Wei free of consideration, but will be responsible for payment of the remaining land premium as well as up to RMB2.0 million of the cost of construction for site formation and compensation for relocating the residents on the land. The Qian Wei factory is expected to commence production in 2010.

The terms of our acquisition of the equity interest in Rui Song are still being negotiated and as of April 13, 2008, we have not entered into a definitive agreement to acquire Rui Song. Once negotiations are finalized, we plan to relocate Rui Song's existing operations and combine its operations with those of Qian Wei by the end of fiscal year 2010. Based on preliminary projections, we estimate that we may invest up to RMB1,600.0 million between fiscal years 2008 through 2010 to relocate and combine the existing operations of Rui Song with Qian Wei and to further develop Qian Wei. We cannot assure you that we will be successful in entering into an agreement to acquire Rui Song or that such agreement or that such plans will be completed on time or at all.

Vietnam Acquisition

On December 19, 2007, we entered into an agreement-in-principle to acquire a majority equity interest in an existing paper manufacturer in Vietnam ("Proposed Acquisition"). If successfully completed, we plan to expand the production capacity of the paper manufacturer by transferring delivery of a new linerboard paper machine, PM31, which was previously ordered for one of the Group's future projects in China and has a design production capacity of 0.40 mtpa, to Vietnam. The paper manufacturer currently has a coal-fired boiler, wastewater treatment facilities and transportation facilities. We anticipate that the new machine could commence operation by the end of 2009. Given that negotiations are still underway, however, we cannot assure you that we will be successful in completing the Proposed Acquisition or that such acquisition will be completed on time or at all.

Production Equipment

Our fifteen technologically advanced paper machines, imported mainly from Europe, North America and Japan, produce packaging paperboard and have an aggregate design production capacity of 5.35 mtpa as of December 31, 2007. All of our paper machines have advanced DCSs and quality control systems to monitor and control our production process.

The following table sets forth information relating to our paper machines as of December 31, 2007.

Paper Machine	Primary Product(s)	Design Production Capacity(1)	Production Base	Date of Commencement of Production(2)
		(mtpa)		
PM1	kraftlinerboard	0.20	Dongguan	July 1998
PM2	kraftlinerboard, white top linerboard	0.40	Dongguan	June 2000
PM3	kraftlinerboard, testlinerboard, white top linerboard, high-performance corrugating medium	0.40	Dongguan	May 2002
PM4	coated duplex board	0.45	Dongguan	October 2003(3)
PM5	kraftlinerboard	0.50	Taicang	November 2003(3)
PM6	high-performance corrugating medium	0.20	Dongguan	October 2004
PM7	high-performance corrugating medium	0.20	Dongguan	October 2004
PM8	kraftlinerboard and testlinerboard	0.50	Taicang	November 2003(4)
PM9	high-performance corrugating medium	0.25	Dongguan	December 2005
PM10	high-performance corrugating medium	0.25	Dongguan	December 2005
PM11	coated duplex board	0.50	Dongguan	January 2007
PM12 and PM13(5)	linerboard	0.80	Dongguan	August 2007
PM16 and PM17(5)	high-performance corrugating medium	0.70	Taicang	January 2007
Total		5.35		

(1) "Design production capacity" is management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights.

(2) Typically, it takes several months after commencement of production for testing to be completed and for a paper machine to begin operating at a commercially viable level.

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

(4) We upgraded the capacity of PM8 in August 2007, increasing its design production capacity from 0.45 mtpa to 0.50 mtpa of linerboard.

(5) These paper machines are grouped together because they are operated by the same technical team and are treated by the Company as one production unit.

Many of our paper machines have the flexibility to produce more than one type of product due to their advanced design. For example, paper machines which produce linerboard such as kraftlinerboard, testlinerboard and white-top linerboard can shift from the production of one type of linerboard product to another without stopping the production run or with only a brief shutdown, which is ordinarily scheduled to coincide with routine monthly maintenance.

We plan to spend approximately RMB4,279.4 million and RMB1,715.9 million in fiscal years 2008 and 2009, respectively for the purchase and installation of new paper machines. The following table sets forth information relating to our planned installations of paper machines for fiscal years 2008 and 2009.

Paper Machine	Primary Product(s)	Design Production Capacity[(1)]	Production Base	Expected Date of Commencement of Production
		(mtpa)		
PM18	light-weight high-performance corrugating medium	0.35	Dongguan	June 2008
PM19	linerboard	0.45	Dongguan	June 2008
PM20	linerboard	0.45	Taicang	June 2008
PM21	light-weight high-performance corrugating medium	0.35	Taicang	June 2008
PM22	linerboard	0.45	Chongqing	June 2008
PM23	high-performance corrugating medium	0.35	Chongqing	June 2008
PM25	linerboard	0.45	Tianjin	December 2009
PM26	high-performance corrugating medium	0.35	Tianjin	December 2009
PM27	linerboard	0.45	Dongguan	June 2009
PM28	light-weight high-performance corrugating medium	0.35	Dongguan	June 2009
PM29	linerboard	0.45	Taicang	June 2009
PM30	light-weight high-performance corrugating medium	0.35	Taicang	June 2009
PM31[(2)]	linerboard	0.40	Vietnam	2009
Total		5.20		

(1) "Design production capacity" is management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights. Typically, it takes several months after commencement of production for testing to be completed and for a paper machine to begin operating at a commercially viable level.

(2) While we plan to transfer delivery of PM31 as a linerboard paper machine in Vietnam, as of April 13, 2008, our proposed acquisition in Vietnam was still under negotiation. Accordingly, our plans relating to the construction and delivery of PM31 are subject to change. If our acquisition occurs as planned, we anticipate that PM31 will commence production by the end of 2009.

With the exception of periodic repair and maintenance, we seek to maintain uninterrupted operation of our paper machines 24 hours a day, throughout the year. Equipment utilization rates for a given period represent the actual hours of operation as a percentage of the planned hours of operation, which are estimated by management taking into account, among other things, planned maintenance shutdowns and shutdowns in connection with equipment optimization. The equipment utilization rates are lower during the start-up phase of a new paper machine, which is typically several months from commencement of operation. Our average equipment utilization rate for 2006, 2007 and the six months ended December 31, 2007 were 94.3%, 94.6% and 94.0%, respectively.

Production Process

Stock preparation unit

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

Certain of our machines, which produce white top linerboard and coated duplex board, are equipped with de-inking and flotation devices to enhance the whiteness of such products.

Approach flow system

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

Headbox and forming section

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

Press section

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

Dryer section and sizer

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

The sizer is interposed between the pre-drying section and post-drying section in the production of high-performance corrugating medium and coated duplex board to increase strength, water repellency and enhance printability. Some of our machines are equipped with such surface-sizing technology.

Online coater

The production of coated duplex board involves an additional step of online coating to give the finished product a glossy finished look and to enhance printability.

Calendar, reel and winder

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

Supporting Facilities

As of December 31, 2007, major facilities supporting our production included our power plants, warehouses and raw material yards, piers and our transportation and delivery system. The integration of these supporting facilities into our production bases provides us with cost savings, increases our flexibility and control over our business and supports our ability to reliably and efficiently serve our customers. In fiscal years 2008 and 2009, we plan to spend approximately RMB1,509.5 million and RMB578.6 million, respectively, for the construction of supporting facilities for our new and existing production bases. Descriptions of the supporting facilities for our production bases are set forth below.

Power Plants

The following table sets out the commencement dates and the current installed capacities of our power plant units.

Power Plant Units	Commencement Date[1]	Installed Capacity
		(MW)
Dongguan		
Unit 1/Unit 2	June 1998	21
Unit 3/Unit 4	May 2000	60
Unit 5	October 2003	60
Unit 6	May 2005	210
Unit 7[2]	September 2003	–
Unit 8	January 2008	12
Unit 9	January 2008	12
Subtotal		375
Taicang		
Unit 1	November 2003	120
Unit 2	August 2005	120
Subtotal		240
Total		615

(1) The commencement date does not account for a testing and ramp up period of several months.

(2) The Unit 7 power plant converts solid waste into steam power for use in our production processes.

During fiscal year 2007, our power plants utilized approximately 2.4 million tonnes of coal. As of March 31, 2008, our Dongguan and Taicang bases were supported by coal-fired power plants with an aggregate installed capacity of 375 MW and 240 MW, respectively. We recently added Units 8 and 9 at our Dongguan base. All of the principal components of our power units, including boilers, turbines and generators are domestically manufactured. We designed the power generation systems at our Dongguan site and our Taicang site as central power plants providing both electric power and steam to all of our paper machines. Because of their high thermal efficiency and low coal consumption, our power plants have helped us reduce energy costs and also have emission levels within the limits set by PRC regulatory agencies. We currently have the capacity to generate more electricity than we need for our operations and sell such excess power to the regional power grid.

We are also planning to construct additional power plants at our Chongqing and Tianjin bases with sufficient generating capacity to meet our energy needs at those bases. Construction of these power plants is anticipated to commence concurrently with the development of our other supporting facilities.

Water Reservoirs and Wastewater Management

We maintain two freshwater reservoirs with an aggregate storage capacity of 0.25 million tonnes of water, a low salinity water desalination plant with a planned capacity of 0.10 million tonnes of water per day at our Dongguan base. We have also built a wastewater treatment plant at our Taicang base. Our wastewater treatment facilities incorporate automated programmable logic controller ("PLC") systems and an online monitoring system which allow us to centrally manage and monitor our wastewater discharge.

Warehouses and Raw Material Yards

Our storage warehouses in Dongguan and Taicang have an aggregate capacity of up to 0.12 million tonnes for storage of finished products. In addition, we have a 10,000-tonne capacity automated intermediate warehouse at our PM4 facility for storing partially completed coated duplex board and a 20,000 sq.m. general purpose warehouse at our Dongguan and Taicang sites. We also plan to construct storage warehouses and raw material yards for our Chongqing and Tianjin bases. Such storage facilities provide us with the flexibility to manage our inventory and to respond quickly to customer orders. We also have raw material yards with an aggregate storage capacity of up to 0.50 million tonnes.

Piers

In order to reduce port loading and unloading charges, to avoid transportation bottlenecks and to take advantage of ocean and inland waterway transportation, we have constructed a shipping pier at Taicang which can accommodate oceangoing vessels of up to 50,000 dwt for the delivery of coal and raw materials. We have obtained permits to operate the shipping pier and to offer loading and unloading services to third parties. From time to time, we have allowed third parties to utilize the pier for loading and unloading cargo. The operating berth of the Taicang pier has loading and unloading capacity of 2.70 million tonnes and is dedicated to receiving our coal deliveries. We plan to utilize approximately one million tonnes per year of the capacity of this berth for deliveries of coal used for power generation at our Taicang base. Because we can take direct delivery by ocean freight from any of the major coal ports on China's coast, including Qinhuangdao, Tianjin and others, we are able to realize significant cost savings from eliminating loading and unloading charges that we would otherwise have to pay for transit of coal. We completed construction of a second berth in fiscal year 2007 to receive direct deliveries of raw materials, including recovered paper and kraft pulp. We have also begun construction of a shipping pier in Chongqing and are in the approval process for an additional shipping pier in our Dongguan base. Construction of the Chongqing pier is expected to be completed in April 2008.

Transportation and Delivery System

We rely on road and water transportation for delivery of products to our customers and raw material supplies to our production sites. We have our own vehicle fleet to meet a majority of our transportation needs in a timely and cost-efficient manner.

Vehicle Fleet

We established our own transportation and delivery system at our production sites in Dongguan and Taicang to transport our finished products and raw materials between our pier and production bases throughout the year. This system provides us with more control to ensure timely delivery of our products to satisfy our customers' needs and our raw materials to support our production requirements. We have a vehicle fleet of over 600 large trucks that we use to provide full-year uninterrupted delivery services to customers and for transportation of raw materials from the pier to our production bases. Our vehicle fleet of over 400 trucks at Dongguan and over 200 trucks in Taicang is supported by GPS satellite computerized navigation systems to allow us to monitor and allocate our internal resources and plan delivery schedules so as to be timely and cost-efficient. We also plan to develop a fleet of trucks in our Chongqing and Tianjin bases and believe that this integrated transportation and delivery system will enable us to achieve cost savings and to provide reliable and efficient services to our customers.

Ocean Freight and Inland Waterway Transportation

We take advantage of our geographical proximity to the public Xinsha port, which is adjacent to our production site in Dongguan. We also own a shipping pier at Taicang capable of accommodating oceangoing vessels of up to 50,000 dwt and expect to complete construction of a shipping pier to service our Chongqing base during 2008.

Raw Materials

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, purchases from our five largest raw material suppliers in aggregate accounted for approximately 64.3%, 55.4% and 62.7%, respectively, of our total raw material costs. Purchases from the single largest raw material supplier for the same periods, ACN, accounted for 44.2%, 34.8% and 38.2%, respectively, of our total raw material costs. Recovered paper and kraft pulp are the principal raw materials for the production of our products. Raw materials comprised 78.2%, 78.3% and 79.2% of total cost of goods sold for the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, respectively. During the corresponding periods, recovered paper accounted for RMB3,223.4 million, RMB3,923.5 million and RMB2,845.4 million, or 53.4%, 53.7% and 55.6% of total cost of goods sold, respectively. During the corresponding periods, unbleached kraft pulp accounted for RMB572.8 million, RMB566.6 million and RMB304.8 million, or 9.5%, 7.8% and 6.0% of total cost of goods sold, respectively. During the corresponding periods, chemicals accounted for RMB546.6 million, RMB706.2 million and RMB650.6 million, or 9.0%, 9.7% and 12.7% of total cost of goods sold, respectively.

Recovered Paper

Recovered paper is the largest component of our raw materials purchases. Recovered paper constitutes the portion of waste paper that can be collected and re-used. Like most large-scale packaging paperboard manufacturers, our ability to source large volumes of consistently high-quality recovered paper under stable, long-term arrangements is critical to our success. Our ability to source such volumes is critical to the success of our policy of maximizing the use of recovered paper to produce high-quality products, consistent with our customers' cost objectives and our environmental policies. Our strategy is to source from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. To select additional suppliers, our sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy our volume and delivery requirements. Currently, the majority of our recovered paper comes from North America and Europe, as we have found the quality of such recovered paper to be relatively more consistent compared to other sources.

Our supply contracts typically provide for the delivery of the recovered paper either to our production bases or nearby ports. We purchase a substantial majority of our recovered paper requirements from ACN, which is wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, as well as from a number of other trading companies.

As we expand our design production capacity, we plan to significantly increase our purchases of recovered paper within China, to reduce overreliance on overseas suppliers and to diversify our sources of raw materials. We plan to build a long-term relationship with local suppliers while expanding our supplier base. Recently, we established relationships with select local suppliers of recovered paper and we intend to continue to develop our domestic sourcing policy. Our aim is to significantly increase the proportion of locally-sourced recovered paper in the coming few years.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, our purchases of recovered paper from ACN amounted to RMB2,591.7 million, RMB2,922.4 million and RMB1,839.9 million, representing 78.9%, 65.2% and 56.3% of our total purchases of recovered paper, respectively.

Kraft Pulp

Kraft pulp is the second largest component of our raw material purchases. We use both bleached and unbleached kraft pulp in the production of some of our products to increase the consistency of appearance and strength of the products. Kraft pulp is mainly used to produce the face layer of kraftlinerboard, all wood kraft paper and other types of paper for industrial use. Kraft pulp is made from wood logs and wood chips and produced by the kraft-cooking method. Due to the short supply of kraft pulp in China, a stable supply of substantial volumes of consistently high quality kraft pulp is critical to our success. Our sourcing strategy is to seek to maintain diversified sources of kraft pulp, to ensure stable supply and cost competitiveness while meeting our quality requirements. We import most of our kraft pulp from leading pulp exporting countries such as Indonesia, Brazil and Russia and source only a small proportion from China. We currently do not have any long-term contracts with our suppliers and kraft pulp prices are determined according to market conditions. Since 1999, China's import tariffs for kraft pulp have been eliminated. To take advantage of ACN's volume of shipments to China, we entered into a long-term service agreement with ACN at arm's length for import services in connection with the import of kraft pulp. This contract expires on June 30, 2008 and may be renewed at our option. See "Related Party Transactions."

To secure a future supply of unbleached kraft pulp, in 2004 we established ND Xing An as our 55%-owned joint venture subsidiary. China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) holds the remaining 45% interest. We market our unbleached kraft pulp under our "Xiulin" brand. As of December 31, 2007, we had the capacity to produce 0.12 million tonnes of long-fibered unbleached kraft pulp annually through ND Xing An. We are contemplating expanding ND Xing An's design production capacity in the future. ND Xing An obtains its raw materials, which are wood logs and wood chips, from the extensive softwood forests in Inner Mongolia which are owned and managed by China Inner Mongolia Forestry Industry Co., Ltd., under an agreement which expires on June 30, 2008 (the "Forestry Supply Agreement"). We expect to renew this agreement on the date of its expiration. Under the terms of the Forestry Supply Agreement, China Inner Mongolia Forestry Industry Co., Ltd. agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of our Group as requested by them from time to time. The sale prices of the materials will be determined with reference to prevailing market prices. During fiscal year 2007, we sourced approximately RMB86.0 million of our unbleached kraft pulp from ND Xing An with the balance of ND Xing An's production of approximately 0.09 million tonnes sold to third parties. Our interest in ND Xing An enables us to secure a future supply of unbleached kraft pulp. However, the costs of transporting unbleached kraft pulp from Inner Mongolia to our production bases in Dongguan and Taicang currently exceed that of importing it from abroad and we continue to import most of our supply of unbleached kraft pulp.

Chemicals

We use a variety of chemicals in our production process including primarily starch, retention agents and sizing agents. Starch is used to enhance the strength of our products, retention agents are used to increase the retention rate of stock and sizing agents are used to increase the water repellency of the paper product. We purchase chemicals from third party suppliers in China and abroad. Our sourcing strategy is to source from reliable and reputable suppliers that can provide the most cost-effective chemicals with the requisite quality. Our research and development team regularly tests the raw material composition of our products and continues to fine-tune our mix of chemicals. Accordingly, we seek to develop the use of new alternative chemicals with suppliers to improve product performance and reduce costs.

Utilities

Water

We require large amounts of water in our production process. Operating at full capacity as of December 31, 2007, we estimate that the Dongguan production base consumed approximately 0.09 million tonnes of water a day, while the Taicang production base consumed approximately 0.04 million tonnes of water a day. We have taken a number of measures to ensure an adequate year-round supply of water of suitable quality for production in Dongguan. These include the construction of two upstream fresh water reservoirs with an aggregate storage capacity of 0.25 million tonnes and a water pumping station in our Dongguan base to support our planned capacity expansion. Our production site in Taicang draws its water requirements from the Yangtze River. As a further back-up measure, both our Dongguan and Taicang bases are connected to the municipal water system.

To conserve water, we have implemented a water recycling and conservation system in Dongguan and Taicang which substantially reduces the level of water consumption at each of our production lines. We are now able to recycle water produced during the operation of our paper machines for reuse in our production process. To increase the stability of our water supplies, we completed the first phase of the water desalination plant at our Dongguan base in March 2006, which has a capacity of 50,000 tonnes of water per day. We have also constructed wastewater treatment plants in Dongguan and Taicang which incorporate automated PLC systems and an online monitoring system which allow us to centrally manage and monitor our wastewater discharge.

Energy Supply

As a large-scale packaging paperboard manufacturer, we require a significant amount of electricity and steam for our operations. We have designed our power generation systems in Dongguan and Taicang as coal-fired or solid-waste burning plants, providing both electric power and steam to all of their paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, our power plants achieve savings of up to approximately one-third compared to the cost of purchasing power from third parties. Coal prices are subject to market conditions and can fluctuate significantly. Our sourcing strategy for coal is to source from suppliers that can provide a stable and reliable supply at the lowest cost. We typically retain 30 days' supply of coal on hand. To lower our coal costs, since September 2005, we have started to purchase all of our coal requirements directly from coal distributors and arranged for our own shipping. We receive the coal by ship at our shipping pier in Taicang and at Xinsha port.

We have eight coal-fired generating units and a solid-waste burning unit with an aggregate installed capacity of 375 MW in Dongguan, which were constructed in four phases. We also have two coal-fired units in Taicang with an installed capacity of 240 MW. In addition to electricity, the power plants also produce steam for use in the drying process of our production process. Our current installed generating capacity in Dongguan and Taicang is sufficient to support design production capacity expansions of up to an additional approximately 1.00 mtpa at each of the two locations.

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

Quality Control

We have implemented a quality control system covering every stage of production and other aspects of our business. We received ISO 9001:2000 certificates for most of our facilities.

We examine recovered paper upon the arrival of each shipment before it is unloaded from the container for storage in our yards. We employ an inspection team at each base which visually inspects the recovered paper and separates out unsuitable material that does not meet our quality control standards. Samples are also taken for laboratory testing of their moisture and fiber content to ensure the quality of the recovered paper. Recovered paper is tested again immediately before being fed into the production line.

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

Before the products leave our production bases, we take samples from each roll of paper for testing of various physical properties, including strength, thickness, moisture, appearance, basis weight and printability, as applicable, to determine if they conform to required specifications. We categorize our finished packaging paperboard products as Grade 1, 2, A, B, E or F, in accordance with their quality and industry standards.

Sales and Marketing

Sales Channels and Sales Force

We operate our sales network from our production sites in Dongguan and Taicang. The sales network in Dongguan is focused on the Pearl River Delta region while the sales network in Taicang is focused on the Yangtze River Delta region. We also have a sales team for kraft pulp produced by ND Xing An located in Inner Mongolia.

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

As of December 31, 2007, we had a sales force of approximately 300 personnel. Typically, each sales team member focuses on three to five customers and is able to directly market and enhance close communications with customers. Most of our sales employees are university graduates and, on average, have been part of our sales force for more than three years. Our sales and marketing team in Dongguan and Taicang are able to market and cross sell the full range of our products. We expect to progressively increase our sales employees upon commencement of commercial operation at our planned Chongqing and Tianjin bases.

We have introduced an incentive bonus program to award our sales force compensation which is commensurate with their sales performance. We review sales performance on a monthly basis according to a variety of factors, including sales price and sales volume achieved, sales revenue collection and quality of service.

Pricing

We set our prices based on a number of factors, including manufacturing costs, operating expenses and domestic and international market conditions. We typically set our prices on a monthly basis and such intervals may be shortened or prolonged depending on overall market conditions. We also set our prices based on sales volume. Other than volume discounts, we typically do not provide other types of discounts to our customers.

Customers

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

Our customers are primarily corrugators who use our containerboard products to manufacture corrugated containers for their end user customers, as well as coated duplex board packaging and printing companies that manufacture printed packaging boxes according to the specifications of their end user customers. We sell substantially all of our products to customers in China. Our customers are spread throughout China, however, due to increasing shipping costs, a majority of our sales are made to customers in the Pearl River Delta region, with the remainder to customers in the Yangtze River Delta region and other provinces. A majority of our customers are located in close proximity to our production bases, which allows us to provide cost-effective and timely deliveries and services to our customers.

A significant portion of our domestic sales are made to foreign-invested processing enterprises for further export sales and are denominated in foreign currencies, primarily U.S. and Hong Kong dollars, while other domestic sales are denominated in Renminbi. For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, sales denominated in foreign currencies, which primarily represented sales made to foreign-invested processing enterprises, constituted 40.1%, 42.3% and 42.3% of our total sales, respectively.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, our five largest customers in aggregate accounted for approximately 7.9%, 13.4% and 8.6%, respectively, of our sales. Sales to our single largest customer for the same periods accounted for approximately 2.4%, 3.8% and 2.7%, respectively, of our sales.

Terms of Sales and Credit Policy

We make most of our sales pursuant to monthly or short-term contracts. We have also entered into several long-term cooperation agreements with a number of our major customers with terms of five to six years expiring between 2010 and 2011, pursuant to which the prices are quoted by us monthly. Certain of these agreements also provide for monthly minimum orders of up to 5,000 tonnes per month.

Our sale and credit terms depend on the volume of purchases, stability of purchases, creditworthiness and our trading history with the customer. Pursuant to our credit policy, we categorize our customers as Type A, Type B, Type C and Type D. Type A customers are major customers who enjoy a guaranteed supply of our products. Type B and Type C customers are smaller customers who enjoy a guaranteed supply of our products for orders within the quota assigned to them by us during high seasons when supply of our products may be tight. Type D customers are typically new customers or those without a proven credit history. We review our customer categorizations on a quarterly basis.

With respect to linerboard and high-performance corrugating medium, we typically grant a credit period of approximately 30 days for Type A and Type B customers. Payment upon delivery is required for Type C customers and payment in advance of delivery is required for Type D customers. With respect to coated duplex board, we typically grant a credit period of approximately 30 to 60 days for customers to whom we extend credit. We typically require prepayment for unbleached kraft pulp.

In addition to credit periods, customers are subject to credit limits, and if they have reached the credit limit before expiration of the credit period, they are required to settle their accounts before further delivery of our products can be made. The credit limit is determined by a formula linked to monthly average order amounts. As of December 31, 2007, a total of RMB2,123.0 million in credit was extended to our customers, of which RMB1,911.2 million was outstanding.

We have not had any significant bad debt or doubtful accounts or provided for the same during the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007. We periodically review the payment status of our account receivables and take appropriate measures to collect overdue accounts. We typically make provisions for bad debt if it remains overdue for more than 180 days.

Competition

We compete primarily in the China market. Our packaging paperboard products compete on the basis of product quality, consistency, performance, product development, customer service, distribution capabilities and price. The paper manufacturing industry in China, including the containerboard manufacturing industry, is characterized by a limited number of large manufacturers. As of December 31, 2007, although there were a large number of containerboard manufacturers in China, only a few, including us, had a design production capacity of more than one mtpa, based on data from RISI Inc.

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

We also face competition posed by imported packaging paperboard products. We position our Nine Dragons brand to compete with high quality packaging paperboard products imported from overseas manufacturers, and our Sea Dragon brand to compete with standard quality kraftlinerboard and testlinerboard.

We also face competition from producers of packaging made from other materials that are suitable for packaging such as producers of metal, foil and plastic packaging.

Research and Development

As of December 31, 2007, we had approximately 30 employees in our central laboratory who served dual functions of testing raw materials and existing and new products as well as engaging in research and development.

Our research and development activities primarily focus on improving the efficiency of our production equipment and process, research and development of new products, improving the quality of our existing products, and conducting market and industry research such as demand for products, potential market growth, investment opportunities, returns from the development of new projects and our competitors' products, prices and sales.

Inventory Management

We monitor and control the inventory levels of our raw materials and finished products to optimize our operations. We have an inventory management system that monitors the planning and allocation of warehouse space and stock of raw materials and finished products to coordinate with delivery requirements and schedules.

Our inventory of raw materials comprises primarily recovered paper and kraft pulp. We generally keep an inventory level of 30 to 60 days' supply of raw materials of recovered paper and kraft pulp, which we believe is an optimal level. We may increase the supply of raw materials when we believe the cost of raw materials and our estimates of production and sales make it prudent to do so. As of June 30, 2006, 2007 and December 31, 2007, our inventory of raw materials amounted to RMB661.6 million, RMB1,219.4 million and RMB1,185.4 million, respectively. The inventory turnover of our raw materials for the years ended June 30, 2006 and 2007 and the six months ended December 31, 2007 was 40, 61, and 42 days, respectively. Our policy is to store at least 20 to 45 days' supply of recovered paper and kraft pulp in our raw material yards. In addition, in order to maintain a stable inventory of raw materials as it is depleted by ongoing production, we also have a policy to have another approximately 20 days' supply en route from our suppliers at any given time. We have raw material yards with an aggregate storage capacity of up to 500,000 tonnes.

Our inventory of finished products primarily comprises products awaiting delivery to customers, products produced in anticipation of customer orders and products produced to meet unexpected demand. As linerboard, high-performance corrugating medium and coated duplex board cannot be stored for an extended period of time due to moisture absorption, discoloration and aging, we monitor our inventory of finished products closely to minimize the time finished products remain in storage. As of December 31, 2007, we had warehouses at the Dongguan and Taicang sites with an aggregate storage capacity of up to 120,000 tonnes for finished products.

We have not made any provisions for inventory obsolescence during the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007. Recovered paper and kraft pulp, our primary raw materials, are generally not susceptible to obsolescence by passage of time. In addition, due to the wide range of our products and varying specifications, we typically manufacture our products only after we have received an order.

Information Technology

In October 2006, we implemented an enterprise resource planning ("ERP") system in our Dongguan and Taicang operations to manage, control and track different aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of our products, sales and marketing and delivery of our products through our internal transportation and delivery network. All of our paper machines have DCSs that monitor and control all aspects of production and automated quality control systems manufactured by Honeywell and ABB are designed to be linked, and provide data input, to our enterprise resource system. This ERP system provides us with up-to-date information to determine optimal resource allocation in terms of financial planning and operations management. In order to enhance work place safety, we installed an additional protection device in the DCSs of the paper machines for the operating staff to confirm activation of the paper machines. Our fleet of trucks at Dongguan is also supported by GPS satellite computerized navigation systems to allow us to monitor and allocate our internal resources and plan delivery schedules so as to be timely and cost-efficient.

Intellectual Property Rights

We use a number of trademarks, trade names and service marks in connection with our business, namely, "Nine Dragons," "Sea Dragon" and "Xiulin," which we have registered as trademarks in China.

Insurance

Our significant insurance policies include "transportation all risks" insurance and "war risks" insurance, which covers the risk of loss during the transport of our raw materials, finished products and paper machines, and insurance for our fixed assets against partial loss caused by natural calamities or other extraneous risks. Most of our operations-related insurance policies are subject to deductibles and are renewed annually. Consistent with customary practice in China, we do not carry any business interruption insurance, third-party liability insurance for personal injury or environmental damage arising from accidents at our production bases or relating to our operations or product liability insurance against claims or liabilities that may arise from products sold by us.

Employees

As of December 31, 2007, we had 10,068 full-time employees. The following table provides a breakdown of our full-time employees by responsibilities as of that date:

Group Function	Number of Employees
Management and Administration	1,410
Production (including research and development)	4,175
Sales and marketing	289
Finance and accounting	130
Quality control	178
Sourcing of raw materials and equipment	194
Warehousing, transport and others	2,089
ND Xing An	1,603
Total	10,068

Our employee hiring and retention policies consider a number of factors, primarily current market conditions, business demands, and future capacity expansion. Our employees are selected through a competitive process. We hire certain employees up to one year ahead of the commencement of production of new paper machines in order to train and prepare them.

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. To ensure consistency in the quality and management of our various production bases, we centrally train most of our technicians and management at our Dongguan base. This centralized training allows for a smoother transfer of employees between our production bases. We conduct periodic performance reviews for all our employees and salaries and bonuses of employees are performance-based. In addition, we have implemented training programs for different job requirements, including periodic internal and overseas employee training schemes and offer our employees opportunities for transfer and job rotation to improve the overall development of our staff. We also adopted an opinion feedback and handling system to strengthen communication between management and staff and timely collection and handling of advice and complaints from staff in order to improve our management and technologies. In addition, as part of our staff incentive scheme to encourage employees to pursue advanced studies and further develop their skill sets, we have launched Executive MBA and MBA courses for our middle and high-level management staff through our collaboration with Zhongshan University in Guangzhou.

The remuneration package for our employees generally includes salary and bonuses. Employees generally receive benefits including medical care, unemployment insurance, occupational injury insurance and other miscellaneous benefits. As required by applicable regulations, we participate in various retirement plans administered by municipal and provincial governments for our employees, including contributions to social insurance and housing fund. A member of the plan is entitled to the basic retirement pension. Seven of our subsidiaries have not fully paid the housing fund as required by PRC law and are required to make up for the payment and may be subject to fines. See "Risk Factors — Risks Related to our Business — Non-compliance with PRC laws and regulations relating to housing fund contributions could adversely affect our financial condition."

In order to incentivize our sales force and to tie compensation closely to performance, we have adopted a system of compensation for our sales staff consisting of basic salary and commissions in late 1998. Commissions are not subject to any ceiling and are based on pricing, sales income received and sales quantity. We also implemented a performance-based assessment system in early 2005 for heads and deputy heads of our sales departments and implemented performance-based incentive programs to motivate our employees to meet their performance targets. For instance, in February 2006, we adopted two employee share option schemes and have continued to implement and optimize our bonus plan.

In December 2007, several hundred temporary employees participated in a strike at our Dongguan production base following our decision to outsource certain non-skilled jobs typically performed by temporary workers. A smaller strike was also held at our Taicang production base. The strike ended after one day and we were able to resolve the issues with the striking workers within a few days by notifying workers that we would renew contracts with those employees who desire to continue their employment with us. The strike did not affect our monthly production volumes.

From time to time, we have come under criticism for our labor practices. Recently, a Hong Kong-based non-governmental organization has made certain allegations about our occupational safety, compensation and other employment terms and has staged a small protest at our Hong Kong office. We have reviewed such allegations and believe that we are materially in compliance with applicable labor laws. Moreover, we consider our relationship with our employees to be an essential part of our success and will continue to work to address any concerns related to such allegations in a mutually agreeable fashion.

Environmental Matters

We consider the implementation of environmentally responsible practices and the maintenance of high environmental standards a competitive strength and a valuable asset, which significantly reduces the impact of our operations on the environment and the risk of exposure to liabilities under environmental protection laws and regulations. Our Dongguan and Taicang bases have obtained ISO 14001 certification for our environmental management standards since February 2005. As part of this environmental commitment, we have established a special department to oversee our environmental protection systems for managing wastewater treatment, emission, solid waste treatment and noise control. Specifically, we adopted the following practices and invested in the following policies:

- *Increasing use of recovered paper.* Most of the fiber in our products is derived from recovered paper. In addition, we recycle our scrap fiber by-product from producing linerboard to supplement the raw materials used to produce high-performance corrugating medium. In August 2007, we installed two new paper machines, PM12 and PM13, which, in their default mode, use recovered paper as their sole raw material to manufacture linerboard.

- *Wastewater treatment.* To minimize waste and the impact of our operations on the environment, we have wastewater treatment facilities in Dongguan and Taicang, including automated PLC systems and an online monitoring system which allows us to centrally manage and monitor our wastewater discharge.

- *Water recycling and conservation.* To conserve and minimize impact on water resources, we have a water recycling and conservation system in Dongguan and Taicang that reduces the water consumption significantly at each of our production lines. The water produced during the operation of our paper machines can be recycled for reuse in our production process. To take advantage of the different water quality requirements for different production lines, water used in the manufacture of coated duplex board is treated and recycled for use in the high-performance corrugating medium lines before it is treated again and released. We estimate that the packaging paperboard production process consumes, depending on the product, approximately six to 15 tonnes of water, including treated and recycled water, for each tonne of product produced,

- *Reducing emissions and minimizing waste.* To minimize airborne emissions, we have a circulating fluidized bed waste-to-energy incinerator at Dongguan capable of burning 87,500 tonnes of waste a year to produce 315,000 tonnes of steam. This incinerator can effectively incinerate a wide range of low-grade fuels, including waste paper pulp, light slag and sewage from the wastewater treatment station while maintaining low atmospheric emissions. In Taicang, we dispose of solid waste by using it to produce recycled pallets. Moreover, our coal-fired power plants in Dongguan and Taicang are equipped with particulate filtration and desulfuration equipment and have emission levels within the emission limits set under applicable PRC regulatory requirements. We have installed one incinerator with a daily capacity of 300 tonnes and two additional incinerators will each utilize advanced emission treatment equipment, fabric-bag filters for dust removal and half-dry sulphurization facilities and be able to process approximately 600 tonnes of waste each day.

- *Noise control.* We have set up noise control policies at our paper-marking facilities to prevent our staff from working long hours in noisy conditions and have installed noise-insulating enclosures and mufflers to double-disc refiners and air compressors which produce loud noises.

We are subject to various environmental laws and regulations administered by the central and local environmental protection bureaus. See "Regulation."

Our manufacturing processes generate solid and liquid wastes, including wastewater and sewage, and gaseous emissions. As of December 31, 2007, we have not been found to be in material violation of any environmental laws or regulations, or subject to any fine in respect thereof. We believe that our record of environmental compliance has been a positive factor in obtaining regulatory approvals for our expansion projects.

Legal Proceedings

In January 2006, we experienced a serious industrial accident, resulting in the deaths of two employees and the minor bodily injuries of a third employee. Since that date, we have experienced three other serious industrial accidents, each of which resulted in the death of an employee. See "Risk Factors — Risks Relating to Our Business — We may be subject to liability in connection with industrial accidents at our production sites." Immediately following these accidents, we launched extensive investigations into how the accidents occurred and worked to improve production management processes and enhance safety education. We believe that these accidents will not materially or adversely affect our business, financial condition or results of operations.

We are not currently involved in any litigation or legal proceedings which could be expected to have a material adverse effect on our business or operations.

Set forth below are summaries of certain PRC laws and regulations applicable to paper products manufacturers in China.

Government Policies and Regulations Affecting the Paper Manufacturing Industry in China

Historically, the paper manufacturing industry in China was characterized by a large number of small-scale, highly pollutive, low technology producers with minimal capacity for producing high-grade paper. To address concerns over environmental protection, the State Council issued a Decision Regarding Several Issues Relating to Environmental Protection (關於環境保若干問題的決定) in August 1996, announcing clear and stringent rules and requirements to reduce industrial pollution. The paper manufacturing industry in China underwent consolidation in the past decade as a result of such notice which required that small scale paper manufacturers with an annual production of less than 50,000 tonnes be shut down by September 30, 1996. In the few years following the issuance of such notice, a few thousand mills were estimated to have been ordered to close. In addition, other small scale paper manufacturers closed because they were unable to compete with large scale paper manufacturers who were able to achieve economies of scale from mass production and procurement of raw materials at low cost, because they were unable to meet the applicable environmental standards and still remain competitive, or because they were uncompetitive for other reasons such as ability to produce high quality products. Furthermore, the expansion of urban areas made it more profitable for the paper manufacturers to abandon their paper production operations and use their land for development of commercial or residential properties. The consolidation of the paper manufacturing industry in China as well as the increasing demand of high quality paper products attracted many foreign paper manufacturers to enter the China paper manufacturing market to operate large scale, technologically advanced and modern production bases. Notwithstanding this consolidation, the paper manufacturing industry in China currently remains relatively fragmented.

For the past few years, China's paper manufacturing industry has relied heavily on imports to meet its growing domestic and export demand. The PRC government has implemented a series of policies to deal with the short supply and promote capacity expansions in China's pulp and paper industry. As part of China's tenth Five-Year Plan during the implementation period from 2001 to 2005, the PRC government aimed to increase domestic production of paper and paperboard by 40.00 mtpa and pulp by 2.20 mtpa according to the guidelines set by the China National Light Industry Council, an organization approved by the State Council and responsible for the development and promotion of paper and pulp industry in China. A summary of the PRC government policies affecting China's paper manufacturing industry is set out below.

On October 15, 2007, the NDRC issued the "Paper Manufacturing Industry Development Policy." The policy aims for further development of the paper manufacturing industry and encourages enterprises engaging in the paper manufacturing industry to expand production capacity through mergers and acquisitions. However, if a single paper product of an enterprise or group has more than a 35% share of the domestic market, the relevant government authority will not approve any application or filing for any production project for the same paper product by such enterprise or group; if an enterprise's aggregate production capacity of paper and paperboard exceeds 20% of the total consumption of the domestic market for that year, the competent government authority will not approve any application or filing for any production project of wood pulp and paper by such enterprise or group. The new policy also specifically emphasizes environmental protection and water saving targets.

The PRC government promulgates the Catalog of Industry Guidelines for foreign investment industries from time to time to regulate foreign investment in certain industries in the PRC. In the past years, there have been several changes in the policies and regulations on foreign investment in paper manufacturing industry in the PRC.

On June 20, 1995, the former State Planning Commission, State Economic Trade Commission and Ministry of Foreign Trade and Economic Cooperation (the "Three Authorities") promulgated the Catalog of Industry Guidelines, under which foreign investment in manufacture of commercial-grade paper pulp was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On December 31, 1997, the Three Authorities promulgated the Catalog of Industry Guidelines, which took effect and superseded the previous Catalog for the Guidance of Foreign Investment Industries on January 1, 1998. Pursuant to the Catalog of Industry Guidelines, foreign investment in manufacture of paper pulp with an annual production capacity of over 0.17 mtpa of wood pulp and a related raw material base tonnes was encouraged, foreign investment in manufacture of paper and paper plate was restricted, foreign investment in manufacture of rice paper was prohibited and foreign investment in the other paper manufacturing projects was permitted.

On March 11, 2002, the Three Authorities promulgated a revised Catalog of Industry Guidelines, which took effect and superseded the previous Catalog of Industry Guidelines on April 1, 2002. Under the new Catalog of Industry Guidelines, foreign investment in (1) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 0.30 mtpa or more, annual chemical mechanic wood pulp (CTMP, BCTMP, APMP) production capacity of 100,000 tonnes or more, and raw materials forest bases (limited to joint ventures and co-operative ventures), or (2) production of high-grade papers and paperboards (excluding newsprint) was encouraged, foreign investment in manufacture of rice paper was prohibited and foreign investment in other paper manufacturing projects was permitted.

On November 30, 2004, MOFCOM and the NDRC promulgated the Catalog of Industry Guidelines, which took effect and superseded the previous Catalog of Industry Guidelines on January 1, 2005. Pursuant to the Catalog of Industry Guidelines, foreign investment in (1) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 0.30 mtpa or more, annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more (only in the form of equity joint ventures and co-operative ventures), or (2) manufacture of high-grade papers and paperboards (only in the form of equity joint ventures and co-operative ventures) is encouraged, foreign investment in manufacture of rice paper is prohibited and foreign investment in other paper manufacturing projects is permitted.

On October 31, 2007, the MOFCOM and the NDRC promulgated the Catalog of Industry Guidelines, which came into effect and superseded the previous Catalog of Industry Guidelines on December 1, 2007. Pursuant to the new Catalog of Industry Guidelines, foreign investment in (1) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 0.30 mtpa or more, annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more (only in the form of equity joint ventures and co-operative ventures), and manufacture of high-grade papers and paperboards at the same stage (only in the form of equity joint ventures and co-operative ventures) is encouraged; (2) foreign investment in manufacture of rice paper is prohibited, and (3) foreign investment in other paper manufacturing projects is permitted.

Environmental Protection Regulations Applicable to the Paper Manufacturing Industry

In the PRC, there are strict environmental protection regulations applicable to the paper manufacturing industry. Each of the various paper manufacturing phases, including without limitation, the construction of paper manufacturing projects, completion of the construction, daily operation and manufacture of paper, is governed by its respective environmental protection regulations.

Environmental Impact Appraisal

On November 29, 1998, the State Council promulgated the Rules on the Administration of Environmental Protection of Construction Projects (建設項目環境保護管理條例). On October 28, 2002 the Standing Committee of the National People's Congress of the PRC (中華人民共和國人民代表大會常務委員會) (the "Standing Committee") approved the Law of the People's Republic of China on Appraising of Environment Impacts (中華人民共和國環境影響評價法) which became effective on September 1, 2003. According to the aforesaid laws, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an environmental impact record of analyzing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed. Entities responsible for the construction projects must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval.

If the entities fail to submit the aforesaid environmental impact appraisal documents according to PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant construction projects shall not approve such projects and the construction entities shall not commence the construction.

According to the Classified Directory for Environmental Management of Construction Projects (建設項目環境保護分類管理名稱) and the Provisions on the Classificatory Examination and Approval of EIA Documents of Construction Projects (建設項目環境影響評價文件分級審批規定) as promulgated by the SEPA on October 13, 2002 and November 1, 2002 respectively (both of which came into effect on January 1, 2003), an environmental impact report is required for all paper manufacturing projects (including manufacture of recycled paper). As for the paper manufacturing projects with annual production capacity of 100,000 tonnes or more, an environmental impact appraisal is required to be prepared and approved by SEPA.

In order to further regulate examination and approval of environmental impact appraisals of construction projects at various levels, SEPA has promulgated the Notice of Strengthening Examination and Approval of Environmental Impact Appraisals of Construction Projects at Various Levels (關於加強建設項目環境影響評價分級審批的通知) on December 2, 2004, according to the State Council's Decision to Reform Investment System (國務院關於投資體制改革的決定). Pursuant to the aforesaid notice, the environmental impact appraisals of the paper pulp projects with annual production capacity of 100,000 tonnes or more shall be approved by SEPA.

In compliance with applicable laws and regulations, we have prepared environmental impact statements and design environmental protection facilities as an integral part of all of our construction and expansion projects, and submit such plans at the project proposal, feasibility study, design and commissioning stages to the relevant environmental protection authorities.

Inspection and Acceptance of Environmental Protection Facilities

According to the Measures on Pollution Sources Monitoring (污染源監測管理辦法) promulgated by SEPA on November 2, 1999, the enterprises carrying on construction projects with pollution sources must apply to the relevant environmental protection authorities which are responsible for approving such construction projects for inspection and acceptance of the completed construction projects or the completed environmental protection facilities. The aforesaid application shall be made before the construction projects or the environmental protection facilities are put into operation. The results of supervision done by the supervision institutions of environmental protection will form the basis of the aforesaid inspection and acceptance. Since paper manufacturing projects are regarded as construction projects with pollution sources, the aforesaid inspection and acceptance of environmental protection facilities is required on completion of paper manufacturing projects.

Discharge of Sewage

As required in the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on December 26, 1989 by the Standing Committee, enterprises discharging any pollutants in their daily operation and manufacture shall observe the national discharge standards which are regulated by SEPA. In accordance with the aforesaid law, SEPA has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises. Since paper manufacturing enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as regulated by SEPA from time to time.

On October 8, 2007, the State Environmental Protection Bureau issued the Decision Regarding Revoking and Revising Several Rules and Regulatory Documents Revoking the Interim Measures on the Administration of Water Pollutants Discharge Permit (水污染物排放許可證管理暫行辦法). On February 8, 2008, SEPA issued the revised Law on Prevention and Control of Water Pollution (中華人民共和國水污染防治法). According to this revised law, a major pollution discharge entity shall install automatic monitoring equipment which shall be connected with the monitoring equipment of environment protection agency, and keep the monitoring equipment working well. The list of the major pollution discharge entities is decided by the local environment protection agency. SEPA also issued the draft Regulation on Pollutants Discharge Permit (排污許可證條例) and is currently collecting suggestions and comments. According to the latest draft, the environmental protection measures, especially the regulations for newly constructed projects, shall be strictly implemented before the enterprise can apply and obtain the pollutants discharge permit. The draft regulation also emphasizes the supervising and administering duty of the local environmental protection agency.

Under the Measures on Pollution Sources Monitoring, enterprises discharging pollutants are subject to supervision of the pollution sources in their daily operation. According to the business nature of such enterprises, the requirements of the environmental management, the class of the discharged pollutants and the national pollutants discharge standards, the local environmental protection authorities will supervise the enterprises on their discharge outlets of pollutants and pollutants treatment facilities regularly. Since paper manufacturing enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

Regulations in Relation to Water-Drawing in the Course of Paper Manufacturing

According to the Water Law of the PRC (中華人民共和國水法) which was promulgated by the Standing Committee on August 29, 2002 and took effect on October 1, 2002, any units and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for the Water-Drawing Permit (取水許可證) and pay the water resource fees in order to obtain the water-drawing right in accordance with the national water-drawing permit system and the water resource fee system. The State Council is responsible for stipulating the detailed rules regarding the implementation of the water- drawing permit system and the collection of water resource management fees. Since paper manufacturing enterprises use a large amount of water in the course of production, such enterprises are required to apply for the Water-Drawing Permit and pay the water resource fees in accordance with the aforesaid law. As stated in the Rules on the Administration of Water Drawing Permit and Charging Water Resource Fees which was promulgated by the State Council on February 21, 2006 and took effect on April 15, 2006, a construction unit shall be approved by the competent authorities before starting to construct water-drawing projects or facilities. Upon the completion of a water-drawing project, the construction unit shall submit relevant documents to the competent authorities for inspection. If the construction passes the inspection, the competent authorities will issue Water-Drawing Permit. The Water-Drawing Permit lasts between five and ten years. The competent authorities are responsible for charging the relevant water resource fees.

Regulations Relating to the Import of Recovered Paper

PRC Customs, General Administration is the highest authority for supervising and administering the customs points for entering into and departing from the PRC and is responsible for customs administration throughout the nation.

The PRC Customs Law (中華人民共和國海關法) is intended to protect PRC sovereignty and interests and to strengthen the administration of customs supervision.

In accordance with the PRC Customs Law, PRC Customs, General Administration has primary responsibility for:

- supervising the entering into and departing from the PRC of transportation tools, goods, luggage, postal items and other articles;

- collecting customs duties and other taxes and fees;

- investigating and suppressing smuggling; and

- preparing customs statistics and conducting other customs affairs.

On October 30, 1995, the Standing Committee of the National People's Congress passed the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法) which was later amended on December 29, 2004 and took effect on April 1, 2005. It stipulates that the entities and individuals that collect, transport, store, utilize, or dispose of solid wastes shall take precautions against the spread, loss, and leakage of the solid wastes as well as other measures for preventing the solid wastes from polluting the environment and are forbidden to dump, pile, abandon or scatter solid wastes without permission. The import of solid wastes used as raw materials is administered under two systems: restricted import and automatic import license. Entities and individuals that import solid wastes used as raw materials under the automatic import license category shall obtain the automatic import license according to the relevant regulations. The solid wastes imported shall be in compliance with the national environmental protection standards and be examined and approved by the quality supervision, inspection and quarantine departments.

On March 1, 1996 and July 26, 1996, SEPA, the former Ministry of Foreign Trade and Economic Cooperation, the Customs General Administration, the State Administration for Industry and Commerce and the former State Bureau of Import and Export Commodities Inspection promulgated the Interim Provisions for the Administration of Environmental Protection regarding the Import of Waste Materials (廢物進口環境保護管理暫行規定) and its supplementary provisions respectively, which took effect on April 1, 1996 and August 1, 1996 respectively. The aforesaid provisions provide that any entities or individuals that import wastes, including recovered paper, into the PRC shall obtain the Waste Import License (進口廢物批准證書) from SEPA and provide the Certificate of Approved Pre-shipping Inspection on Imported Waste Materials (進口廢物裝運前檢驗合格證明) issued by the commodities inspection institutions of the PRC or other commodities inspection institutions as appointed or recognized by the State Bureau of Commodities Inspection. On January 18, 2002, SEPA issued the Notice of Issues on the Adjustment of the Administration of Environmental Protection regarding the Import of Waste Materials (關於調整廢物進口環境保護管理有關問題的通知), under which the import of recovered paper used as raw materials is administered under the automatic registration system. The customs examine and approve the import of recovered paper based on the Waste Import Permit with such wording as "automatic import license" issued by SEPA and the Customs Pass for Imported Goods (入境貨物通關單) issued by the inspection and quarantine institutions. Therefore, the paper manufacturing enterprises shall apply for the Waste Import Permit according to the aforesaid regulations when they import recovered paper used as raw materials.

Subject to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) passed on February 21, 1989 and revised on April 28, 2002 by the Standing Committee, imported wastes shall be inspected by the commodities inspection institutions. Further, in accordance with the Measures Governing the Management of Pre-shipping Inspection on Imported Waste Materials (Tentative) (進口廢物裝運前檢驗管理辦法(試行)) promulgated by the former State Bureau of Commodities Inspection on September 12, 1996, the wastes permitted to be imported into the PRC as raw materials shall be inspected before shipping. Such pre-shipping inspection shall be undertaken by the inspection institutions which are legally established in the exporting countries or areas and are accepted by the State Bureau of Commodities Inspection. The Supervision for Inspection Institutions to Certify Imported Wastes Materials before Shipping (進口廢物原料裝運前檢驗機構認可管理辦法(試行) which was promulgated by the State Entry-Exit Inspection and Quarantine Bureau on November 22, 1999 and took effect on January 1, 2000 regulates the recognition of the inspection institutions in the exporting countries. Since recovered paper imported as raw materials by the paper manufacturing enterprises is categorized as permitted import wastes of the PRC, such import of recovered paper shall be subject to the aforesaid regulations on inspection and quarantine.

To further strengthen the administration of the import of wastes, on December 15, 2003, the PRC State Administration of Quality Supervision, Inspection and Quarantine (中華人民共和國國家質量監督檢驗檢疫總局) (the "AQSIQ") issued the No. 115 announcement in 2003. According to the announcement, an administrative measure on tentative registration of foreign enterprises exporting wastes used as raw materials to the PRC ("Exporting Enterprises") was adopted. Since July 1, 2004, for those Exporting Enterprises which fail to complete the tentative registration with AQSIQ, they are forbidden to export wastes used as raw materials to the PRC. On May 8, 2004, the AQSIQ promulgated the Implementation Rules on the Registration of Foreign Enterprises Exporting Wastes used as Raw Materials to the PRC (進口廢物原料境外供貨企業註冊實施細則), which clearly stipulates the requirements and procedures of registration, and the post-registration, continuing administration of such Exporting Enterprises. On June 23, 2004 and October 26, 2004, the AQSIQ issued the No. 75 announcement in 2004 and the No. 159 notice of the year 2004 respectively, the implementation date of which were deferred firstly to November 1, 2004, and then to January 1, 2005. As required in the No. 159 notice of the year 2004, as from January 1, 2005, the inspection institutions in charge of pre-shipping inspection of imported waste materials shall only accept inspection applications from the Exporting Enterprises which have registered with AQSIQ and shall specify the registration number of the Exporting Enterprises on their Certificates of Pre-shipping Inspection (裝運前檢驗證書). Based on the aforesaid regulations, as of January 1, 2005, the Exporting Enterprises must register with AQSIQ before they can export paper to the PRC.

AQSIQ further issued the Notice No. 605 on July 25, 2007, which specified a group of originating countries or regions of waste materials. An importer shall submit to AQSIQ the inspection certificate issued by the local inspection agency of the listed countries and regions prior to shipping when entering into China. Every item of waste materials imported from a country or region other than those listed countries or regions shall be subject to AQSIQ's inspection.

Taxes and Duties Applicable to the Paper Manufacturing Industry

Elimination of value-added tax rebates for paper and paperboard exports

In accordance with the notice on the adjustment of the rate of value-added tax rebate for exported goods jointly issued by the Ministry of Finance and the State Administration of Taxation on October 13, 2003, effective from January 1, 2004, the value-added tax rebate on the export of kraft pulp and paperboard was eliminated. The elimination of the value-added tax rebate is intended to discourage the export of paper and paperboard due to increased domestic demand for such products. The elimination of the value-added tax rebate also encouraged manufacturers of such products to make domestic sales. The increase in domestic supply may result in a reduction of imports of such products.

Reduction of tariffs on imported high-grade paper production equipment

Tariffs on imported high-grade paper production equipment have been reduced in recent years to facilitate the introduction of new technology to expand capacity and increase efficiency. Foreign-invested enterprises meeting certain qualifications and regulatory requirements are entitled to tariff-free treatment on production equipment imported for self-use.

Reduction of import tariffs on paper products and raw materials

As part of China's obligation subsequent to its accession to the World Trade Organization, China has reduced the import tariff on certain paper products. Effective from January 1, 2005, the import tariff for imported kraftlinerboard is 5% and the import tariff for corrugating medium is 7.5%. The reduction of import tariff on imported kraftlinerboard and corrugating medium may encourage import of such products which may increase competition in the domestic market but also ease the supply shortage.

Since 1999, import tariffs for recovered paper and kraft pulp have been eliminated.

Anti-dumping duties

In recent years, China has initiated anti-dumping investigations and imposed anti-dumping duties on a broad range of imported paper products, including linerboard, newsprint and coated wood-free paper in an effort to protect domestic manufacturers and further attract foreign investment to expand their capacities in China. Upon receipt of complaints from a group of domestic producers (including state-owned enterprises, Sino-foreign joint ventures and wholly foreign-owned enterprises) which represent at least 50 percent of the total production of a specific category of product in China, the Ministry of Commerce has the authority to initiate the investigating and assess anti-dumping duties against imported products from a certain country or countries.

In March 2004, China initiated an anti-dumping investigation against imports of linerboard from the United States, South Korea, Taiwan and Thailand upon receipt of a petition jointly filed by a number of domestic paper manufacturers, including us, in January 2004. The Ministry of Commerce imposed provisional anti-dumping duties against linerboard imported from the United States, Korea, Taiwan and Thailand on May 31, 2005 and issued its definitive ruling on September 30, 2005 to impose final anti-dumping duties. The amounts of anti-dumping duties payable range from 7.0% to 65.2% of the value of the imported products. Effective from January 9, 2006, however, China withdrew its anti-dumping measures against these countries.

Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. Prior to January 1, 2008, in accordance with the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, or the FIE Income Tax Law, and the related implementing rules, foreign-invested enterprises incorporated in the PRC were generally subject to an enterprise income tax rate of 33% (30% of state income tax plus 3% local income tax). The FIE Income Tax Law and the related implementing rules provided certain favorable tax treatments to foreign-invested enterprises. Production-oriented foreign-invested enterprises, which are scheduled to operate for a period of ten years or more, are entitled to exemption from income tax for two years commencing from the first profit-making year and 50% reduction of income tax for the subsequent three years. In certain special areas such as designated coastal open economic areas, special economic zones and economic and technology development zones, foreign-invested enterprises were entitled to reduced tax rates, namely:

(1) in coastal open economic areas, the tax rate applicable to production-oriented foreign-invested enterprises was 24%;

(2) in special economic zones, the rate was 15%;

(3) production-oriented enterprises incorporated and operated in economic and technology development zones recognized by the State Council enjoyed a rate of 15%; and

(4) certified high and new technology enterprises incorporated and operated in high and new technology development zones determined by the State Council enjoyed a rate of 15%.

On March 16, 2007, the EIT Law was enacted, and became effective on January 1, 2008 when the FIE Income Tax Law and the Enterprise Income Tax Provisional Regulations of the PRC expired. The EIT Law adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and terminates most of the current tax exemption, reduction and preferential treatments available under current tax laws and regulations. Under the EIT Law, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, during which the income tax rate will increase gradually from 15% to 25%, or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term.

In addition, under the EIT Law, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC territory are considered resident enterprises and will normally be subject to the enterprise income tax at the rate of 25% on its global income. See "Risk Factors — Risks Relating to the PRC — We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and PRC withholding taxes on interest we pay on the Notes." If we were considered a non-resident enterprise, dividends from our PRC subsidiaries will be subject to 10% PRC withholding tax.

Dividend Distribution

The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include:

- Wholly Foreign-Owned Enterprise Law (1986), as amended; and

- Wholly Foreign-Owned Enterprise Law Implementation Rules (1990), as amended.

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

Foreign Currency Exchange

Foreign currency exchange in China is primarily governed by the following regulations:

- Foreign Exchange Administration Rules (1996), as amended; and

- Regulations of Settlement, Sale and Payment of Foreign Exchange (1996).

Under the Foreign Exchange Administration Rules, the Renminbi is convertible for current account items, including distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, securities investment and repatriation of investment, however, is still subject to the approval of the SAFE.

Under the Regulations of Settlement, Sale and Payment of Foreign Exchange, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the NDRC.

Foreign Exchange Registration of Offshore Investments by PRC Residents

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯 管理有關問題的通知), generally known in China as SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC citizen residing in the PRC, who is referred to as a PRC resident in SAFE Circular No. 75, must register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle ("SPV"), for the purpose of overseas equity financing (including convertible debts financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an SPV, or engages in overseas financing after contributing assets or equity interests into an SPV, such PRC resident must register his or her interest in the SPV and the change thereof with the local branch of the SAFE; and (iii) when the SPV undergoes a material event outside China, such as a change in share capital, merger, investment with long-term stock rights or credits, or provision of a guaranty to a foreign party, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of the SAFE. PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local branch of SAFE before March 31, 2006.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from this offering) our PRC subsidiaries limit PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us. See "Risk Factors – Risks Relating to the PRC – PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our shareholders that are PRC residents to personal liability, limit our ability to contribute capital into or provide loans to our PRC subsidiary, limit our subsidiaries' ability to increase their registered capital, pay dividends or otherwise distribute profits to us, or otherwise adversely affect us."

To further clarify the implementation of SAFE Circular No. 75, the SAFE issued Circular No. 106 on May 29, 2007. Under Circular No. 106, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing of SAFE registrations by the offshore holding company's shareholders who are PRC residents in a timely manner. If these shareholders fail to comply, the PRC subsidiaries are required to report to the local branch of SAFE. If the PRC subsidiaries of the offshore parent company do not report to the local branch of SAFE, they may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company and the offshore parent company may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the above SAFE registration requirements could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

MANAGEMENT

The current members of our board of directors are as follows:

Name	Age	Title
Ms. Cheung Yan	51	Chairlady
Mr. Liu Ming Chung	46	Deputy Chairman and Chief Executive Officer
Mr. Zhang Cheng Fei	40	Executive Director and Deputy Chief Executive Officer
Ms. Gao Jing	44	Executive Director and Head of Import Purchasing Department
Mr. Lau Chun Shun	26	Non-Executive Director
Ms. Tam Wai Chu, Maria	62	Independent Non-executive Director
Mr. Chung Shui Ming, Timpson	56	Independent Non-executive Director
Dr. Cheng Chi Pang	51	Independent Non-executive Director
Mr. Wang Hong Bo	54	Independent Non-executive Director

Directors

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

Under Bermuda law, the directors have a duty of loyalty and must act honestly, in good faith and in the Company's best interests. The directors also have a duty of exercising care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to the Company, the directors must ensure compliance with the Company's memorandum of association and the bye-laws.

A shareholder may in certain circumstances have the right to seek damages on behalf of the Company if a duty owed by the directors is breached.

Executive Directors

Ms. Cheung Yan, 51, is a founder of our Group and has been the Chairlady of our Company since February 6, 2006 and is in charge of our overall corporate development and strategic planning. Ms. Cheung has nearly eight years of experience in industrial accounting, over 11 years of experience in paper manufacturing and over 21 years of experience in recovered paper recycling and international trade. Ms. Cheung is a member of the National Committee of the Chinese People's Political Consultative Conference, vice chairlady 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 Ming Chung, the sister of Mr. Zhang Cheng Fei and the mother of Mr. Lau Chun Shun.

Mr. Liu Ming Chung, 46, is a founder of our Group and has been the Deputy Chairman and Chief Executive Officer of the Company since February 6, 2006. He 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 our Group. Mr. Liu also assists the Chairlady in government relations. Mr. Liu has over 16 years of experience in international trade and over 8 years of experience in corporate management. Mr. Liu is an honorary citizen of the City of Dongguan, Guangdong Province, China. Mr. Liu graduated with a bachelor's degree in Dental Surgery from the University of Santo Amaro in 1983. Mr. Liu is the husband of Ms. Cheung Yan, the brother-in-law of Mr. Zhang Cheng Fei and the father of Mr. Lau Chun Shun.

Mr. Zhang Cheng Fei, 40, is a founder of our Group and has been an executive director and Deputy Chief Executive Officer of the Company since February 6, 2006. He is a founder and is responsible for the overall management of the operations and business of our Group including marketing and distribution, finance, procurement, sales and IT departments. Mr. Zhang has over 13 years of experience in procurement, marketing and distribution. Mr. Zhang is the younger brother of Ms. Cheung Yan, Mr. Liu Ming Chung's brother-in-law and the uncle of Mr. Lau Chun Shun.

Ms. Gao Jing, 44, has been an executive director of our Company since July 6, 2006. She joined our Group in June 1996 and has 11 years of experience in cost auditing of raw materials and the purchasing of recovered paper. She served as our financial manager and was promoted as the head of our 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, a member of senior management who serves as the deputy general manager of our Group in charge of engineering.

Non-executive Director

Mr. Lau Chun Shun, 26, has been a non-executive director of our Company since February 6, 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 us as a management trainee in the production department of our 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 our Group and has gained an understanding of our overall businesses and operations. Mr. Lau is the son of Ms. Cheung Yan and Mr. Liu Ming Chung and the nephew of Mr. Zhang Cheng Fei.

Independent Non-executive Director

Ms. *Tam Wai Chu, Maria*, GBS, JP, 62, has been an independent non-executive director of our Company since February 6, 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, a member of the Political Structure Sub-Committee of the Hong Kong Commission on 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 our Company since February 6, 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 and the Association of Chartered Certified Accountants.

Dr. Cheng Chi Pang, 51, has been an independent non-executive director of our Company since February 6, 2006. He holds a bachelor's degree in Business, a master's degree in Business Administration and a doctorate degree of philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practicing Accountants, the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has approximately 25 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was chief executive and group financial controller of NWS Holdings Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited. Prior to joining the New World Group, he was a senior manager of Price Waterhouse, now PricewaterhouseCoopers. Dr. Cheng is currently the senior partner of Leslie Cheng & Co. Certified Public Accountants, the 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 our Company since February 6, 2006. Mr. Wang has extensive experience and expertise in the paper industry in China and was appointed as the Deputy Head of Yantai Packaging Decoration Factory in 1990.

Senior Management

The following table sets forth certain information concerning our senior management.

Name	Age	Position
Mr. Law Wang Chak, Waltery	44	Chief Financial Officer and Qualified Accountant
Mr. Cheung Man Hoi, Ronny	37	Financial Controller
Mr. Ng Kwok Fan, Benjamin	51	Deputy General Manager and Assistant to Chairman
Mr. Zhang Du Ling.	37	Managing Deputy General Manager
Mr. Huang Tie Min.	44	Deputy General Manager
Mr. Zhou Guo Wei	39	Chief Engineer
Mr. Wang Le Xiang	40	Deputy General Manager
Mr. Guan Deng Yuan	48	Deputy General Manager
Mr. Chu Xin Qi	50	Chief Deputy General Manager
Mr. Zhong Hong Xiang.	39	Deputy General Manager
Mr. Cheng Jun	45	Deputy General Manager
Mr. Xia Ying Hua.	47	Deputy General Manager

Mr. Law Wang Chak, Waltery, 44, has served as our Chief Financial Officer in charge of supervision of financial matters and investor relations since June 2004. Prior to joining our Group, Mr. Law had worked in the audit division of an international accounting firm for more than 5 years and served in different key roles such as chief financial officer and vice president in various Hong Kong listed companies for more than 12 years. He has more than 20 years of experience in auditing, accounting and corporate finance. Mr. Law is a fellow member of both the Association of Chartered Certified Accountants and of Hong Kong Institute of Certified Public Accountants and an associated member of the Institute of Chartered Accountants in England and Wales. He graduated from the London School of Economics and Political Science, the University of London with a bachelor's degree in Economics and a master's degree in Financial Economics. He is also our Qualified Accountant.

Mr. Cheung Man Hoi, Ronny, 37, has served as our Financial Controller since June 2007 in charge of financial operation. Mr. Cheung holds a bachelor's degree in Accountancy and a master's degree in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 14 years of experience in accounting, auditing and finance and previously worked in one of the major international accounting firms where he accumulated experience in flotation and business advisory of a wide variety of business. Before joining our Group, he served as chief financial officer and financial controller of several public companies listed in Hong Kong.

Mr. Ng Kwok Fan, Benjamin, 51, has served as our Deputy General Manager and Assistant to Chairman in charge of corporate administration and investor relations since February 2006. Before joining our 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. Zhang Du Ling, 37, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of sales and marketing since July 1998. Prior to joining our Group, he was the sales manager of Dongguan Chung Nam Paper Manufacturing Co., Ltd. Mr. Zhang has approximately 11 years of sales and marketing experience in the paper manufacturing industry in China. He graduated from the School of Management of Chinese Academy of Sciences with a higher diploma in Business Administration.

Mr. Huang Tie Min, 44, has served as the Deputy General Manager of Dongguan Nine Dragons in charge of engineering since November 1999. Mr. Huang has approximately 21 years of construction projects and management experience in the paper manufacturing industry in China. He graduated from School of Architecture and Engineering, Shenyang University with a bachelor's degree in Science. He is the spouse of Ms. Gao Jing, an Executive Director of the Company.

Mr. Zhou Guo Wei, 39, has served as the Chief Engineer of Dongguan Nine Dragons in charge of research and production of our kraftlinerboard production lines since December 2002. He joined our Group in December 2002 from Shandong First Paper Yantai Paper Co., Ltd., where he served as the DCS engineer for 4 years. Mr. Zhou has approximately 14 years of stock preparation and paper manufacturing experience in China. He graduated the Tianjin Institute of Light Industry with a bachelor's degree in Stock Preparation and Paper Manufacturing.

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

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

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 our Group, Mr. Chu acted as deputy general manager of Shandong Huazhong Paper Manufacturing Co., Ltd. He has approximately 26 years of related working experience. Mr. Chu is a senior economist and he graduated from Shandong College of Economics with a bachelor's diploma in Finance.

Mr. Zhong Hong Xiang, 39, has served as the Deputy General Manager of Taicang Nine Dragons in charge of project installment and technical engineering. Mr. Zhong joined our Group since 1996 and was seconded to Taicang in 2002. Mr. Zhong has over 16 years' experience in production, technology and equipment installment in the paper manufacturing industry. Prior to joining our Group, he worked for Fujian Qinshan Paper Co., Ltd. He graduated from Fujian College of Forestry with a diploma in Stock Preparation and Paper Manufacturing Technology.

Mr. Cheng Jun, 45, has served as the Deputy General Manager of Taicang Nine Dragons since April 2004 in charge of sales and marketing. Mr. Cheng joined our Group since 1998 and was seconded to Taicang in 2002. Mr. Cheng has over 21 years' experience in production technology, sales and marketing and distribution and transportation in the paper manufacturing industry. Prior to joining our 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. 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 our Group, Mr. Xia had served as a government official and therefore had 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.

Company Secretary

Ms. Cheng Wai Chu, Judy, 39, has served as the Company Secretary in charge of company secretarial matters since August 2005. Prior to joining our Group, Ms. Cheng had worked in two accounting firms, PricewaterhouseCoopers and C K Yau & Co., CPA, for an aggregate of more than three years and Hanny Holdings Limited, a Hong Kong listed company, for more than seven years. She is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Cheng holds a bachelor of laws degree from Peking University.

Audit Committee

We established an audit committee in March 2006. The primary duties of the audit committee are to review and supervise our financial reporting process. All members of the audit committee are appointed by the Board. The audit committee currently consists of all four independent non-executive directors with Dr. Cheng Chi Pang as the chairman.

The responsibilities of the audit committee includes, among others, the following:

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

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

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

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

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

- to review our financial controls, internal control and risk management systems;

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

- to review our financial and accounting policies and practices; and

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

Executive Committee

We established an executive committee in March 2006 which is responsible for the management and administration of matters that are within the ordinary course of our business. The powers of the executive committee are set out in the Company's bye-laws. The executive committee members consist of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei. The Chairlady of the executive committee is Ms. Cheung Yan.

Remuneration Committee

We established a remuneration committee in March 2006. The primary duties of the remuneration committee are to formulate the training and compensation policies and to determine and manage the compensation of the senior management of our Group. The remuneration committee currently consists of three independent non-executive directors and two executive directors, namely, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Dr. Cheng Chi Pang, Mr. Liu Ming Chung, and Mr. Zhang Cheng Fei, with Ms. Tam as chairman. The responsibilities of the remuneration committee include, among others, the following:

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

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

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

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

Risk Control Committee

We established a risk control committee in March 2006. The risk control committee consists of the Supervision Department, Finance Department and the Group Management Department. The primary duties of the risk control committee are to strengthen the control environment; assess relevant risks and carry out necessary control activities; ensure efficient information exchange; exercise appropriate supervision to ensure the effectiveness and efficiency of control over activities within and between different departments; identify risks and analyze such risks, which may impede the achievement of corporate objectives (including such risks associated with constant changes in the regulatory and operating environments); establish internal control measures for minimizing and eliminating risks; review and report to the Board in respect of the effectiveness of internal control; and maintain contact with external auditors to maintaining the quality of our Group's internal control system.

Share Option Schemes

We adopted two share option schemes pursuant to resolutions passed by our shareholders in 2006: (1) the 2006 Share Option Scheme and (2) the Pre-IPO Share Option Scheme.

2006 Share Option Scheme

Our 2006 Share Option Scheme was an incentive scheme adopted on February 12, 2006 to recognize and acknowledge the contributions that eligible participants have made to our Group. Pursuant to the 2006 Share Option Scheme, the Board may, at its discretion, offer to grant an option to any employees, executives or officers (including executive, non-executive and independent non-executive directors) of our Group and any suppliers, customers, consultants, agents and advisors who will contribute or have contributed to our 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 daily quotation sheets of The Stock Exchange of Hong Kong Limited on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share. During fiscal year 2007, a total of 124,500,000 shares were granted by the Company to our directors, Ms. Cheung Yan, Mr. Liu Ming Chung, and Mr. Zhang Cheng Fei.

Pre-IPO Share Option Scheme

We established the Pre-IPO Share Option Scheme to recognize the contribution of certain employees, executives or officers (including executive, non-executive and independent non-executive directors) of our Group to the growth of our Group. The principal terms of the Pre-IPO Share Option Scheme, which were ratified, confirmed and approved by resolutions in writing from all the shareholders on February 12, 2006, with effect from January 1, 2006, are substantially similar to 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 per share upon listing; (ii) the total number of shares subject to the Pre-IPO Share Option Scheme is 100,000,000 shares; and (iii) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so was terminated upon the listing of the shares on The Stock Exchange of Hong Kong Limited.

Compensation of Directors

The directors receive compensation in the form of salaries, housing allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf. As required by PRC regulations, we participate in various defined contribution retirement plans organized by provincial and municipal governments for our employees, to which we contributed approximately RMB8.6 million, RMB10.8 million and RMB8.1 million for the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, respectively. The aggregate fees or compensation we paid to the directors for the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007 were approximately RMB15.0 million, RMB99.6 million and RMB104.9 million, respectively. The aggregate amount of compensation we paid to our five highest paid individuals for the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007 were approximately RMB17.3 million, RMB100.0 million and RMB108.5 million, respectively.

Directors' Interests

As of March 31, 2008, the interests of our directors in the shares, underlying shares and debentures of the Company as recorded in the registered which was required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of ordinary shares	Percentage of issued share capital
Ms. Cheung Yan	Interest of Controlled Corporation, Personal and Family Interests	3,118,876,499	72.0%
Mr. Liu Ming Chung	Interest of Controlled Corporation, Personal and Family Interests	3,118,876,499	72.0%
Mr. Zhang Cheng Fei	Personal Interests	53,314,821	1.2%
Ms. Gao Jing	Personal and Family Interests	2,167,000	0.05%
Ms. Tam Wai Chu, Maria	Personal Interests	1,166,670	0.03%
Mr. Chung Shui Ming, Timpson	Personal Interests	1,033,670	0.02%
Dr. Cheng Chi Pang	Personal Interests	1,018,670	0.03%

(1) *Interests in a controlled corporation refers to shares held by Best Result, which directly held 2,990,520,000 Shares in our Company as of March 31, 2008. The issued share capital of Best Result is held as to 34.516% by Ms. Cheung as the trustee and HSBC Bank USA, National Association, as the administrative trustee of YC 2006 QuickGRAT, as to 2.557% by Ms. Cheung, as to 37.053% by Ms. Cheung and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust and as to 10.0% and 15.874% by Mr. Zhang Chang Fei through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust, respectively. Mr. Zhang Cheng Fei is the settlor of both The Zhang Family Trust and The Golden Nest Trust.*

Save as disclosed above, none of the directors or the 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 as at March 31, 2008, as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PRINCIPAL SHAREHOLDERS

As of March 31, 2008, the interests and short positions of persons, other than the directors or the chief executive of the Company in the shares and the underlying shares of the Company representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of ordinary shares[1]	Percentage of issued share capital
Best Result[2]	Beneficial Owner	2,990,520,000	69.0%
HSBC Bank USA, National Association	Trustee of YC 2006 QuickGRAT	2,990,520,000	69.0%
Bank of the West	Trustee of MCL Living Trust	2,990,520,000	69.0%

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

(2) Best Result directly held 2,990,520,000 Shares in the Company as of March 31, 2008. The issued share capital of Best Result is held as to 34.516% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association, as the administrative trustee of YC 2006 QuickGRAT, as to 2.557% by Ms. Cheung, as to 37.053% by Ms. Cheung and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust and as to 10.0% and 15.874% by Mr. Zhang Cheng Fei through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust and through BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust, respectively. Mr. Zhang Cheng Fei is the settlor of both The Zhang Family Trust and The Golden Nest Trust.

Save as disclosed above, as at March 31, 2008, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and original shareholders and, in each case, the companies with which they are affiliated. Related party transactions described in this section may not be the same as transactions that would be required to be disclosed under HKFRS.

The following table summarizes our related party transactions for the periods indicated. All sales and purchase transactions were negotiated with the related parties on normal commercial terms in the ordinary course of business:

	Year ended June 30,		Six months ended December 31,
	2006	2007	2007
	(in millions of RMB)		
Sales of goods:			
to Taicang Packaging	78.0	193.6	39.7
to Dongguan Longteng	64.8	116.1	39.6
Sales of utilities:			
to Taicang Packaging	1.4	4.6	2.8
Purchases of raw materials:			
from ACN	2,591.7	2,922.4	1,839.9
from Taicang Packaging	5.3	6.4	4.0
from Dongguan Longteng	22.0	45.7	41.0
from China Inner Mongolia Forestry Industry Co., Ltd.	86.7	108.1	41.6
Purchases of logistic services:			
from ACN	3.6	–	4.6
Acquisition of Sky Dragon (BVI)	–	–[(1)]	–

(1) We also assumed liabilities of RMB151.9 million, representing the transfer price for 659,118 square meters of land in Dongguan.

Purchases and Supply Agreements with Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業公司) ("Dongguan Longteng")

Dongguan Longteng is held as to 70% by Mr. Zhang Cheng Ming, the brother of Mr. Zhang and Ms. Cheung, who are the directors and substantial shareholders of the Company. Dongguan Longteng is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. It has been purchasing our packaging paperboard products from time to time for trading and production purposes.

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

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, the aggregate purchases of the products by Dongguan Longteng from our Group amounted to approximately RMB64.8 million, RMB116.1 million and RMB39.6 million, respectively.

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

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, the aggregate sales of the packaging materials supplied by Dongguan Longteng to our Group amounted to approximately RMB22.0 million, RMB45.7 million and RMB41.0 million, respectively.

Purchase, Sale and Supply Agreements with Taicang Packaging

Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司) ("Taicang Packaging") was established in April 2002 by Mr. Zhang Cheng Fei. Taicang Packaging is held as to 100% by Mr. Zhang Cheng Fei, a director and substantial shareholder of the Company. Taicang Packaging is principally engaged in the production of paper packaging containers and processed containerboard products. It purchases our products from time to time for production purposes.

Zhang's Enterprises Company Limited, our wholly owned subsidiary, and Taicang Packaging entered into an agreement dated February 12, 2006 (the "Taicang Purchase Agreement") which was negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The Taicang Purchase Agreement expires on June 30, 2008 and is subject to renewal. Pursuant to the Taicang Purchase Agreement, Taicang Packaging agreed to purchase packaging paperboard products manufactured by us from time to time. The sale prices of the products will be determined with reference to the prevailing market prices and will be no more favorable than those offered to other purchasers of our products.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, our aggregate purchases of products from Taicang Packaging amounted to approximately RMB78.0 million, RMB193.6 million and RMB39.7 million, respectively.

Taicang Nine Dragons, our wholly owned subsidiary, and Taicang Packaging entered into an agreement dated February 12, 2006 (the "Taicang Sale Agreement") expiring on June 30, 2008 and which was negotiated on an arm's length basis, on normal commercial terms in the parties' ordinary course of business and expiring on June 30, 2008. Pursuant to the Taicang Sale Agreement, Taicang Nine Dragons agreed to sell to Taicang Packaging electricity, steam and water from time to time. The sale prices will be determined with reference to demand from local markets in China. Taicang Packaging is held as to 100% by Mr. Zhang Cheng Fei, a director.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, the aggregate sales of the electricity and water purchased by Taicang Packaging from our Group amounted to approximately RMB1.4 million, RMB4.6 million and RMB2.8 million, respectively.

Taicang Nine Dragons and Taicang Packaging also entered into an agreement dated February 12, 2006 (the "Taicang Supply Agreement") which was negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The Taicang Supply Agreement expires on June 30, 2008. Pursuant to the Taicang Supply Agreement, Taicang Packaging agreed to supply paper scrap materials generated during its production of paper packaging containers to members of our Group as requested by them from time to time. Such paper scrap materials serve as raw materials for our production of packaging paperboard. The sale prices of the materials will be determined with reference to the prevailing prices in the scrap materials market in the PRC and will be comparable to those offered by independent suppliers.

For the three fiscal years ended June 30, 2005, 2006 and 2007 and the six months ended December 31, 2007, the aggregate sales of the scrap materials supplied by Taicang Packaging to our Group amounted to approximately RMB5.3 million, RMB6.4 million and RMB4.0 million, respectively.

Supply and Service Agreements with ACN

ACN was founded by Ms. Cheung Yan and Mr. Liu Ming Chung in 1990. We began purchasing recovered paper from ACN in 1998 and ACN has been our main source of supply of recovered paper. ACN is indirectly wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, the directors and substantial shareholders of the Company.

We and ACN entered into an agreement dated February 12, 2006 (the "ACN Supply Agreement") which was negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The ACN Supply Agreement expires on June 30, 2008 and is subject to renewal for an additional three years at our option, as well as for successive periods of three years with terms to be negotiated between the parties on a fair and reasonable basis. Pursuant to the ACN Supply Agreement, ACN agreed to supply recovered paper to members of our Group as requested by them from time to time. The sale prices of the recovered paper will be determined with reference to the prevailing prices in the recovered paper market in the PRC and the quantity of our purchases and will be no less favorable than those offered to ACN's other customers. However, pursuant to our contract with ACN, it agreed to supply recovered paper to members of our Group on a priority basis.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, the aggregate sales of recovered paper supplied by ACN to us amounted to approximately RMB2,591.7 million, RMB2,922.4 million, and RMB1,839.9 million, respectively.

To take advantage of ACN's volume shipments to China, we and ACN also entered into an agreement dated February 12, 2006 (the "ACN Service Agreement"), negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The ACN Service Agreement expires on June 30, 2008 and is subject to renewal. Pursuant to the ACN Service Agreement, ACN agreed to provide import services relating to kraft pulp for our production. The fees to be charged by ACN in relation to the kraft pulp imported are charged at the rate of US$5.00 per tonne, which have been included in the total amounts billed by ACN to our Group and presented as purchases of kraft pulp from ACN in Note 31 of the consolidated financial statements included elsewhere in this offering memorandum for the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007. We believe that the rate of such service fees charged by ACN is comparable to those charged by independent third parties.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, our Group incurred approximately RMB3.6 million, nil, and RMB4.6 million, respectively, relating to such services provided by ACN.

Supply Agreement with China Inner Mongolia Forestry Industry Co., Ltd.

China Inner Mongolia Forestry Industry Co., Ltd. is a state-owned company established in December 1994 and is directly operated under the supervision of the State-owned Assets Supervision and Administration Commission of Inner Mongolia Autonomous Region People's Government (the "Commission"). The Commission is an asset management and administration body established by, and operated under the control and supervision of, Inner Mongolia Autonomous Region People's Government. China Inner Mongolia Forestry Industry Co., Ltd. owns and manages extensive holdings of softwood forests in Inner Mongolia and our Group, through ND Xing An, has been purchasing wood logs and wood chips from China Inner Mongolia Forestry Industry Co., Ltd. as raw materials for its production of unbleached kraft pulp. ND Xing An and China Inner Mongolia Forestry Industry Co., Ltd. entered into the Forestry Supply Agreement, which was negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The Forestry Supply Agreement expires on June 30, 2008. We expect to renew this agreement on the date of its expiration. Under the terms of the Forestry Supply Agreement, China Inner Mongolia Forestry Industry Co., Ltd. agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of our Group as requested by them from time to time. The sale prices of the materials will be determined with reference to prevailing market prices. China Inner Mongolia Forestry Industry Co., Ltd. is a substantial shareholder of ND Xing An, our 55%-owned joint venture subsidiary.

For the fiscal years ended June 30, 2006 and 2007 and the six months ended December 31, 2007, ND Xing An source wood logs and wood chips from China Inner Mongolia Forestry Industry Co., Ltd. which amounted to approximately RMB86.7 million, RMB108.1 million and RMB41.6 million, respectively.

Acquisition of Sky Dragon (BVI)

On May 18, 2007, Sky Dragon Paper Industries (HK) Co., Ltd., an indirect wholly owned subsidiary of the Company, entered into an acquisition agreement with Mr. Zhang Cheng Fei, a director and substantial shareholder of our Company, to acquire the entire issued share capital of Sky Dragon Paper Industries Co., Ltd. ("Sky Dragon (BVI)"), which indirectly holds the parcel of land of approximately 659,118 sq.m. in Dongguan ("Dongguan Land") for a cash consideration of RMB1.00 (the "Purchase"). Sky Dragon (BVI) is an investment holding company and its principal investment is its 100% equity interest in Dongguan Sky Dragon Paper Industries Co., Ltd. (東莞天龍紙業有限公司) ("Dongguan Sky Dragon"). Dongguan Sky Dragon does not engage in the manufacture of paper, but holds certain land use rights for the development of future paper manufacturing facilities. After completion of the Purchase, our Group assumed the net outstanding obligation of RMB151,928,060 representing the transfer price of the Dongguan Land, other relevant fees payable to the government authorities for obtaining the title of the Dongguan Land and the loans borrowed by Dongguan Sky Dragon for acquisition of the Dongguan Land.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing projects and to finance our working capital requirements, we and our subsidiaries have entered into loan agreements with various financial institutions. We set forth below a summary of the material terms and conditions of certain of these loans and other indebtedness.

Syndicated Term Loans

On September 19, 2006, ND Finance Limited, our indirect, wholly owned subsidiary, entered into a term facility agreement as borrower in connection with a US$350.0 million unsecured loan facility with a syndicate of 15 international and domestic banks and financial institutions led by Bank of China (Hong Kong) Limited as agent. The loan facility bears an interest rate of LIBOR (London Interbank Offered Rate) plus 55 basis points. The loan facility is guaranteed by the Company, Nine Dragons Paper (BVI) Group Limited, Zhang's Enterprises Company Limited, Nine Dragons Paper Industries Co., Ltd., Millennium Scope Limited, River Dragon Paper Industries Co., Ltd. and Emperor Dragon Paper Industries Co., Ltd, each of which are our wholly owned subsidiaries, and was used by our Group to meet future capital expenditure and working capital requirements. As of December 31, 2007, we had borrowed US$350.0 million principal amount under this term facility agreement.

Interest

Under this term facility agreement, we may select an interest period by giving written notice to the agent no later than five business days prior to the commencement of that interest period. We may select an interest period of one, two, three or, subject to availability to all lenders, six months. If we fail to give notice of our selection with respect to an interest period, the duration of that interest period shall be one month. This term facility agreement bears interest at the LIBOR rate in effect for each interest period plus 0.55% per annum. Interest is payable on the last day of each interest period. Following the occurrence and during the continuance of an event of default, the rate of interest for an interest period equals the LIBOR rate for such interest period plus 2%.

Maturity and Prepayment

This term facility agreement is due on September 18, 2010. We have the right to prepay all or part of the outstanding balance of the loan on the last day of any interest period relating to such loan, upon not less than 30 business days' prior written notice to the agent.

Covenants

Pursuant to this term facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth (or its equivalent in RMB) shall not be less than RMB6.0 billion as at the end of each period of 12 months and six months ending on the last day of each financial year of the Company (a "Relevant Period");
- our ratio of consolidated total liabilities to consolidated tangible net worth shall not exceed 1.5:1 as at the end of each Relevant Period;
- our ratio of consolidated total borrowings to consolidated EBITDA (as defined in the agreement) in respect of each Relevant Period shall not exceed 5:1;
- our ratio of consolidated total bank borrowings (as at the end of any Relevant Period) to consolidated tangible net worth shall not exceed 1.3:1 as at the end of each Relevant Period;
- our ratio of consolidated EBIT (as defined in the agreement) to consolidated interest expenses in respect of any Relevant Period shall not be less than 4:1; and

- our ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1 as at the end of each Relevant Period.

We have further agreed, among others, not to:

- create or permit to subsist any security over any of our assets; or
- in circumstances where any arrangement or transaction described below is entered into primarily as a method of raising financial indebtedness or of financing the acquisition of an asset,
  - — sell, transfer or otherwise dispose of any of our assets on terms whereby they are or may be leased to or re-acquired by us, the guarantors or any member of our Group;
  - — sell, transfer or otherwise dispose of any of our receivables on recourse terms;
  - — enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
  - — enter into any other preferential arrangement having a similar effect.

Events of Default

This term facility agreement contains certain customary events of default, the occurrence of which would allow the majority lenders through this agent, by notice to us, to:

- cancel the total commitments whereupon the total commitments and each of the commitments of the lenders shall immediately be cancelled and reduced to zero;
- declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the term facility agreement, fee letter or other relevant document be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- declare that all or any part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the agent on the instructions of the majority lenders.

On June 18, 2007, Nine Dragons Machinery Supplies Limited, our indirect, wholly owned subsidiary, entered into a term facility agreement as borrower in connection with a five-year HK$2.3 billion unsecured loan facility with a syndicate of 16 banks led by Bank of China (Hong Kong) Limited as agent. This syndicated loan bears an interest rate of HIBOR plus 45 basis points. The loan is guaranteed by the Company, Nine Dragons Paper (BVI) Group Limited, Zhang's Enterprises Company Limited, Nine Dragons Paper Industries Co., Ltd., Millennium Scope Limited, River Dragon Paper Industries Co., Ltd., Emperor Dragon Paper Industries Co., Ltd., NDP Worldwide Investment Limited and Nine Dragons Worldwide Investment Limited as before. The proceeds of this syndicated loan will be used to finance the future capital expenditures of us and the eight guarantor subsidiaries. As of December 31, 2007, we had borrowed HK$941.8 million principal amount under this term facility agreement.

Interest

Under this term facility agreement, we may select an interest period by giving written notice to the agent no later than five business days prior to the commencement of that interest period. We may select an interest period of one, two, three or, subject to availability to all lenders, six months. If we fail to give notice of our selection with respect to an interest period, the duration of that interest period shall be one month. This term facility agreement bears interest at the HIBOR rate in effect for each interest period plus 0.45% per annum. Interest is payable on the last day of each interest period. Following the occurrence and during the continuance of an event of default, the rate of interest for an interest period equals the HIBOR rate for such interest period plus 2%.

Maturity and Prepayment

This term facility agreement is due on June 17, 2012. We have the right to prepay all or part of the outstanding balance of the loan on the last day of any interest period relating to such loan, upon not less than 30 business days' prior written notice to the agent.

Covenants

Pursuant to this term facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth (or its equivalent in RMB) shall not be less than RMB 6.0 billion as at the end of each Relevant Period;
- our ratio of consolidated total liabilities to consolidated tangible net worth shall not exceed 1.5:1 as at the end of each Relevant Period;
- our ratio of consolidated total borrowings to consolidated EBITDA (as defined in the agreement) in respect of each Relevant Period shall not exceed 5:1;
- our ratio of consolidated total bank borrowings (as at the end of any Relevant Period) to consolidated tangible net worth shall not exceed 1.3:1 as at the end of such Relevant Period;
- our ratio of consolidated EBIT (as defined in the agreement) to consolidated interest expenses in respect of any Relevant Period shall not be less than 4:1; and
- our ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1 as at the end of each Relevant Period.

We have further agreed, among others, not to:

- create or permit to subsist any security over any of our assets; or
- in circumstances where any arrangement or transaction described below is entered into primarily as a method of raising financial indebtedness or of financing the acquisition of an asset,
  - — sell, transfer or otherwise dispose of any of our assets on terms whereby they are or may be leased to or re-acquired by us, the guarantors or any member of our Group;
  - — sell, transfer or otherwise dispose of any of its receivables on recourse terms;
  - — enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
  - — enter into any other preferential arrangement having a similar effect.

Events of Default

The term facility agreement contains certain customary events of default, the occurrence of which would allow the majority lenders through the agent, by notice to us, to:

- cancel the total commitments whereupon the total commitments and each of the commitments of the lenders shall immediately be cancelled and reduced to zero;

- declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the term facility agreement, fee letter or other relevant document be immediately due and payable, whereupon they shall become immediately due and payable; and/or

- declare that all or any part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the agent on the instructions of the majority lenders.

First and Second Phase RMB Short-Term Financing Bills

We issued two phases of short-term financing bills through our subsidiary, Dongguan Nine Dragons, at a fixed rate in the total principal amount of RMB800.0 million to fund our working capital, optimize our financing structure and reduce our financing costs. The first phase financing bills ("First Phase RMB Short-term Financing Bills") were issued on September 18, 2007 and have a face value of RMB400.0 million and bear a fixed interest rate of 5.25% per annum. We issued the second phase financing bills ("Second Phase RMB Short-term Financing Bills") on October 23, 2007. The Second Phase RMB Short-term Financing Bills have a face value of RMB400.0 million and bear a fixed interest rate of 5.9% per annum.

The First Phase RMB Short-term Financing Bills mature on September 18, 2008 and the Second Phase RMB Short-term Financing Bills will mature on October 23, 2008. The principal and interest will be repaid on the maturity date.

The First and Second Phase RMB Short-term Financing Bills are not secured by any specific assets or guaranteed by other parties and rank pari passu with our other unsecured debt. We received an "AA-" credit ranking from China Chengxin International Credit Rating Co., Ltd., or "CCXI," and our First and Second Short-term Financing Bills received an "A-1" credit ranking from CCXI. CCXI is a credit-rating institution approved by the People's Bank of China and the Ministry of Finance of the People's Republic of China, and is a member of the Moody's Investors Service, Inc.

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, primarily the Bank of China, the China Merchants Bank, the Agricultural Bank of China and the Bank of Communications. These loans are typically project loans to finance expansion or improvement projects at our production bases (the "project loans") and have terms ranging from less than one to five years, which generally correspond to expansions or improvements at our Dongguan, Taicang and Chongqing bases.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating interest rates generally are subject to review by the banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2007, the weighted average interest rate on the aggregate outstanding amount of our project loans was 5.95% per annum.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations or change the company's status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect; and
- transfer of part or all of the liabilities under the loans to a third party.

Dividend Restriction and Subordination

Pursuant to the project loans with the Bank of China, each of our PRC subsidiaries, namely Dongguan Nine Dragons, Dongguan Sea Dragon, Dongguan Land Dragon, Nine Dragons Paper (Taicang) Limited and Taicang Sea Dragon has also agreed that (i) any of their shareholder loans will be subordinated to the relevant loans with the Bank of China and (ii) they will not distribute any dividends if:

- its after-tax net income in a given year is zero or negative;
- its after-tax net income is not sufficient to offset the cumulative losses from the past year; or
- its pre-tax income has not been used to pay the principal, interest and expenses due in that year under the project loans, or its pre-tax income is not sufficient to pay the principal, interest and expenses due in the next payment period.

Guarantee

Certain of our PRC subsidiaries and associates have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries and associates have guaranteed all liabilities of the subsidiary borrowers under these project loans.

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers only to Nine Dragons Paper (Holdings) Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each subsidiary of the Company which guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and HSBC Bank USA, National Association, as trustee (the "Trustee").

The following is a summary of certain material provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 452 Fifth Avenue, New York, NY 10018.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees"; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Notes will mature on April 29, 2013, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Notes will bear interest at the applicable rate per annum set forth on the cover page of this offering memorandum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on April 29 and October 29 of each year, commencing October 29, 2008 (each an "Interest Payment Date").

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued.

Interest will be paid to Note holders ("Holders") of record at the close of business on April 14 or October 14 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee, currently located at 452 Fifth Avenue, New York, NY 10018, and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided that*, at the option of the Company, payment of interest may be made by check mailed at the expense of the Company to the address of the Holders as such address appears in the Note register.

Other than as provided below under "— Optional Redemption" and "— Redemption for Taxation Reasons," the Notes are not redeemable at the option of the Company prior to maturity.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Subsidiaries other than the Non-Guarantor Subsidiaries (defined below). Certain of the Subsidiary Guarantors are holding companies that do not have significant operations. The following Subsidiaries will not be Subsidiary Guarantors on the Original Issue Date: all Subsidiaries organized under the laws of the PRC (the "PRC Non-Guarantor Subsidiaries"), Nine Dragons Resources Limited, Strong Dragon Co., Ltd., Wise Hill International Limited, Maxell Industries Limited, Vianni Investments Trading Ltd. and Dalson International Limited (together with the PRC Non-Guarantor Subsidiaries, the "Non-Guarantor Subsidiaries").

None of the existing PRC Non-Guarantor Subsidiaries will at any time in the future provide a Subsidiary Guarantee. Moreover, no future Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

As of December 31, 2007,

- the Company and its consolidated subsidiaries had total consolidated borrowings of approximately RMB8,978.0 million (US$1,230.8 million), including short-term bank borrowings of RMB1,418.2 million (US$194.4 million);

- the Company and the Subsidiary Guarantors had no secured indebtedness outstanding; and

- the Non-Guarantor Subsidiaries had total liabilities (excluding intercompany liabilities) of approximately RMB8,049.6 million (US$1,103.5 million).

In addition, as of December 31, 2007, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of approximately RMB15,683.5 million (US$2,150.0 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Company will cause each of its future Subsidiaries (other than Persons organized under the laws of the PRC) immediately upon becoming a Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Subsidiary will guarantee the payment of the Notes. Each Subsidiary that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and upon execution of the applicable supplemental indenture to the Indenture will be a "Subsidiary Guarantor."

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "— Defeasance — Defeasance and Discharge"; or

- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenant under the caption "— Consolidation, Merger and Sale of Assets").

In addition, upon the release of River Dragon Paper Industries Co., Ltd. and Nine Dragons Paper Industries Co., Ltd. as guarantors under the Syndicated Loans, each of them shall be entitled to be released from their Subsidiary Guarantees, provided that it is not a guarantor of any Relevant Indebtedness at the time of such release.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officer's Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that Additional Notes must (i) be issued in a "qualified reopening" as defined for U.S. federal income tax purposes or (ii) must not be issued with more than a *de minimis* amount of original issue discount.

Optional Redemption

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. The Company will give not less than 30 days' nor more than 60 days' notice of any redemption.

Repurchase of Notes upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company's and the Subsidiary Guarantor's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Issuer. Although there is a limited body of case law interpreting the phrase "substantially all," no precise definition of the phrase has been established. Accordingly, the ability of a Holder to require the Issuer to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Issuer to another person or group is uncertain and will be dependent upon particular facts and circumstances.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

   (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

      (i) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

      (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

      (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(c) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or

(d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or

(2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations, rulings or implementation rules promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations, rulings or implementation rules (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes, the Subsidiary Guarantee or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Company or a Surviving Person may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Company or a Surviving Person being considered as a PRC tax resident under the EIT Law.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Interest Rate Step-up upon Ratings Downgrade

The Indenture provides that the interest rate payable on the Notes will be subject to adjustment from time to time if any of the two Rating Agencies downgrades (or subsequently upgrades) its rating assigned to the Notes, as set forth below.

If the rating of the Notes from any one or both of the Rating Agencies is decreased to a rating set forth in any of the immediately following table, the interest rate on the Notes will increase from the interest rate otherwise payable on the Notes by an amount equal to the percentages set forth in the following table opposite the ratings:

Rating	Percentage
BB+ or BB[(1)]	1.00%
BB- or below[(1)]	2.00%

(1) includes the equivalent of any such category used by another Rating Agency.

For purposes of making adjustments to the interest rate payable on the Notes, the following rules of interpretation will apply:

(1) interest rate adjustments shall be determined only on a decrease or increase in the lower rating of the two ratings of the Notes provided by the Rating Agencies (the "Lower Rating"). The Lower Rating shall be used for determining the percentages set forth in the table above, which will increase or decrease the interest rate otherwise payable on the Notes;

(2) if less than two Rating Agencies make a rating of the Notes publicly available for any reason for more than 30 days and while such condition continues, the interest rate on the Notes will increase to, or remain at, as the case may be, 2.00% above the interest rate otherwise payable on the Notes prior to any adjustment; and

(3) in no event will the interest rate on the Notes be reduced to below the interest rate otherwise payable on the Notes prior to any adjustment.

If at any time the interest rate on the Notes has been adjusted upward and, subsequently, the Lower Rating increases, the interest rate on the Notes will again be adjusted (and decreased, if appropriate) such that the interest rate on the Notes equals the interest rate otherwise payable on the Notes prior to any adjustment plus (if applicable) an amount equal to the percentages set forth opposite the Lower Rating in the table above with respect to the ratings assigned to the Notes (or deemed assigned) at that time, all calculated in accordance with the rules of interpretation set forth above.

Any interest rate increase or decrease described above will take effect from the first day of the interest period during which the Lower Rating change occurs requiring an adjustment in the interest rate. If the Lower Rating is changed more than once during any particular interest period, the last such change to occur will control in the event of a conflict.

For this "Interest Rate Step-up upon Ratings Downgrade" provision only:

"Rating Agencies" mean both S&P and Fitch, *provided* that if either S&P or Fitch, but not both, shall not make a rating of the Notes publicly available due to abandonment or suspension of rating services business, commencement of bankruptcy proceeding or other disruption in general business, Moody's shall be substituted for S&P or Fitch, as the case may be; and

"Rating Agency" means each of the Rating Agencies.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Negative Pledge

So long as any of the Notes remain outstanding, the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever upon the whole or any part of its assets or properties of any kind whether owned at the Original Issue Date or thereafter acquired, to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness, or any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Notes are equally and ratably secured by such Lien.

Limitation on Issuances of Guarantees by Subsidiaries

So long as any of the Notes remain outstanding, the Company will not permit any Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Relevant Indebtedness ("Guaranteed Indebtedness") unless (a) such Subsidiary, at the same time or prior thereto executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Subsidiary and (b) such Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Subsidiary as a result of any payment by such Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Provision of Financial Statements and Reports

So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; provided that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

Further, the Company and each Subsidiary Guarantor have agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture with respect to the Notes:

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) the Company or any Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1) or (2) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(4) there occurs with respect to any Indebtedness of the Company or any Subsidiary having an outstanding principal amount of US$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;

(5) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$15.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(6) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(7) the Company or any Significant Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors; or

(8) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (6) or (7) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (6) or (7) above occurs with respect to the Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if with respect to the Notes:

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default with respect to the Notes occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

With respect to the Notes, no Holder may institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Bermuda, the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) the Company delivers to the Trustee (x) an Officers' Certificate and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(4) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture;

(5) immediately after giving effect to such transaction, the Surviving Person shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction; and

(6) certain other conditions are met.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) the Company delivers to the Trustee (x) an Officers' Certificate and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(4) certain other conditions are met.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such other Subsidiary Guarantor survives such consolidation or merger.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(1) the Company (a) has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

(2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

(3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound.

In the case of either discharge or defeasance with respect to the Notes, the Subsidiary Guarantees with respect thereto will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture with respect to the Notes will no longer be in effect with respect to the Company's obligations described under "— Repurchase of Notes Upon a Change of Control Triggering Event," any adjustment to the interest rate payable on the Notes described under "— Interest Rate Step-up Upon Ratings Downgrade," all the covenants described herein under "— Certain Covenants — Limitation on Liens" and "— Certain Covenants — Limitation on Issuances of Guarantees by Subsidiaries," and clause (3) under "Events of Default" with respect to such other covenants, and clauses (4) and (5) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder, to:

(1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;

(2) comply with the provisions described under "— Consolidation, Merger and Sale of Assets";

(3) evidence and provide for the acceptance of appointment by a successor Trustee;

(4) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(6) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(7) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;

(8) conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision in this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbation recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees; or

(9) make any other change that does not adversely affect the rights of any Holder.

Amendments With Consent of Holders

With respect to the Notes, amendments of the Indenture may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided, however, that* no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(10) reduce the amount payable upon a Change of Control Offer, change the time or manner by which a Change of Control Offer may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer;

(11) consent to the assignment or transfer by the Company or any Subsidiary Guarantor of any of their rights or obligations under the Indenture or the Subsidiary Guarantees, except as permitted pursuant to the provisions described under "Consolidations, Merger and Sale of Assets";

(12) change the redemption date or the redemption price of the Notes from that stated under the captions "— Optional Redemption" or "— Redemption for Taxation Reasons";

(13) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(14) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Paying Agent

HSBC Bank USA, National Association, has been appointed as Trustee under the Indenture and as registrar and paying agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Company will indemnify the Trustee with respect to certain matters relating to the Indenture.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however, that* if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Guarantors, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading “Transfer Restrictions.”

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under “Transfer Restrictions,” in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under “Transfer Restrictions,” in accordance with the DTC’s rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with HSBC Bank USA, National Association, as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;

(2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See "— Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of the Company, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; or (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of the Note on April 29, 2013, plus all required remaining scheduled interest payments due on such Note through April 29, 2013 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in the equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Change of Control" means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;

(2) the Company consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of the Company outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person immediately after giving effect to such transaction;

(3) the Permitted Holders are collectively the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Company;

(4) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(5) the first day on which the majority of the members of the board of directors of the Company cease to be Continuing Directors; or

(6) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Change of Control Triggering Event" means the Notes cease to be rated Investment Grade by any of the two Rating Agencies on any date during the period (the "Trigger Period") commencing 60 days prior to the first public announcement by the Company of any Change of Control (or pending Change of Control) and ending 60 days following consummation of such Change of Control (which Trigger Period will be extended following consummation of a Change of Control for so long as any of the Rating Agencies has publicly announced that it is considering a possible ratings change). Unless both of the Rating Agencies are providing a rating for the Notes at the commencement of any Trigger

Period, the Notes will be deemed to have ceased to be rated Investment Grade by any of the two Rating Agencies during that Trigger Period. Notwithstanding the foregoing, no Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

"Clearstream" means Clearstream Banking, *société anonyme*, Luxembourg.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated Net Worth" means, with respect to any Person as of any date, the consolidated stockholders' equity of that Person and its Consolidated Subsidiaries.

"Consolidated Subsidiary" means, with respect to any Person, at any date, any Subsidiary the accounts of which would be consolidated with those of that Person in its consolidated financial statements in accordance with GAAP if those statements were prepared as of that date.

"Continuing Director" means, as of any date of determination, any member of the board of directors of the Company who:

(1) was a member of such board of directors on the date of the Indenture; or

(2) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"DTC" means The Depository Trust Company and its successors.

"Euroclear" means Euroclear Bank S.A./N.V.

"Fitch" means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"GAAP" means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided that* the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments; and

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except trade payables.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided that* the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP.

"Investment Grade" means a rating of BBB- or better by S&P (or its equivalent under any successor rating category of S&P); a rating of BBB- or better by Fitch (or its equivalent under any successor rating category of Fitch); and the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Fitch, as the case may be.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Moody's" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

(1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US$100,000 or integral multiples of US$1,000.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US$100,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Permitted Holders" means any or all of the following:

(1) Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Lau Chun Shun or Mr. Zhang Cheng Fei;

(2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of a Person specified in clause (1); and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by Persons specified in clauses (1) and (2).

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agency" means each of S&P and Fitch; *provided*, that if any of S&P and Fitch ceases to provide rating services to issuers or investors, the Company may appoint a replacement for such Rating Agency that is reasonably acceptable to the Trustee under the Indenture.

"Rating Category" means (1) with respect to S&P, any of the following categories: "AAA," "AA," "A," "BBB," "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Fitch, any of the following categories: "AAA," "AA," "A," "BBB," "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P and Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "B-" to "B+," will constitute a decrease of one gradation).

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Relevant Indebtedness" means any present or future Indebtedness in the form of, or represented by, notes, bond, debentures, debenture stock, loan stock, certificates or other securities which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than

Renminbi or (ii) are denominated or payable in Renminbi and more than 50% of the aggregate principal amount thereof is initially distributed outside the PRC by the Company or any of its Subsidiaries or with the authorization of any of them and (b) are or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"Significant Subsidiary" means a Subsidiary which meets the tests ascribed to such term in Regulation S-X promulgated by U.S. Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended, or any group of Subsidiaries that, taken together, meets such test.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subsidiary" means any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company and one or more other Subsidiaries of the Company and, when used with respect to any other Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Subsidiary Guarantee" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means any initial Subsidiary Guarantor named herein and any other Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided that* "Subsidiary Guarantor" will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Syndicated Loans" means the US$350.0 million term facility agreement dated September 19, 2006 between and among ND Finance Limited as borrower, Bank of China (Hong Kong) Limited as agent and the other banks named therein as lenders and the HK$2.3 billion term facility agreement dated June 18, 2007 between and among Nine Dragons Machinery Supplies Limited as borrower, Bank of China (Hong Kong) Limited as agent and the other banks named therein therein as lenders.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided that* (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

TAXATION

The following summary of certain Bermuda, British Virgin Islands, Hong Kong, PRC and United States federal tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

Bermuda

At the date hereof, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or its members, other than members ordinarily resident in Bermuda. Further, no such tax is imposed by withholding or otherwise on any payment to be made to or made by the Company.

An assurance has been received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 to the effect that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28th March, 2016 be applicable to the Company or to any of its operations or to the shares, debentures or other obligations of the Company except in so far as such tax applies to persons ordinarily resident in Bermuda and holding such shares, debentures or other obligations of the Company or to any land leased or let to the Company.

British Virgin Islands

There is no income or other tax of the British Virgin Islands, imposed by withholding or otherwise, on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Macau

Payments of principal or interest in respect of the Notes and payments to be made by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees are not subject to any withholding under applicable Macau tax laws.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes or any payment to be made by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Although Hong Kong profits tax is not charged on capital gains, Hong Kong profits tax may be charged on trading gains arising from a trade, profession or business carried on in Hong Kong, if those trading gains arise in, or derived from, Hong Kong. Under current practice of the Hong Kong Inland Revenue Department, any profits arising from the sale, disposal or redemption of the Notes should not be treated as arising in, or derived from, Hong Kong, if the Notes are traded on a stock exchange outside Hong Kong.

Under current practice of the Inland Revenue Department, interest on the Notes should not be treated as arising in, or derived from, Hong Kong. Therefore, the receipt of interest on the Notes by a person other than a financial institution should not be subject to Hong Kong profits tax. However, interest arising outside Hong Kong which is received by, or accrued to, a financial institution through or from the carrying on of its business in Hong Kong is subject to Hong Kong profits tax.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

PRC

Under the EIT Law and the Implementation Rules that both took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax purposes. The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

We hold our shareholders' meetings and board meetings outside China and keep our shareholders' list outside China. Most of our directors are also based outside China. However, most of our senior management are currently based inside China and we keep our books of account inside China. The above elements may be relevant for the tax authorities to determine whether we are PRC resident enterprises for tax purposes. However, there is no clear standard published by the tax authority for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we intend to take the position that we are not PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will respect our position. Our PRC counsel, Jun He Law Offices, has advised us that if we are deemed to be a PRC resident enterprise for EIT purposes, among other things, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. Furthermore, we would be obligated to withhold PRC income tax of up to 7% on payments of interest and certain other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest and other amounts would be regarded as being derived from sources within the PRC. In addition, if we fail to do so, we may be subject to fines and other penalties. Similarly, any gain realized by such non-resident enterprise investor from the transfer of the Notes would be regarded as being derived from sources within the PRC and accordingly would be subject to a 10% PRC withholding tax.

U.S. Federal Income Taxation

Circular 230

ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES SET FORTH IN THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE COMPANY AND THE INITIAL PURCHASER OF THE NOTES. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion is based on the U.S. Internal Revenue Code, current and proposed U.S. Treasury regulations, rulings and judicial decisions thereunder as of the date hereof. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. The discussion is not a complete description of all the tax considerations that may be relevant to a particular holder. The discussion addresses only initial purchasers of the Notes that are U.S. Holders, that hold the Notes as capital assets, that purchase the Notes at their "issue price," which will be the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and that have the U.S. dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as holders of 10% or more of our voting stock, banks, insurance companies, investors liable for the alternative minimum tax, beneficial owners of individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, traders that elect mark-to-market treatment, or investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal tax purposes.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

U.S. Holders

As used here, "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes:

(i) an individual who is a citizen or resident of the United States;

(ii) a corporation (or other business entity treated as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia;

(iii) an estate the income of which is subject to U.S. federal income tax without regard to its source; or

(iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable United States Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A U.S. Holder that is a partner of a partnership holding the Notes is urged to consult its own tax advisor.

Taxation of Interest and Additional Amounts

This discussion assumes that the Notes will not be issued with more than a de minimis amount of original issue discount. The gross amount of interest (including Additional Amounts, if any) received by a U.S. Holder with respect to the Notes will be includible in taxable income as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of tax accounting. In the event we are required to withhold PRC income tax on interest paid to a U.S. Holder with respect to the Notes under the newly enacted PRC tax law (see "Taxation – PRC"), you will be required to include the gross amount of the interest payment (including the amount of PRC tax withheld) in your gross income. As a result, a U.S. Holder would be required to include a greater amount in income than the actual cash it receives. Subject to generally applicable limitations, you may claim a deduction or a foreign tax credit for PRC tax withheld at the appropriate rate. For U.S. foreign tax credit purposes, interest income on a Note will constitute income from sources outside the United States and will generally be treated as "passive category income" or, in certain cases, "general category income," for purposes of computing any foreign tax credit allowable under U.S. federal income tax laws. The rules governing foreign tax credits are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Additional Interest Payments

We may be required to pay additional interest on the Notes if there is a downgrade to the credit ratings assigned to the Notes by S&P, Fitch or any substitute Rating Agency, as described in "Description of the Notes – Interest Rate Step-up upon Ratings Downgrade." Although the issue is not free from doubt, we intend to take the position that the possibility of payments of additional interest does not result in the Notes being treated as contingent payment debt instruments under applicable Treasury regulations. Therefore, if we become obligated to pay additional interest, we intend to take the position that such amounts would be treated as ordinary interest income and taxed as described above under "– Taxation of Interest and Additional Amounts." This position is based in part on our determination that as of the date of issuance of the Notes, the possibility that such additional interest payments will be made is a "remote" contingency, within the meaning of applicable Treasury regulations. Our position, however, is not binding on the U.S. Internal Revenue Service or a court. If the U.S. Internal Revenue Service were to take a contrary position from that described above and such position were upheld by a court, a U.S. Holder may be required to accrue interest income based upon a "comparable yield" for us, regardless of the U.S. Holder's method of accounting. Such yield may be higher than the stated coupon on the Notes. In addition, in such a case, any gain on the sale, exchange, retirement or other taxable disposition of the Notes would be recharacterized as ordinary income. U.S. Holders should consult their tax advisors regarding the tax consequences of the Notes being treated as contingent payment debt instruments. The remainder of this discussion assumes that the Notes are not treated as contingent payment debt instruments.

Taxation of the Sale, Exchange, Redemption or Retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any amounts attributable to accrued and unpaid interest which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. Gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Under current law, long-term capital gain recognized by certain non- corporate U.S. Holders generally is subject to taxation at a maximum rate of 15% for taxable years beginning on or before December 31, 2010, after which the maximum rate on long-term capital gain is currently scheduled to increase to 20%. The deductibility of capital losses is subject to certain limitations. Gain or loss realized by a U.S. Holder on the sale, exchange, redemption or retirement of a Note generally will be treated as U.S.-source gain or loss for foreign tax credit purposes. A U.S. Holder's initial tax basis in a Note generally will equal the price the U.S. Holder paid for the Note.

If we are deemed to be a resident of the PRC under the U.S.-PRC Avoidance of Double Taxation Treaty, such gain would be treated as arising from sources within China. You are urged to consult your tax advisors regarding the tax consequences if PRC withholding tax is imposed on the disposition of shares, including the availability of the foreign tax credit under your particular circumstances.

Information Reporting and Backup Withholding

Interest on the Notes (including Additional Amounts, if any) and payments of the proceeds of a sale of Notes that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and backup withholding unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information in a timely manner.

PLAN OF DISTRIBUTION

We intend to offer the Notes through the Initial Purchaser. Subject to the terms and conditions contained in a purchase agreement dated April 22, 2008 (the "Purchase Agreement") by and among the Initial Purchaser, us and the Subsidiary Guarantors, we have agreed to sell to the Initial Purchaser and the Initial Purchaser has agreed to purchase from us, US$300,000,000 principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Initial Purchaser to purchase the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. The Initial Purchaser must Purchase all of the Notes if they purchase any of the Notes.

We have been advised that the Initial Purchaser proposes to resell the Notes at the issue price set forth on the cover page of this offering memorandum. The price at which the Notes are offered and other selling terms may be changed from time to time without notice by the Initial Purchaser. The Initial Purchaser may offer the Notes in various jurisdictions through certain of its affiliates.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the Initial Purchaser may be required to make in respect thereof.

We have agreed, with exceptions, not to sell or transfer any debt securities for 90 days after the date of this offering memorandum without obtaining the prior written consent of the Initial Purchaser, which consent shall not be unreasonably withheld. Specifically, we have agreed not to directly or indirectly issue, sell, offer, or agree to sell, grant any option for the sale of or otherwise dispose of, any other debt securities of the Company that are convertible into, or exchangeable for, the Notes or such other debt securities.

Delivery of the Notes is expected on or about April 29, 2008, which will be the fifth business day following the date of pricing of the Notes. Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the third business day from the settlement date will be required by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Such purchasers of Notes should consult their own advisor.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchaser that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering circular or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering circular nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Initial Purchaser, through its affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to qualified institutional buyers in the United States pursuant to Rule 144A. The Initial Purchaser has agreed that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act. Terms used in this paragraph have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under "Transfer Restrictions."

PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

Hong Kong

The Notes have not been and may not be offered or sold in Hong Kong, by means of any document, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. The Initial Purchaser has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

Singapore

The Initial Purchaser has acknowledged that this offering memorandum or any other material distributed by it relating to the Notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and that the Notes will be offered in Singapore pursuant to exemptions under Section 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Initial Purchaser has represented and agreed that they have not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor under the SFA; or

(b) a trust (where the trustee is not an accredited investor under the SFA) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor under the SFA,

the shares, debentures or units of shares and debentures of that corporation, or the beneficiaries' rights and interest in that trust, as the case may be, shall not be transferable for six months after that corporation or that trust has so acquired the Notes unless:

(1) the transfer is to an institutional investor under Section 274 of the SFA, or to a relevant person or to any person under Section 2750) and Section 275(1A) of the SFA respectively, and in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and the Initial Purchaser has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by the Initial Purchaser in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 210) of the FSMA does not apply to the Initial Purchaser. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchaser in relation to any Notes in, from or otherwise involving the United Kingdom.

European Economic Area

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

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

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the manager for any such offer; or

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

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

Bermuda

The Initial Purchaser has agreed that it has not made and will not make on behalf of us any invitation directly or indirectly to the public in Bermuda to subscribe for any of the Notes.

New Issue of Notes

The Notes will constitute a new class of securities with no established trading market. Approval in-principle has been received from the Singapore Stock Exchange for the listing and quotation of the Notes. The Notes are eligible for trading in The PORTAL Market. The Initial Purchaser has advised us that they currently intend to make a market in the Notes as permitted by applicable law. However, they are not obligated to do so and any market-making activities with respect to the Notes may be discontinued at any time without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Notes.

Price Stabilization and Short Positions

The Initial Purchaser may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchaser to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor the Initial Purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchaser makes any representation that the Initial Purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

From time to time, in the ordinary course of business, the Initial Purchaser and its affiliates have provided advisory and investment banking services, and entered into other commercial transactions with us and our affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Initial Purchaser and its affiliates will continue to provide such services to, and enter into such transactions, with us and our affiliates in the future. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchaser, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or deliver within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (1) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) ("QIBs") in compliance with Rule 144A, and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a purchaser that is outside the United States;

2. acknowledge that the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(k) under the Securities Act with respect to such transfer, it will do so only: (a) if such purchaser is an initial investor, (i) to the Company or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule l44A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (b) if such purchaser is a subsequent investor of an interest in the Restricted Global Note, as set forth in (a) above and, in addition, pursuant to any other available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in (a)(i), (a)(ii) or (a)(iii) above or (c) below, the Company, the Trustee or the Paying and Transfer Agent may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act;

4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;

5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under "Description of the Notes — Book-Entry; Delivery and Form."

   If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by the Company and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act):

   THIS NOTE AND THE GUARANTEES RELATED TO THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(k) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL INVESTOR, (I) TO NINE DRAGONS PAPER (HOLDINGS) LIMITED OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, OR PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (A)(I), (A)(II) OR (A)(III) ABOVE OR (C) BELOW, THE COMPANY, THE TRUSTEE OR THE PAYING AND TRANSFER AGENT MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AND TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

7. acknowledge that the Company, the Paying and Transfer Agent, the Initial Purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Paying and Transfer Agent and the Initial Purchaser. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

RATINGS

The Notes have been rated BBB- by Standard & Poor's Ratings Services and BBB- by Fitch Ratings Inc. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Conyers Dill and Pearman as to matters of Bermuda law and British Virgin Islands law, Sidley Austin as to matters of Hong Kong and United States federal and New York law and Jun He Law Offices as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchaser by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT AUDITOR

The consolidated financial statements of Nine Dragons Paper (Holdings) Limited as of and for each of the fiscal years ended June 30, 2006 and 2007 included in this offering memorandum have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in their reports appearing herein.

GENERAL INFORMATION

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
Rule 144A Notes	65439E AA1	US65439EAA10	035987819
Regulation S Notes	G65318 AA8	USG65318AA83	035987797

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear, Clearstream and DTC.

LISTING OF THE NOTES

Approval in-principle has been received for the listing of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Notes or us. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND U.S. GAAP

The audited consolidated financial statements included in this offering memorandum have been prepared and presented in accordance with HKFRS. Certain differences between HKFRS and U.S. GAAP may have a material effect on the financial information included herein. Such differences, among others, involve the methods of measuring the amounts disclosed in the financial statements and additional disclosures required by U.S. GAAP which have not been disclosed herein. Certain differences between HKFRS and U.S. GAAP that may be material to the Group's consolidated balance sheets and consolidated income statements are summarized below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of such summary. In addition, the Company has not prepared a reconciliation of its consolidated financial information and related footnote disclosure based on the differences between HKFRS and U.S. GAAP. Nor has the Company quantified such differences. Had any such quantification or reconciliation been undertaken, other potential accounting and disclosure differences may be required which are not identified below. Furthermore, no attempt has been made to identify all discourse, presentation or classification differences that would affect the manner in which transactions or events are presented in the audited consolidated financial information or footnotes thereto. No attempt has been made to identify future differences between HKFRS and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future. Although the organizations that promulgate HKFRS and U.S. GAAP have significant ongoing projects that could result in future differences, no attempt has been made to identify future differences between HKFRS and U.S. GAAP as a result of prescribed changes in accounting standards.

The Directors believe that the application of U.S. GAAP would have a material effect on the Company's financial information prepared and presented in accordance with HKFRS. You should consult your own professional advisors as to the differences between HKFRS and U.S. GAAP and how these differences would affect the financial information included herein. In making an investment decision, investors must rely upon their own examination of the financial information, the terms of this offering and other disclosure contained herein.

Basis of Consolidation

The consolidated financial statements include all enterprises that the group controls, as defined by HKAS27 — Consolidated and Separate Financial Statements ("IAS27"). Under HKAS27, control is presumed to exist when a company owns, directly or indirectly, more than one half of the voting power of an enterprise. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is (a) power over more than one half of the voting rights by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the enterprises under a statute or an agreement; (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the enterprise; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Under SIC Interpretation 12: Consolidation — Special Purpose Entities Interpretation, special purpose entities ("SPEs") are consolidated where the substance of the relationship indicates that the SPE is controlled by the enterprise. Indicators of control arise where the SPE conducts its activities on behalf of the enterprise, the enterprise has the decision-making power to obtain the majority of the benefits of the SPE, the enterprise has other rights to obtain the majority of the benefits of the SPE or the enterprise has the majority of the residual or ownership risks of the SPE or its assets.

Under U.S. GAAP, a dual consolidation decision model would be applied. All consolidation decisions would be evaluated under either a "risk and rewards'' model or a "voting interest'' model. To determine which model applies, an enterprise must first determine whether the entity is a "variable interest entity'' following the guidance from FIN 46 (R): Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (the "interpretation"). If an entity was not determined to be a variable interest entity, then the enterprise would generally consolidate such entity under FAS 94 if it has a controlling financial interest in such entity through direct or indirect ownership of a majority voting interest and not consolidate such entity if it does not. In general, a variable interest entity is subject to consolidation pursuant to the interpretation's provisions if it has (1) an insufficient amount of equity for the entity to carry on its principal operations without additional subordinated financial support provided by any parties, (2) a group of equity owners that are unable to make decisions about the entity's activities, or (3) a group of equity owners that do not absorb the entity's losses or receive the entity's benefits. Variable interests can be contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of that entity's net assets. U.S. GAAP requires consolidation of Variable Interest Entities ("VIE's") in which the Group is the primary beneficiary.

Inventories

Under HKFRS, a write-down of inventories to the lower of cost or market, which is represented by net realizable value, at the close of a fiscal period is a valuation allowance that can be subsequently reversed if the underlying facts and circumstances change.

Under U.S. GAAP, a write-down of inventories to the lower of cost or market, which is represented by the lower of the replacement cost or net realizable value minus normal profit margin, at the close of a fiscal period creates a new cost basis and no upward adjustments can be made subsequently if underlying facts and circumstances change.

Impairment of Assets

Under HKFRS, at each balance sheet date, if there is an indication of impairments of an asset, the recoverable amount of such asset is estimated and an impairments loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss accounts. Reversals of prior provision of impairment losses are allowed if the circumstances and events which led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

U.S GAAP requires an impairment loss to be recognized for non-current assets, including property, plant and equipment and certain identifiable intangible assets when a triggering event occurs and the carrying amount of the asset exceeds the future undiscounted cash flows expected to result from the use and eventual disposal of the assets. If it is determined that the asset is impaired, the impairment loss recognized is the difference between the carrying amount of the asset and its fair value based on the quoted market value less selling costs, if available. If the quoted market value is not available, an estimate of fair value will be based on various valuation methods, including the sum of future discounted cash flows and fundamental analysis. Once an impairments of asset is recorded, subsequent reversal of impairment charges cannot be made.

Capitalization of Borrowing Costs

Under HKFRS, borrowing costs incurred in relation to specified loans for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for its intended use.

Under U.S. GAAP, borrowing costs that are incurred prior to the asset being ready for its intended use and that could have been avoided if the expenditures for the qualifying asset had not been made, are capitalized.

Accounting for Guarantees

Under HKFRS, guarantees of indebtedness of third parties are accounted for as contingencies. A contingent liability is not recognized in the financial statements but is disclosed in the footnotes to the financial statements. If it is probable that the outflow of economic resources will be required and the amount of obligation can be measured reliably, such liability will be recognized as a provision in the financial statements.

Under U.S. GAAP, Financial Accounting Standard Board Interpretation No. 45 ("FIN 45") requires a guarantor to recognize an initial liability for any guarantees issued in its financial statements at the fair value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. Under FIN 45, guarantees are defined to include contracts that contingently require the guarantor to make payments to a guaranteed party based on changes in an underlying asset that is related to an asset, liability or equity security of the guaranteed party, performance guarantees, indemnification agreements or indirect guarantees of indebtedness of third parties.

Transfer of Receivables

HKFRS does not provide specific guidance for the accounting of transfer of account receivables, trade receivables and other financial assets. Transfer of receivables is recognized at a discount as a sale when the consideration is received. Transfer of receivables subject to recourse is recognized at a discount as contingent liabilities.

Under U.S. GAAP, the transfer of receivables and other financial assets in which the transferor surrenders control over those receivables and financial assets are accounted for as a sale to the extent that consideration other than the beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if certain conditions are met. Transfers of financial assets which do not meet those conditions are accounted for as secured borrowing rather than sales.

Deferred Income Taxes

Under HKFRS, deferred tax assets and liabilities are required to be provided in full using the liability method on the temporary differences arising from the differences between the tax base of an asset or a liability and the carrying amount of the asset or liability in the financial statements at any point in time. Deferred tax assets and liabilities arising from such temporary differences are measured at the rates enacted or substantially enacted by the balance sheet date. Deferred tax liabilities are provided in full on all taxable profit will be available against which the temporary differences can be utilized.

Under U.S. GAAP, deferred tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A valuation allowance is provided to reduce the amount of deferred tax assets if, in the opinion of management, it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realized in the future.

Uncertain Tax Provisions

Under HKFRS, there is no specific standard that addresses uncertain tax positions. The general measurement guidance is contained in HKAS 12 which requires current tax liabilities (assets) for the current and prior periods to be measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. However, the unit of accounts and measurement method are not specified in HKAS 12, which results in diversity in practice.

Under US GAAP, FIN 48 prescribes the recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Under FIN 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained based on technical merits upon examination by tax authorities. FIN 48 is prescriptive and requires all uncertain tax positions to be measured using the cumulative probability methodology. It requires tax benefits to be measured using the cumulative probability model, so the resulting tax liability may not be the amount that management actually expects to pay. The cumulative effect of initially adopting FIN 48 should be recorded as an adjustment to opening retained earnings in the year of adoption. FIN 48 is required to be adopted effective 1 January 2007.

Cash Flow Statement

Under HKFRS, interest paid and dividends and interest received may be classified as cash flows from operating, investing or financing activities.

U.S. GAAP requires interest paid and dividends and interest received be classified as cash flows from operating activities only.

Other Comprehensive Income

Under HKFRS, there is no specific guidance for the recognition and presentation of other comprehensive income. Items of gain and loss which are not recognized in the profit and loss accounts are recognized as a reserve separate from retained earnings and are disclosed in the statement of changes in equity.

Under U.S. GAAP, Financial Accounting Standard Board released SFAS No.130 requires the reporting of comprehensive income as a component in a financial statements which is presented with the same prominence as other components in the financial statements. Comprehensive income other than net income reported in the income statement is known as other comprehensive income, or OCI. Such items should be classified separately in OCI based on their nature. Items reported should be accumulated in a separate "accumulated OCI" component of shareholders' equity. Accumulated OCI comprised foreign currency adjustment, unrealized gains or losses on available for sale investment securities, minimum pension liability and income tax related to other OCI items.

"basis weight"	weight per unit area of a paper product. This can be expressed as the weight in grams per sq.m. (g/m^2) or pounds per 1,000 sq.ft., among others
"boxboard"	the general term describing the type of paperboard used for fabricating boxes, which may be plain, lined or clay coated, and includes duplex board
"burst index"	a paper strength indicator derived from dividing bursting strength (measured in kPa) by basis weight (measured in g/m^2), and expressed as kPa m^2/g. Bursting strength is the combined tensile strength and stretch of a material as measured by the ability of the material to resist rupture when pressure is applied under specified conditions to one of its sides by an instrument used for testing the property
"CAGR"	compound annual growth rate
"Catalog of Industry Guidelines"	the Catalog of Industry Guidelines for Foreign Investment (外商投資產業指導目錄) jointly promulgated by NDRC and MOFCOM on November 30, 2004 and effective on January 1, 2005
"coated duplex board"	a type of duplex board with a glossy coated surface on one side for superior printability
"containerboard"	the paperboard components used to manufacture corrugated containers. Containerboard primarily includes linerboard and corrugating medium and can also include coated duplex board
"corrugated board"	the structure formed by adhering one or more sheets of fluted corrugating medium to one or more layers of linerboard
"corrugating medium"	a paperboard used to form the corrugated or fluted component of corrugated board
"corrugator"	a machine that presses corrugations into the corrugating medium and glues linerboard to each side to make corrugated board, or a company that makes corrugated board
"DCS"	Distributed Control System, typically a large-scale process control system characterized by a distributed network of equipment that encompasses the functions of control, user interface, data collection, and system management

"design production capacity"	management's estimate of the amount of product or material that a production base or paper machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type and basis weight of the product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. Design production capacity assumes utilization rates of 100%. The actual utilization rates, and therefore our actual production volumes, may vary and be above or below our estimates. Estimates of design production capacity are based on the assumption that paper machines will only be producing the planned primary product, at assumed basis weights.
"duplex board"	a type of boxboard made from two separate webs (with, for example, different finish or color characteristics) combined together while still damp, without using adhesives
"dwt"	the deadweight of a ship expressed in tonnes. This measurement is the total weight of cargo, fuel, fresh water, stores and crew which the ship can carry
"flute" or "corrugation"	the wave shapes or ridges that are pressed into the corrugating medium by the corrugator
"fourdrinier"	a traditional forming technology employed in the manufacture of all grades of paper, including containerboard. The fourdrinier machine, for descriptive purposes, can be divided into four sections: the wet end, the press section, the dryer section and the calendar section
"GPS"	Global Positioning System. A system of satellites that was developed by the U.S. Department of Defense that is widely used, in addition to military uses, for marine and terrestrial navigation, and that allows one's position to be calculated with great accuracy by the use of an electronic receiver
"ISO"	International Organization for Standardization
"ISO 9001"	ISO standards for quality management which are primarily concerned with what an organization does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organization must do to manage processes influencing product quality
"ISO 14001"	ISO standards for environmental management which are primarily concerned with what an organization does to minimize harmful effects on the environment caused by its activities and which set requirements for what an organization must do to manage processes influencing the impact of its activities on the environment

"kPa"	kilopascal(s), a unit of pressure or stress which measures perpendicular force per unit area. 1 kPa = 1,000 pascals.
"kraftlinerboard"	a high grade of linerboard manufactured wholly or partially from kraft pulp
"kraft pulp"	pulp produced by the kraft or sulphate chemical process. The kraft process is the predominant chemical pulping process used globally, and involves cooking (digesting) wood chips in an alkaline solution for several hours during which time the chemicals attack the lignin in the wood. The dissolved lignin is later removed leaving behind the cellulose fibers, which is the primary constituent of pulp
"lignin"	one of the three main constituents of wood, along with cellulose and hemi-cellulose. Lignin acts as the cementing agent in wood, binding the cellulose fibers together
"linerboard"	the outer and inner facings of corrugated board
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"mtpa"	million tonnes per annum
"MW"	megawatt, a unit of power equal to 1,000,000 watts
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"packaging paperboard" or "paperboard"	a generic term encompassing primarily containerboard, boxboard and industrial, converted products. Packaging paperboard is generally heavier in basis weight, thicker and more rigid than paper
"PLC"	programmable logic controller, a device used to automatically monitor and control industrial plant processes and/or production operations by interfacing software control with input/output devices
"PM"	a prefix referring to our paper machines. For instance, PM1 refers to our first paper machine
"recovered paper"	used paper and board separately collected for re-use as fiber raw material in the manufacture of containerboard products
"RISI Inc."	RISI Inc., an internationally recognized source for independent economic analysis for the international forest products industry
"SAFE"	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外滙管理局)

"SEPA"	the State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局)
"sq.ft."	square feet
"sq.m."	square meter(s)
"stacking strength"	a paper strength indicator that can be expressed in Newton meter/gram, or Nm/g, derived from the box compression test. A Newton meter is the unit of moment or torque.
"surface sizing"	the treatment of the surface of the paper after it has dried or partially dried with materials or chemicals to impart resistance to water, oils and other fluids, to seal down its surface fibers and to improve its surface strength
"tensile strength"	the maximum force required to break a strip of paper of a given width under prescribed laboratory conditions
"testlinerboard"	linerboard made entirely from recovered paper
"tonne(s)"	metric tonne(s), equivalent to 1,000 kilograms
"white top linerboard"	a type of linerboard comprising a multi-ply sheet composed of one bleached layer with the remaining layer(s) unbleached

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	31 December 2007 (Unaudited) RMB'000	30 June 2007 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	17,321,208	13,802,727
Land use rights	4	1,094,758	949,259
Intangible asset	5	146,694	146,694
Total non-current assets		18,562,660	14,898,680
Current assets			
Inventories	6	1,565,866	1,502,509
Trade and other receivables	7	2,806,520	2,188,107
Derivative financial instruments		5,483	24,900
Restricted cash	8	262,719	—
Bank and cash balances		691,653	1,748,224
Total current assets		5,332,241	5,463,740
Total assets		23,894,901	20,362,420
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	9	6,191,767	6,179,161
Other reserves	10	1,190,111	1,056,189
Retained earnings			
— Proposed dividend		72,140	429,065
— Unappropriated retained earnings		4,794,915	3,848,519
		12,248,933	11,512,934
Minority interests		147,482	123,084
Total equity		12,396,415	11,636,018
LIABILITIES			
Non-current liabilities			
Deferred government grants	11	16,934	17,215
Borrowings	12	6,759,815	4,088,927
Deferred income tax liabilities		346,013	281,746
Total non-current liabilities		7,122,762	4,387,888
Current liabilities			
Derivative financial instruments		7,750	7,417
Trade and other payables	11	2,102,739	1,766,599
Current income tax liabilities		47,037	21,416
Borrowings	12	2,218,198	2,543,082
Total current liabilities		4,375,724	4,338,514
Total liabilities		11,498,486	8,726,402
Total equity and liabilities		23,894,901	20,362,420
Net current assets		956,517	1,125,226
Total assets less current liabilities		19,519,177	16,023,906

The notes on pages 61 to 88 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited Six months ended 31 December 2007 RMB'000	2006 RMB'000
Sales	13	6,690,409	4,638,469
Cost of goods sold	15	(5,114,195)	(3,434,528)
Gross profit		1,576,214	1,203,941
Other gains (net)	14	125,142	148,913
Selling and marketing costs	15	(144,419)	(96,847)
Administrative expenses	15	(287,241)	(140,523)
Operating profit		1,269,696	1,115,484
Finance costs	16	(64,562)	(85,278)
Profit before income tax		1,205,134	1,030,206
Income tax expense	17	(126,452)	(54,955)
Profit for the period		1,078,682	975,251
Profit attributable to:			
Equity holders of the Company		1,056,163	948,062
Minority interests		22,519	27,189
		1,078,682	975,251
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
— basic	18	0.25	0.23
— diluted	18	0.24	0.22
Dividend	19	72,140	65,585

The notes on pages 61 to 88 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital	Other reserves	Retained earnings	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2006	4,141,291	902,006	2,498,107	94,913	7,636,317
Profit for the period	—	—	948,062	27,189	975,251
Transfer	—	48,910	(48,910)	—	—
Final dividend for the year ended 30 June 2006	—	—	(94,937)	—	(94,937)
Share options granted to directors and employees	—	16,419	—	—	16,419
Balance at 31 December 2006	4,141,291	967,335	3,302,322	122,102	8,533,050
Balance at 1 July 2007	6,179,161	1,056,189	4,277,584	123,084	11,636,018
Profit for the period	—	—	1,056,163	22,519	1,078,682
Transfer	—	37,289	(37,289)	—	—
Final dividend for the year ended 30 June 2007	—	—	(429,403)	—	(429,403)
Partial disposal of equity interests in certain subsidiaries to minority shareholders	—	—	—	1,879	1,879
Share options granted to directors and employees	—	103,531	—	—	103,531
Exercise of share options	12,606	(2,573)	—	—	10,033
Currency translation differences	—	(4,325)	—	—	(4,325)
Balance at 31 December 2007	6,191,767	1,190,111	4,867,055	147,482	12,396,415

The notes on pages 61 to 88 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

		Unaudited	
		Six months ended 31 December	
		2007	2006
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Profit for the period		1,078,682	975,251
Adjustments for:			
Income tax expense	17	126,452	54,955
Depreciation		214,682	169,370
Amortization	4	11,085	6,529
Negative goodwill recognized	14	(56,840)	—
Loss on disposal of property, plant and equipment		—	6,332
Share options granted to directors and employees	10	103,531	16,419
Net loss arising from change in fair value of derivative financial instruments	14	19,750	—
Finance cost		64,562	96,578
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	14	1,879	—
Interest income	14	(4,138)	(13,918)
Exchange losses on bank and cash balance		32,865	—
Operating Profit before working capital changes		1,592,510	1,311,516
(Increase)/decrease in inventories		(59,405)	64,557
(Increase)/decrease in trade and other receivables		(861,414)	233,376
Increase/(decrease) in trade and other payables		97,834	(622,517)
Cash generated from operations		769,525	986,932
Income tax paid		(42,490)	(5,021)
Interest paid		(251,126)	(96,571)
Net cash generated from operating activities		475,909	885,340
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	21	2	—
Purchase of property, plant and equipment		(3,511,172)	(2,591,916)
Payment for acquisition of land use rights		(110,344)	(163,312)
Proceeds/(payment) for disposal of property, plant and equipment		3,337	(425)
Proceeds from disposal of land use rights		—	26,981
Cash advances made to related parties		(12,294)	(10)
Cash receipts from repayments of cash advances to directors		—	2,191
Interest received		4,138	13,918
Net cash used in investing activities		(3,626,333)	(2,712,573)
Cash flows from financing activities			
Proceeds from borrowings		5,924,080	4,068,071
Repayments of borrowings		(3,425,848)	(4,097,834)
Government grants received		47,856	—
Dividend paid to equity holders of the Company		(429,403)	(94,937)
Dividend paid to a minority shareholder		—	(5,000)
Exercise of share options		10,033	—
Net cash generated from/(used in) financing activities		2,126,718	(129,700)
Net decrease in bank and cash balances		(1,023,706)	(1,956,933)
Bank and cash balances at beginning of the period		1,748,224	2,816,660
Exchange losses on bank and cash balances		(32,865)	(11,300)
Bank and cash balances at end of the period		691,653	848,427

The notes on pages 61 to 88 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Nine Dragons Paper (Holdings) Limited (the "Company") was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Company and its subsidiaries (together the "Group") are principally engaged in the manufacture and sales of paper. 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.

This condensed consolidated interim financial information was approved for issue on 17 March 2008.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2007.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 30 June 2007, except for changes in accounting policies made thereafter in adopting the following new standards and interpretations to existing standards which are effective for the Group's accounting periods beginning on or after 1 July 2007:

HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 10	Interim Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 Group and Treasury Share Transactions

The adoption of these accounting standards has no impact on the Group's results of operations.

The following new standards have been issued but effective for annual periods beginning on or after 1 January 2008 and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segment
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer loyalty programs
HK(IFRIC)-Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

The Group is currently in the process of assessing the impact of application of these new standards, amendments and interpretations to existing standards that will have on the Group's financial statements in the period of initial application.

4. CAPITAL EXPENDITURE

	Land use rights	Property, plant and equipment
	RMB'000	RMB'000
Six months ended 31 December 2006		
Opening net book amount as at 1 July 2006	592,125	8,625,486
Additions	106,499	2,877,468
Disposals	—	(5,907)
Amortization/depreciation charges	(6,529)	(163,681)
Closing net book amount as at 31 December 2006	692,095	11,333,366
Six months ended 31 December 2007		
Opening net book amount as at 1 July 2007	949,259	13,802,727
Additions	93,454	3,740,182
Acquisition of a subsidiary (note 21)	63,130	270
Disposals	—	(3,337)
Amortization/depreciation charges	(11,085)	(218,634)
Closing net book amount as at 31 December 2007	1,094,758	17,321,208

(a) As at 31 December 2007, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB195,674,000 (30 June 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.

(b) Certain property, plant and equipment of the Group with carrying values of approximately RMB5,408,000 as at 31 December 2007 (30 June 2007: RMB5,200,000) had been pledged for bank borrowings of the Group (note 12).

(c) As at 31 December 2007, the Group has constructed certain buildings at cost of RMB32,525,000 (30 June 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 11(b)).

(d) During the six months ended 31 December 2007, the Group has received enterprise income tax credit of RMB15,579,000 (Six months ended 31 December 2006: RMB23,693,000) and value added tax refund of RMB32,277,000 (Six months ended 31 December 2007: nil) relating to the purchase of qualified equipment manufactured in the PRC. The amount of credit has been deducted from the cost of additions of the plant and equipment.

5. INTANGIBLE ASSET

Intangible asset as at 31 December 2007 represents goodwill, being the excess of the fair value of the shares of Zhang's Enterprises Company Limited ("Zhang's") issued in consideration of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 1 January 2005.

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

The directors do not consider that a provision for impairment in the carrying amount of the goodwill as at 31 December 2007 is necessary based on the business valuation carried out by Vigers as at 30 June 2007.

6. INVENTORIES

	31 December 2007	30 June 2007
	RMB'000	RMB'000
At cost:		
Raw materials	1,185,387	1,219,399
Finished goods	380,479	283,110
	1,565,866	1,502,509

7. TRADE AND OTHER RECEIVABLES

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Trade receivables due from:		
— third parties	1,811,106	1,509,713
— related parties (note(a) & note 22(d))	100,120	33,466
	1,911,226	1,543,179
Bills receivable	304,069	227,235
Prepayments	312,451	229,621
Amounts due from related parties (notes (a) & 22(d))	12,305	76
Other receivables	266,469	187,996
	2,806,520	2,188,107

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

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

As at 31 December 2007, the ageing analysis of trade receivables is as follows:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
0 — 30 days	1,446,461	1,158,030
31 — 60 days	397,711	269,387
61 — 90 days	51,844	114,214
Over 90 days	15,210	1,548
	1,911,226	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.

8. RESTRICTED CASH

As at 31 December 2007, the restricted cash (30 June 2007: nil) has been pledged as securities for bank borrowings (note 12).

9. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
	Thousand	HK$'000	RMB'000	RMB'000	RMB'000
Six months ended 31 December 2006					
Balances as at 1 July 2006 and 31 December 2006	4,150,000	415,000	431,600	3,709,691	4,141,291
Six months ended 31 December 2007					
Balances as at 1 July 2007	4,290,652	429,065	445,059	5,734,102	6,179,161
Exercise of share options	3,383	338	328	12,278	12,606
Balances as at 31 December 2007 .	4,294,035	429,403	445,387	5,746,380	6,191,767

10. OTHER RESERVES

	Contributed surplus	Capital reserve	Share options reserve	Statutory reserve and enterprise expansion fund	Translation	Total
	RMB'000 (note (a))	RMB'000	RMB'000 (note (b))	RMB'000 (note (c))	RMB'000	RMB'000
Six months ended 31 December 2006						
Balances as at 1 July 2006.	660,542	98,980	16,797	125,687	—	902,006
Transfer from net profit .	—	—	—	48,910	—	48,910
Share options granted to directors and employees.	—	—	16,419	—	—	16,419
Balances as at 31 December 2006 . . .	660,542	98,980	33,216	174,597	—	967,335
Six months ended 31 December 2007						
Balances as at 1 July 2007.	660,542	98,980	107,554	188,583	530	1,056,189
Transfer from net profit .	—	—	—	37,289	—	37,289
Share options granted to directors and employees.	—	—	103,531	—	—	103,531
Exercise of share options	—	—	(2,573)	—	—	(2,573)
Currency translation differences	—	—	—	—	(4,325)	(4,325)
Balances as at 31 December 2007 . . .	660,542	98,980	208,512	225,872	(3,795)	1,190,111

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

(b) *A summary of the share option schemes and details of the movement in share options of the Company during the six months ended 31 December 2007 are set out on pages 48 to 54.*

(c) *Statutory reserve and enterprise expansion fund*

In accordance with relevant rules and regulations in the PRC and the articles of association of certain PRC companies within the Group, certain PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used upon approval by the relevant authority, to make good of previous year's 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.

11. TRADE AND OTHER PAYABLES

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Trade payables due to:		
— third parties	672,060	570,649
— related parties (notes (a) and 22(d))	346,642	420,564
	1,018,702	991,213
Bills payable	16,000	77,300
Deposits from customers	126,527	90,411
Other payables	856,463	515,368
Staff welfare benefit payable	56,710	40,343
Accrued expenses	45,271	69,179
	2,119,673	1,783,814
Less: Other payables included in non-current liabilities		
Deferred government grants (note (b))	(16,934)	(17,215)
	2,102,739	1,766,599

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

(b) *The Group has received grants amounted to RMB49,459,000 from the government authority as assistance to the Group for purchases, construction or otherwise acquisitions of plant and buildings. As at 31 December 2007, the Group has utilized an amount of RMB32,525,000 to acquire certain buildings (note 4(c)).*

The ageing analysis of trade payables as at 31 December 2007 is as follows:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
0 — 90 days	992,060	949,693
91 — 180 days	8,378	9,536
181 — 365 days	4,154	27,141
Over 365 days	14,110	4,843
	1,018,702	991,213

12. BORROWINGS

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Non-current		
— Long-term bank borrowings	6,759,815	4,088,927
Current		
— Short-term bank borrowings	1,378,198	2,373,082
— Current portion of long-term bank borrowings	40,000	170,000
— Short-term financing bills	800,000	—
	2,218,198	2,543,082
Total borrowings	8,978,013	6,632,009

Movements in borrowings is analyzed as follows:

	Bank borrowings	Short-term financial bills	Total
	RMB'000	RMB'000	RMB'000
Six months ended 31 December 2006			
Balances as at 1 July 2006	4,920,776	—	4,920,776
New borrowings	4,068,071	—	4,068,071
Repayments of borrowings	(4,097,834)	—	(4,097,834)
Exchange gain	(27,062)	—	(27,062)
Balances as at 31 December 2006	4,863,951	—	4,863,951
Six months ended 31 December 2007			
Balances as at 1 July 2007	6,632,009	—	6,632,009
New borrowings	5,124,080	800,000	5,924,080
Repayments of borrowings	(3,425,848)	—	(3,425,848)
Exchange gain	(152,228)	—	(152,228)
Balances as at 31 December 2007	8,178,013	800,000	8,978,013

As at 31 December 2007, borrowings of RMB268,059,000 (30 June 2007: RMB3,276,000) are secured by assets of the Group (notes 4 and 8).

The maturity of the borrowings is as follows:

	31 December 2007			30 June 2007
	Bank borrowings	Short-term financial bills	Total	Bank borrowings
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,418,198	800,000	2,218,198	2,543,082
Between 1 and 2 years	2,787,803	—	2,787,803	1,028,259
Between 2 and 5 years	3,584,572	—	3,584,572	3,057,392
Wholly repayable within 5 years	7,790,573	800,000	8,590,573	6,628,733
Over 5 years	387,440	—	387,440	3,276
	8,178,013	800,000	8,978,013	6,632,009

The effective interest rates as at 31 December 2007 are as follows:

	31 December 2007	30 June 2007
Long-term bank borrowings	5.852%	5.770%
Short-term bank borrowings	5.726%	5.233%
Short-term financing bills	5.575%	—

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

The carrying amounts of all the Group's borrowings as at 31 December 2007 are denominated in the following currencies:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
RMB	4,585,855	3,225,089
US Dollars	3,246,196	2,657,392
HK Dollars	1,103,441	749,528
EURO	42,521	—
	8,978,013	6,632,009

The Group has the following undrawn borrowing facilities:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Floating rate:		
— expiring within one year	3,518,883	4,471,618
— expiring beyond one year	2,347,229	4,393,874
	5,866,112	8,865,492

13. SALES

Sales recognized during the six months ended 31 December 2007 are as follows:

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Sales of paper	6,546,213	4,494,570
Sales of unbleached kraft pulp	144,196	143,899
	6,690,409	4,638,469

14. OTHER GAINS (NET)

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Transportation	1,965	2,136
Sales of scrap materials	51,328	15,881
Sales of electricity	11,734	93,166
Interest income	4,138	13,918
Net foreign exchange gains on operating activities	20,766	23,812
Negative goodwill recognized (note 21)	56,840	—
Net loss arising from change in fair value of derivative financial instruments	(19,750)	—
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	(1,879)	—
	125,142	148,913

15. EXPENSES BY NATURE

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

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Depreciation	214,731	157,162
Employee benefit expense (note (a))	419,075	197,412
Changes in finished goods	(97,369)	71,703
Raw materials and consumables used	4,567,148	3,078,119
Transportation	61,934	18,118
Operating leases		
— land use rights (note 4)	11,085	6,529
— buildings	1,079	1,205
Non-deductible value added tax for export sales	178,588	33,866
Other expenses	189,584	107,784
	5,545,855	3,671,898

(a)

	Six months ended 31 December	
	2007	**2006**
	RMB'000	**RMB'000**
Wages and salaries	301,957	172,410
Share options granted to directors and employees	103,531	16,419
Pension costs — defined contribution plans	8,093	5,214
Medical benefits	2,177	1,303
Other allowances and benefits	3,317	2,066
	419,075	197,412

16. FINANCE COSTS

	Six months ended 31 December	
	2007	**2006**
	RMB'000	**RMB'000**
Interest on bank borrowings	187,818	104,455
Less: interest capitalized	(17,398)	(11,625)
	170,420	92,830
Bills discount charge	42,896	17,474
Other incidental borrowing cost	3,474	2,036
Exchange gains on borrowings	(152,228)	(27,062)
	64,562	85,278

The capitalization rate applied to funds borrowed generally and used for the development of construction in progress is 5.660% for the six months ended 31 December 2007 (Six months ended 31 December 2006: 5.870%).

17. INCOME TAX EXPENSE

	Six months ended 31 December	
	2007	**2006**
	RMB'000	**RMB'000**
Current tax		
— Hong Kong profits tax	—	—
— PRC enterprise income tax	68,111	27,052
	68,111	27,052
Deferred income tax	58,341	27,903
	126,452	54,955

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during six months ended 31 December 2007. PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the rates of taxation applicable to the respective subsidiaries.

18. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	1,056,163	948,062
Weighted average number of ordinary shares in issue (shares in thousands)	4,291,792	4,150,000
Basic earnings per share (RMB per share)	0.25	0.23

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 market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	1,056,163	948,062
Weighted average number of ordinary shares in issue (shares in thousands)	4,291,792	4,150,000
Adjustments for share options (shares in thousands)	135,490	65,033
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	4,427,282	4,215,033
Diluted earnings per share (RMB per share)	0.24	0.22

19. DIVIDEND

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Interim dividend (note (b))	72,140	65,585

(a) A 2007 final dividend of RMB10.00 cents (2006 final: RMB2.30 cents) per ordinary share, totaling approximately RMB429,065,000 (2006 final: RMB95,450,000) has been declared in the Company's Annual General Meeting on 27 November 2007 and paid in the six months ended 31 December 2007.

(b) An interim dividend for the six months ended 31 December 2007 of RMB1.68 cents (Six months ended 31 December 2006: RMB1.60 cents) per ordinary share, totaling approximately RMB72,140,000 (Six months ended 31 December 2006: RMB65,585,000) has been approved in the meeting of board of directors of the Company on 17 March 2008.

20. COMMITMENTS

(a) Capital commitments

Capital expenditure as at 31 December 2007 but not yet incurred is as follows:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Contracted but not provided for:		
— Property, plant and equipment	5,625,514	5,809,540
Authorized but not contracted for:		
— Property, plant and equipment	10,058,006	939,222
	15,683,520	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:

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Property, plant and equipment:		
— Not later than one year	2,086	2,131
— Later than one year and not later than five years	38	612
	2,124	2,743

21. BUSINESS COMBINATION

On 20 December 2007, the Group acquired 100% of the share capital of Sichuan Qian Wei Baiya Paper Co., Ltd. ("Qian Wei") from three independent third parties with no consideration.

Qian Wei was established in December 2005 and will principally be engaged in the production of high-value specialty board products, mainly insulating paper and capacitor tissue paper, bleached wood pulp and bleached bamboo pulp. As at the date of acquisition, Qian Wei has not yet commenced production but holding of certain land rights for future paper manufacturing establishment.

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

	Fair value amount	Acquiree's carrying
	RMB'000	RMB'000
Bank and cash balances	2	2
Land use rights (note 4)	63,130	39,425
Property, plant and equipment (note 4)	270	270
Other receivables	1,364	1,364
Other payables	(2,000)	—
Deferred tax liabilities	(5,926)	—
Net assets	56,840	41,061
Purchase consideration settled in cash	—	
Negative goodwill	56,840	
Purchase consideration settled in cash	—	
Bank and Cash Balances in a subsidiary acquired	2	
Cash inflow on acquisition	2	

22. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
America Chung Nam Inc. ("ACN")	Company beneficially owned by Ms. Cheung Yan ("Ms. Cheung") and Mr. Liu Ming Chung ("Mr. Liu")
Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging")	Company beneficially owned by Mr. Zhang Chengfei ("Mr. Zhang")

(b) Transactions with related parties

During the six months ended 31 December 2007, the Group had the following significant transactions with related parties. Sales and purchase transactions are negotiated with related parties in the normal course of business with a margin on the same basis with non-related parties:

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Sales of goods:		
— Taicang Packaging	39,718	90,612
Sales of utilities:		
— Taicang Packaging	2,751	1,727
Purchase of recovered papers:		
— ACN	1,839,850	1,203,375
— Taicang Packaging	4,003	3,188
	1,843,853	1,206,563
Agent fee of direct export sales:		
— ACN	4,556	—

(c) Key management compensation

	Six months ended 31 December	
	2007	2006
	RMB'000	RMB'000
Salaries	16,813	9,639
Termination benefits	3,625	—
Share options	102,426	4,734
	122,864	14,373

(d) Balances with related parties

	31 December 2007	30 June 2007
	RMB'000	RMB'000
Trade balances due from:		
Related parties:		
— Taicang Packaging	35,983	33,466
— ACN	64,137	—
	100,120	33,466
Non-trade balances due from:		
Related parties:		
— Taicang Packaging	12,305	76
Trade balances due to:		
Related parties:		
— ACN	346,181	417,589
— Taicang Packaging	461	2,975
	346,642	420,564

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 81 to 134, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2007

BALANCE SHEETS

	Note	Consolidated 30 June 2007 RMB'000	Consolidated 30 June 2006 RMB'000	Company 30 June 2007 RMB'000	Company 30 June 2006 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	13,802,727	8,625,486	—	—
Land use rights	7	949,259	592,125	—	—
Intangible asset	8	146,694	146,694	—	—
Investments in subsidiaries	9	—	—	2,386,700	2,386,700
		14,898,680	9,364,305	2,386,700	2,386,700
Current assets					
Inventories	10	1,502,509	932,031	—	—
Trade and other receivables	11	2,188,107	1,559,012	6,537,694	2,686,883
Derivative financial instruments	12	24,900	—	—	—
Restricted cash		—	200,590	—	—
Bank and cash balances	13	1,748,224	2,816,660	261,023	1,340,200
		5,463,740	5,508,293	6,798,717	4,027,083
Total assets		20,362,420	14,872,598	9,185,417	6,413,783
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	14	6,179,161	4,141,291	6,179,161	4,141,291
Other reserves	15	1,056,189	902,006	2,182,254	2,091,497
Retained earnings					
— Proposed final dividend	27	429,065	95,450	429,065	95,450
— Others		3,848,519	2,402,657	394,903	61,670
		11,512,934	7,541,404	9,185,383	6,389,908
Minority interests		123,084	94,913	—	—
Total equity		11,636,018	7,636,317	9,185,383	6,389,908
LIABILITIES					
Non-current liabilities					
Deferred government grants	16(b)	17,215	27,809	—	—
Borrowings	17	4,088,927	2,743,901	—	—
Deferred income tax liabilities	18	281,746	226,808	—	—
		4,387,888	2,998,518	—	—
Current liabilities					
Derivative financial instruments	12	7,417	—	—	—
Trade and other payables	16	1,766,599	1,987,398	34	23,875
Current income tax liabilities		21,416	67,440	—	—
Dividend payable		—	6,050	—	—
Borrowings	17	2,543,082	2,176,875	—	—
		4,338,514	4,237,763	34	23,875
Total liabilities		8,726,402	7,236,281	34	23,875
Total equity and liabilities		20,362,420	14,872,598	9,185,417	6,413,783
Net current assets		1,125,226	1,270,530	6,798,683	4,003,208
Total assets less current liabilities		16,023,906	10,634,835	9,185,383	6,389,908

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

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
	RMB'000 (Note 14)	RMB'000 (Note 15)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2005	312,000	828,330	1,181,624	2,321,954	85,622	2,407,576
Profit for the year	—	—	1,374,782	1,374,782	25,342	1,400,124
Dividend paid to a minority shareholder	—	—	—	—	(16,051)	(16,051)
Appropriation to other reserves	—	58,299	(58,299)	—	—	—
Issue of shares in connection with initial public offering of shares of the Company ("IPO")	4,051,151	—	—	4,051,151	—	4,051,151
Listing expenses	(221,860)	—	—	(221,860)	—	(221,860)
Share options granted to directors and employees	—	16,797	—	16,797	—	16,797
Currency translation differences	—	(1,420)	—	(1,420)	—	(1,420)
Balance at 30 June 2006	4,141,291	902,006	2,498,107	7,541,404	94,913	7,636,317
Balance at 1 July 2006	4,141,291	902,006	2,498,107	7,541,404	94,913	7,636,317
Profit for the year	—	—	2,003,408	2,003,408	56,930	2,060,338
Dividend paid to a minority shareholder	—	—	—	—	(31,470)	(31,470)
2006 final and 2007 interim dividends paid to equity holders of the Company	—	—	(161,035)	(161,035)	—	(161,035)
Appropriation to other reserves	—	62,896	(62,896)	—	—	—
Partial disposal of equity interests in certain subsidiaries to minority shareholders	—	—	—	—	2,711	2,711
Placement of shares for cash	2,011,048	—	—	2,011,048	—	2,011,048
Placing expenses	(32,358)	—	—	(32,358)	—	(32,358)
Share options granted to directors and employees	—	102,393	—	102,393	—	102,393
Exercise of share options	59,180	(11,636)	—	47,544	—	47,544
Currency translation differences	—	530	—	530	—	530
Balance at 30 June 2007	6,179,161	1,056,189	4,277,584	11,512,934	123,084	11,636,018

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

CONSOLIDATED CASH FLOW STATEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

HKFRS 6 and HKFRS 6 (Amendment) . . .	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS-int 4	Determining whether an Arrangement Contains a Lease
HKFRS-int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6.	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7.	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8.	Scope of HKFRS 2
HK(IFRIC)-Int 9.	Reassessment of Embedded Derivatives

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

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

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

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

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

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

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

2.2 Consolidation

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

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interests

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

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

2.3 Segment reporting

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

2.4 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 recognized 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 recognized as a separate component of equity.

2.5 Property, plant and equipment

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

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

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 recognized within other gains — net, in the income statements.

2.6 Construction in progress

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

2.7 Land use rights

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

2.8 Intangible asset

Goodwill

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

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

2.9 Impairment of investments in subsidiaries and non-financial assets

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

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized 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 reorganization, 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 recognized 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

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

2.12 Inventories

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Trade and other payables

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

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 Deferred income tax

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

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

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

2.19 Employee benefits

(a) Pension obligations

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

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

The contributions are recognized 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 recognized 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 recognized 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 recognized 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 recognizes the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

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

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes 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 recognized 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 recognized 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 recognized 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 recognized 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 recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods and scrap materials

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

(b) Sales of transportation services

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

(c) Interest income

Interest income is recognized 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 recognized using the original effective interest rate.

(d) Sales of electricity

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

2.22 Leases (as the lessee for operating leases)

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

2.23 Government grants

Grants from the government are recognized 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 recognized 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 recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize 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.

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

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

(b) Interest rate risk

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At as 30 June 2007, RMB1,228,259,000 (2006: RMB2,491,318,000) of the Group's borrowings were at fixed rates.

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

(c) Credit risk

The carrying amounts of cash and cash equivalents, derivative financial instruments and trade and other receivables except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on cash and cash equivalents is limited because the counterparties are banks with good reputation. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(d) Liquidity risk

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

3.2 Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

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

Management believes that reasonably possible change in key assumptions on which recoverable amount of CGU is based would not cause a reduction in carrying value of goodwill as at 30 June 2007.

(b) Useful lives of plant and machinery

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

Were the actual useful lives of the paper manufacturing plant and machinery to differ by 10% from management's estimate, the carrying amount of the plant and machinery as at 30 June 2007 would be an estimated RMB78,039,000 (2006: RMB57,297,000) higher or RMB95,381,000 (2006: RMB70,029,000) lower.

(c) Valuation of share options

The fair value of options granted under the Pre-IPO Share Option Scheme and 2006 Share Option Scheme is determined using the Binomial and Black-Scholes valuation model, respectively. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected life, expected volatility, trigger price multiple and employees turnover rate. Were the actual results of the inputs differ from management's estimate, it will cause change in share options expense and related share options reserve of the Group.

(d) Net realizable value of inventories

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

(e) Provision for impairment of receivables

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

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

The export sales of the Group are subject to VAT under relevant PRC tax regulations. The interpretations on relevant VAT regulations of the Group's management may be different from that of the in-charge tax bureaus. The ultimate tax determination is uncertain and the Group recognizes 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 judgment is required in determining the amount of the provision for taxation and timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially records, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

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

The Group's principal market is the PRC and its sales to overseas customers contributed less than 10% of the revenues, results and total assets of the Group. Accordingly, no geographical segment is presented.

6. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2005						
Cost	1,248,579	5,051,398	70,030	153,423	1,692,607	8,216,037
Accumulated depreciation	(135,701)	(383,623)	(17,195)	(39,558)	—	(576,077)
Net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
Year ended 30 June 2006						
Opening net book amount	1,112,878	4,667,775	52,835	113,865	1,692,607	7,639,960
Additions	1,023	168,350	25,594	32,885	1,106,418	1,334,270
Transfer	426,722	1,602,107	4,029	—	(2,032,858)	—
Disposals (Note 28)	(430)	(14,872)	(126)	(1,382)	—	(16,810)
Depreciation (Note 21)	(62,329)	(240,345)	(10,184)	(19,076)	—	(331,934)
Closing net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
At 30 June 2006						
Cost	1,672,971	6,798,578	99,001	181,225	766,167	9,517,942
Accumulated depreciation	(195,107)	(615,563)	(26,853)	(54,933)	—	(892,456)
Net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Year ended 30 June 2007						
Opening net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Additions	10,981	34,938	22,524	64,627	5,406,113	5,539,183
Transfer	424,271	2,429,006	9,613	5,321	(2,868,211)	—
Disposals (Note 28)	—	(1,009)	(793)	(6,922)	—	(8,724)
Depreciation (Note 21)	(73,151)	(244,041)	(13,757)	(22,269)	—	(353,218)
Closing net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
At 30 June 2007						
Cost	2,108,223	9,260,342	128,407	238,223	3,304,069	15,039,264
Accumulated depreciation	(268,258)	(858,433)	(38,672)	(71,174)	—	(1,236,537)
Net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727

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

As at 30 June 2007, the Group has constructed certain buildings at cost of RMB32,244,000 (2006: RMB21,650,000) and relevant government grants in form of cash has been received and deducted from the cost of additions to buildings above (Note 16).

During the year, the Group has received enterprise income tax credit of RMB70,580,000 (2006: RMB11,520,000) and value added tax refund of RMB33,322,000 (2006: Nil) relating to the purchase of qualified equipment manufactured in the PRC. The amount of credit and refund has been deducted from the cost of additions of the plant and machinery.

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

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

7. LAND USE RIGHTS — GROUP

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

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

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

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

8. INTANGIBLE ASSET — GROUP

Intangible asset as at 30 June 2006 and 2007 represents goodwill, being the excess of the fair value of the shares of Zhang's Enterprises Company Limited ("Zhang's") issued in consideration of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries on 1 January 2005.

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

The directors do not consider that a provision for impairment in the carrying amount of the goodwill as at 30 June 2007 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited as at 30 June 2007.

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

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

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

— Gross margin	18.1%-21.9%
— Rate of return on equity	12.1%
— Discount rate	13.2%

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

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

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

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

The following is a list of the principal subsidiaries as at 30 June 2007:

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI")	Investment holdings/PRC	US$10,000	100%
Indirectly held:				
Zhang's	Hong Kong	Investment holdings/Hong Kong	HK$1,220,064	100%
Nine Dragons Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Millennium Scope Limited	BVI	Investment holdings/PRC	US$2,300	100%
River Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Emperor Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$100	100%
Sky Dragon Paper Industries (HK) Co., Ltd.	Hong Kong	Investment holdings/Hong Kong	HK$1	100%
Sky Dragon Paper Industries Co., Ltd. ("Sky Dragon (BVI)")	BVI	Investment holdings/PRC	US$100	100%
Nine Dragons Finance (Group) Limited	BVI	Investment holdings/PRC	US$1	100%
ND Finance Limited	BVI	Financing activities/Hong Kong	US$1	100%
NDP Worldwide Investment Limited	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Worldwide Investment Limited	Hong Kong	Investment holdings/PRC	HK$1	100%
Nine Dragons Machinery Supplies Limited	Hong Kong	Trading of machinery/ Hong Kong	HK$1	100%
Strong Dragon Co., Ltd.	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Resources Limited	Hong Kong	Investment holdings/Hong Kong	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd.[1]	PRC	Manufacture of paper/PRC	US$214,024,000	100%

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Dongguan Sea Dragon Paper Industries Company Limited[2]	PRC	Manufacture of paper/PRC	US$100,300,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$68,040,000	99.9%
Dongguan Sky Dragon Paper Industries Company Limited ("Dongguan Sky Dragon")	PRC	Manufacture of paper/PRC	—	100%
Nine Dragons Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$169,570,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$26,440,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$29,702,000	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$4,500,000	99.9%
Nine Dragons Terminal (Chongqing) Company Limited[1]	PRC	Provision for loading services/PRC	US$4,640,000	100%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited[2]	PRC	Manufacture of pulp/PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited[3]	PRC	Provision for transportation services/PRC	RMB5,000,000	90%
Nine Dragons Transportation (Taicang) Company Limited[3]	PRC	Provision for transportation services/PRC	RMB2,000,000	89.6%
Taicang Nine Dragons Coal and Charcoal Trading Company Limited[3]	PRC	Wholesales of coal and charcoal/PRC	RMB5,000,000	99.5%
Taicang Nine Dragons Recycling Company Limited[3]	PRC	Recycle of waste paper/PRC	RMB500,000	99.5%
Sea Dragon Resources (Chongqing) Co., Ltd.[1]	PRC	Recycle of waste paper/PRC	US$2,350,000	100%
Sea Dragon (Lianzhou) Mineral Co., Ltd.[1]	PRC	Manufacture of Calcium Carbonate/PRC	US$200,000	100%

Kind of legal entities in PRC:

[1] *Wholly foreign owned enterprise*

[2] *Sino-foreign equity joint venture enterprise*

[3] *Domestic enterprise*

10. INVENTORIES — GROUP

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

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

11. TRADE AND OTHER RECEIVABLES

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

As at 30 June 2007, the fair value of trade and other receivables approximate their carrying amounts.

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

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

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

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

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

12. DERIVATIVE FINANCIAL INSTRUMENTS — GROUP

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

(a) Cross currency interest rate swaps

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

(b) Forward foreign exchange contracts

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

13. BANK AND CASH BALANCES

	Group		Company	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	1,180,541	582,832	3,453	77,183
Time deposits	567,683	2,233,828	257,570	1,263,017
	1,748,224	2,816,660	261,023	1,340,200
Denominated in:				
RMB	286,629	319,803	—	—
HK$	1,270,605	2,019,355	258,355	1,334,088
US$	187,112	468,956	2,668	6,112
Others	3,878	8,546	—	—
	1,748,224	2,816,660	261,023	1,340,200

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

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

14. SHARE CAPITAL

Movements were:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
			HK$'000	RMB'000	RMB'000	RMB'000
Issued and fully paid						
At 1 July 2005		3,000,000,000	300,000	312,000	—	312,000
Issue of shares in connection with IPO		1,150,000,000	115,000	119,152	3,931,999	4,051,151
Listing expenses		—	—	—	(221,860)	(221,860)
At 30 June 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291
Placement of shares for cash	(a)	125,000,000	12,500	12,353	1,998,695	2,011,048
Placing expenses		—	—	—	(32,358)	(32,358)
Exercise of share options	15(b)	15,652,029	1,565	1,554	57,626	59,180
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161

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

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

15. OTHER RESERVES

Group

	Contributed surplus	Capital reserve	Share options reserve	Statutory reserve and enterprise expansion fund	Translation	Total
	RMB'000 (Note a)	RMB'000	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
As at 1 July 2005	660,542	98,980	—	67,388	1,420	828,330
Transfer from net profit	—	—	—	58,299	—	58,299
Share options granted to directors and employees	—	—	16,797	—	—	16,797
Currency translation differences	—	—	—	—	(1,420)	(1,420)
As at 30 June 2006	660,542	98,980	16,797	125,687	—	902,006
Transfer from net profit	—	—	—	62,896	—	62,896
Share options granted to directors and employees	—	—	102,393	—	—	102,393
Exercise of share options	—	—	(11,636)	—	—	(11,636)
Currency translation differences	—	—	—	—	530	530
As at 30 June 2007	660,542	98,980	107,554	188,583	530	1,056,189

Company

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

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

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

(c) *Statutory reserve and enterprise expansion fund*

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

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

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

16. TRADE AND OTHER PAYABLES

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

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

(b) *In last year, the Group had received grants amounted to RMB49,459,000 from the government authority as assistance to the Group for purchases, construction or otherwise acquisitions of plant and buildings. Up to 30 June 2007, the Group has utilized an amount of RMB32,244,000 (2006: RMB21,650,000) to acquired certain buildings (Note 6).*

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

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

17. BORROWINGS — GROUP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. DEFERRED INCOME TAX — GROUP

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

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

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

Deferred income tax liabilities

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

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

19. SALES

Sales recognized during the year are as follows:

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

20. OTHER GAINS — NET

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

21. EXPENSES BY NATURE

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

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Depreciation	342,825	315,016
Employee benefit expense (Note 22)	503,054	337,155
Changes in finished goods	(12,661)	58,413
Raw materials and consumables used	6,647,307	5,432,032
Transportation	55,134	45,212
Operating leases		
— Land use rights (Note 7)	15,711	21,324
— Buildings	902	883
Auditor's remuneration	4,428	3,903
Non-deductible value added tax for indirect export sales	98,793	39,015
Other expenses	199,963	194,982
	7,855,456	6,447,935

22. EMPLOYEE BENEFIT EXPENSE

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

(a) Pensions — defined contribution plans

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

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Gross scheme contributions	10,763	8,648

(b) Directors' and senior management's emoluments

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

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

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

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

Name of Director	Fees	Discretionary bonus	Share options	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms. Cheung Yan	1,188	—	2,892	—	4,080
Mr. Liu Ming Chung	2,026	—	2,891	—	4,917
Mr. Zhang Cheng Fei	1,958	—	2,019	—	3,977
Mr. Wang Hai Ying	162	—	—	—	162
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
Ms. Tam Wai Chu, Maria	412	—	199	—	611
Mr. Chung Shui Ming, Timpson	412	—	199	—	611
Dr. Cheng Chi Pang	412	—	199	—	611
Mr. Wang Hong Bo	80	—	—	—	80
	6,650	—	8,399	—	15,049

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2007 include three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

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

The emoluments fell within the following bands:

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

23. FINANCE COSTS

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

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

24. INCOME TAX EXPENSE

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

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

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Profit before taxation	2,161,983	1,516,410
Tax calculated at tax rates applicable to respective companies ranging from 18% to 27% (2006: 27%) within the Group	661,206	393,603
Effect of tax holidays	(549,860)	(283,591)
Add: tax losses for which no deferred income tax asset was recognized	11,634	6,274
Less: deferred income tax effect from change of tax rate (Note b)	(21,335)	—
Income tax expense	101,645	116,286

(a) Hong Kong profits tax

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

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

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

25. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB827,883,000 (2006: RMB157,120,000).

26. EARNINGS PER SHARE

Basic

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

Diluted

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

	For the year ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	2,003,408	1,374,782
Weighted average number of ordinary shares in issue (shares in thousands)	4,179,049	3,376,027
Adjustments for share options (shares in thousands)	80,658	23,980
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	4,259,707	3,400,007
Diluted earnings per share (RMB per share)	0.4703	0.4043

27. DIVIDEND

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

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

(b) *At a meeting held on 20 September 2007, the directors of the Company proposed a final dividend of RMB10.00 cents per share for the year ended 30 June 2007, totaling approximately RMB429,065,000. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 30 June 2008.*

28. CASH GENERATED FROM OPERATIONS

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

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

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

29. COMMITMENTS

(a) Capital commitments

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

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

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

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

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

30. BUSINESS COMBINATION

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

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

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

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

* *Nominal value of the consideration was RMB1.*

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

(b) Transactions with related parties

For the year ended 30 June 2007, the Group had the following significant transactions with related parties. Sales and purchase transactions are negotiated with related parties in the normal course of business with a margin on the same basis with non-related parties:

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

(c) Key management compensation

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

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

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

(e) Balances with related parties

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

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

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

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

Name of director	Amount outstanding at 30 June 2007	Amount outstanding at 30 June 2006	Maximum outstanding during the year ended 30 June 2007	Maximum outstanding during the year ended 30 June 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Cheung	—	867	867	867
Mr. Liu	—	869	869	869
Mr. Zhang	—	455	455	455
	—	2,191	2,191	2,191

(g) Guarantees

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

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

32. EVENT AFTER BALANCE SHEET DATE

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

33. ULTIMATE HOLDING COMPANY

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

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

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

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2006

BALANCE SHEETS

	Note	Consolidated 30 June 2006 RMB'000	Consolidated 30 June 2005 RMB'000	Company 30 June 2006 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	8,625,486	7,639,960	—
Land use rights	7	592,125	607,562	—
Intangible asset	8	146,694	146,694	—
Investments in subsidiaries	9	—	—	2,386,700
		9,364,305	8,394,216	2,386,700
Current assets				
Inventories	10	932,031	998,174	—
Trade and other receivables	11	1,559,012	997,009	2,686,883
Restricted cash	12	200,590	659,379	—
Bank and cash balances	13	2,816,660	651,587	1,340,200
		5,508,293	3,306,149	4,027,083
Total assets		14,872,598	11,700,365	6,413,783
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	14	4,141,291	312,000	4,141,291
Other reserves	15	902,006	828,330	2,091,497
Retained earnings				
— Proposed final dividend	26	95,450	—	95,450
— Others		2,402,657	1,181,624	61,670
		7,541,404	2,321,954	6,389,908
Minority interests		94,913	85,622	—
Total equity		7,636,317	2,407,576	6,389,908
LIABILITIES				
Non-current liabilities				
Other payables	16	27,809	15,248	—
Borrowings	17	2,743,901	3,817,280	—
Deferred income tax liabilities	18	226,808	169,747	—
		2,998,518	4,002,275	—
Current liabilities				
Trade and other payables	16	1,987,398	2,814,502	23,875
Current income tax liabilities		67,440	44,441	—
Dividend payable		6,050	—	—
Borrowings	17	2,176,875	2,431,571	—
		4,237,763	5,290,514	23,875
Total liabilities		7,236,281	9,292,789	23,875
Total equity and liabilities		14,872,598	11,700,365	6,413,783
Net current assets/(liabilities)		1,270,530	(1,984,365)	4,003,208
Total assets less current liabilities		10,634,835	6,409,851	6,389,908

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

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	For the year ended 30 June 2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	27	1,437,707	1,338,841
Income tax paid		(24,706)	(8,550)
Interest paid		(345,899)	(267,308)
Net cash generated from operating activities		1,067,102	1,062,983
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		—	128,914
Purchase of property, plant and equipment		(1,528,772)	(1,737,666)
Payment for acquisition of land use rights		(100,483)	(17,218)
Proceeds from sale of property, plant and equipment	27	1,293	482
Proceeds from disposals of land use rights		24,505	—
Cash advances made to directors	30	(2,191)	(38,492)
Cash advances made to related parties	30	—	(10,305)
Cash advances made to then shareholders	30	—	(70)
Cash receipts from repayments of cash advances from directors	30	500	79,200
Cash receipts from repayments of cash advances from related parties	30	10,713	—
Cash receipts from then shareholders	30	—	48,810
Interest received		140,347	8,988
Net cash used in investing activities		(1,454,088)	(1,537,357)
Cash flows from financing activities			
Proceeds from issue of shares		4,051,151	—
Placing and listing expenses		(221,860)	—
Cash advances repaid to directors	30	—	(113,614)
Cash advances from related parties	30	—	21,063
Cash advances repaid to related parties	30	(1,063)	(20,000)
Cash advances repaid to then shareholders	30	—	(1,910)
New loans payable		6,165,573	2,724,603
Repayments of borrowings		(7,477,303)	(1,919,708)
Government grants received		49,459	—
Dividend paid to a minority shareholder		(10,001)	(9,000)
Net cash generated from financing activities		2,555,956	681,434
Net increase in bank and cash balances		2,168,970	207,060
Bank and cash balances at beginning of the year		651,587	446,890
Exchange losses on bank and cash balances		(3,897)	(2,363)
Bank and cash balances at end of the year	13	2,816,660	651,587

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND GROUP REORGANIZATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

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

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

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

[1] *Effective for accounting periods commencing on or after 1 January 2007*

[2] *Effective for accounting periods commencing on or after 1 January 2006*

[3] *Effective for accounting periods commencing on or after 1 December 2005*

[4] *Effective for accounting periods commencing on or after 1 March 2006*

[5] *Effective for accounting periods commencing on or after 1 May 2006*

[6] *Effective for accounting periods commencing on or after 1 June 2006*

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

2.2 Consolidation

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

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interests

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

2.3 Segment reporting

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

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

2.6 Construction in progress

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

2.7 Land use rights

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

2.8 Intangible asset

Goodwill

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

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

2.9 Impairment of non-financial assets

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

2.10 Inventories

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

2.11 Trade and other receivables

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

2.12 Share capital

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

2.13 Cash and cash equivalents

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

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

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

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

2.15 Deferred income tax

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

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

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

2.16 Employee benefits

(a) Pension obligations

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

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

The contributions are recognized 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 recognized 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 recognized until the time of leave.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized 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 recognizes the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

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

(d) Termination benefits

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

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.18 Revenue recognition

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

(a) Sales of goods and scrap materials

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

(b) Sales of transportation services

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

(c) Interest income

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

(d) Sales of electricity

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

2.19 Leases (as the lessee)

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

2.20 Government grants

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

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

2.21 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

(b) Fair value and cash flow interest rate risk

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

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

(c) Credit risk

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

(d) Liquidity risk

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

3.2 Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

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

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

(b) Useful lives of plant and machinery

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

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

(c) Valuation of share options

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

(d) Net realizable value of inventories

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

(e) Provision for impairment of receivables

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

5. SALES

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

Sales recognized during the year are as follows:

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

6. PROPERTY, PLANT AND EQUIPMENT — GROUP

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

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

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

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

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

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

7. LAND USE RIGHTS — GROUP

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

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

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

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

8. INTANGIBLE ASSET — GROUP

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

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

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

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

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

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

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

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

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

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

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

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

Company	Place of incorporation and kind of legal entity	Principal activities/ place of operation	Issued and fully paid share capital/paid-in capital	Interest held
Taicang Nine Dragons	PRC/wholly foreign owned enterprise	Manufacture of paper/PRC	US$169,570,000	100%
Dongguan Sea Dragon	PRC/Sino-foreign equity joint venture enterprise	Manufacture of paper/PRC	US$100,300,000	100%
Taicang Sea Dragon	PRC/wholly foreign owned enterprise	Manufacture of paper/PRC	US$11,200,000	100%
Dongguan Land Dragon Paper Industries Company Limited ("Dongguan Land Dragon")	PRC/Sino-foreign equity joint venture enterprise	Manufacture of paper/PRC	US$8,410,000	100%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An")	PRC/Sino-foreign equity joint venture enterprise	Manufacture of pulp and paper/ PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited ("Dongguan Transportation")	PRC/limited liability company	Provision for transportation services/PRC	RMB5,000,000	90%
Taicang Nine Dragons Transportation Company Limited ("Taicang Transportation")	PRC/limited liability company	Provision for transportation services/PRC	RMB2,000,000	90%
Taicang Nine Dragons Coal and Charcoal Trading Company Limited ("Taicang Coal and Charcoal")	PRC/limited liability company	Wholesales of coal and charcoal	RMB5,000,000	100%

10. INVENTORIES — GROUP

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

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

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

11. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

12. RESTRICTED CASH — GROUP

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

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

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

13. BANK AND CASH BALANCES

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

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

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

14. SHARE CAPITAL

Movements were:

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

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

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

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

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

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

15. OTHER RESERVES

Group

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

Company

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

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

(b) *Statutory reserve and enterprise expansion fund*

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

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

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

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

16. TRADE AND OTHER PAYABLES

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

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

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

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

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

17. BORROWINGS — GROUP

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

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

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

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

The maturity of the borrowings is as follows:

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

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

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

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

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

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

The Group has the following undrawn borrowing facilities:

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

18. DEFERRED INCOME TAX — GROUP

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

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

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

Deferred income tax liabilities

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

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

19. OTHER GAINS — NET

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

20. EXPENSES BY NATURE

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

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

21. EMPLOYEE BENEFIT EXPENSE

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

(a) Pensions — defined contribution plans

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

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

(b) Directors' and senior management's emoluments

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

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

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

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

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

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

(c) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

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

22. FINANCE COSTS

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

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

23. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

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

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

24. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

25. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 3,000,000,000 ordinary shares were deemed to be in issue since 1 July 2004 as detailed in note 2.1.

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

Diluted

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

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

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

26. DIVIDEND

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

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

27. CASH GENERATED FROM OPERATIONS

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

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

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

Non-cash transactions

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

28. CONTINGENCIES

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

29. COMMITMENTS

(a) Capital commitments

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

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

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

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

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

30. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

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

(b) Transactions with related parties

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

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

(c) Key management compensation

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

(d) Balances with related parties

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

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

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

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

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

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

(f) Guarantees

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

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

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

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

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

31. EVENT AFTER BALANCE SHEET DATE

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

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玖龍紙業(控股)有限公司

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

7.875% Senior Notes due 2013

Issue Price: 99.493%

OFFERING MEMORANDUM

Merrill Lynch & Co.

April 22, 2008