玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

UNAUDITED RESULTS ANNOUNCEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

- Sales jumped 22.9% to approximately RMB4.64 billion.
- Gross profit rose by 45.3% to approximately RMB1.20 billion.
- Gross profit margin increased from 22.0% to 26.0%.
- Operating profit rose by 43.0% to over RMB1.11 billion.
- Profit attributable to Shareholders jumped 69.2% to approximately RMB0.95 billion.
- Net profit margin increased from 14.8% to 20.4%.
- Basic earnings per share climbed 21.1% from RMB0.19 to RMB0.23.
- Proposed interim dividend per share of RMB1.60 cents (equivalent to approximately HK1.61 cents).

FINANCIAL RESULTS

The Board of Directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the half-year ended 31 December 2006, together with the comparative figures for the corresponding period of the previous year:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited Half-year ended 31 December	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Sales	*3*	**4,638,469**	3,774,314
Cost of goods sold	*4*	**(3,434,528)**	(2,945,696)
Gross profit		**1,203,941**	828,618
Other gains (net)	*5*	**148,913**	104,015
Selling and marketing costs	*4*	**(96,847)**	(69,905)
Administrative expenses	*4*	**(140,523)**	(82,749)
Operating profit		**1,115,484**	779,979
Finance costs	*6*	**(85,278)**	(156,424)
Profit before income tax		**1,030,206**	623,555
Income tax expense	*7*	**(54,955)**	(47,064)
Profit for the half-year		**975,251**	576,491
Profit attributable to:			
Equity holders of the Company		**948,062**	560,216
Minority interests		**27,189**	16,275
		975,251	576,491
Earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*			
– basic	*8*	**0.23**	0.19
– diluted	*8*	**0.22**	N/A
Dividend	*9*	**94,937**	–

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	31 December 2006 Unaudited *RMB'000*	30 June 2006 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**11,333,366**	8,625,486
Land use rights	*10*	**692,095**	592,125
Intangible asset	*11*	**146,694**	146,694
Total non-current assets		**12,172,155**	9,364,305
Current assets			
Inventories		**861,785**	932,031
Trade and other receivables	*12*	**1,482,543**	1,559,012
Restricted cash		**–**	200,590
Bank and cash balances		**848,427**	2,816,660
Total current assets		**3,192,755**	5,508,293
Total assets		**15,364,910**	14,872,598
EQUITY			
Capital and reserves attributable to Shareholders of the Company			
Share capital	*13*	**4,141,291**	4,141,291
Other reserves		**967,335**	902,006
Retained earnings			
Proposed final dividend		**–**	95,450
Unappropriated retained earnings		**3,302,322**	2,402,657
		8,410,948	7,541,404
Minority interests		**122,102**	94,913
Total equity		**8,533,050**	7,636,317
LIABILITIES			
Non-current liabilities			
Other payables		**23,838**	27,809
Borrowings	*14*	**4,168,162**	2,743,901
Deferred income tax liabilities		**254,711**	226,808
Total non-current liabilities		**4,446,711**	2,998,518
Current liabilities			
Trade and other payables	*15*	**1,622,264**	1,987,398
Current income tax liabilities		**66,046**	67,440
Dividend payable		**1,050**	6,050
Borrowings	*14*	**695,789**	2,176,875
Total current liabilities		**2,385,149**	4,237,763
Total liabilities		**6,831,860**	7,236,281
Total equity and liabilities		**15,364,910**	14,872,598
Net current assets		**807,606**	1,270,530
Total assets less current liabilities		**12,979,761**	10,634,835

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit for the half-year	**975,251**	576,491
Adjustments for non-cash items/		
Income tax expense/Finance costs	**336,265**	364,911
Working capital changes	**(324,584)**	(456,979)
Cash generated from operations	**986,932**	484,423
Income tax paid	**(5,021)**	(11,330)
Interest paid	**(96,571)**	(176,209)
Net cash generated from operating activities	**885,340**	296,884
Net cash used in investing activities	**(2,712,573)**	(761,601)
Net cash (used in)/generated from financing activities	**(129,700)**	147,912
Net decrease in bank and cash balances	**(1,956,933)**	(316,805)
Bank and cash balances at beginning of the period	**2,816,660**	651,587
Exchange losses on bank and cash balances	**(11,300)**	(1,420)
Bank and cash balances at end of the period	**848,427**	333,362

Notes:

1. General information and basis of preparation

Nine Dragons Paper (Holdings) Limited was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Group is principally engaged in the manufacture and sales of paper.

This condensed consolidated interim financial information for the half-year ended 31 December 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 30 June 2006.

2. Accounting policies

The accounting policies used in the preparation of this information are consistent with those used in the annual financial statements for the year ended 30 June 2006, except for changes in accounting policies made thereafter in adopting the following new standards, amendments and interpretations to existing standards which are effective for the Group's accounting periods beginning on or after 1 July 2006:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans 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	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
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
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

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 fiscal year beginning on or after 1 January 2007 and have not yet been early adopted by the Group:

HK(IFRIC)-Int 10	Interim Financial Report and Impairment
HKAS 1 (Amendment)	Amendments to Capital Disclosures
HKFRS 7	Financial Instruments: Recognition and Measurement

The management is currently in the process of assessing the impact of application of these new standards and amendments that will have on the Group's financial statements in the period of initial application.

3. 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.

The Group's principal market is the PRC and its sales to overseas customers contributed less than 10% of the revenues, results and assets of the Group. Accordingly, no geographical segment is presented.

Sales recognised during the half-year ended 31 December 2006 are as follows:

	Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Sales of paper	**4,494,570**	3,652,542
Sales of unbleached kraft pulp	**143,899**	121,772
	4,638,469	3,774,314

4. Expenses by nature

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

	Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Depreciation of fixed assets *(note 10)*	**163,681**	159,715
Add: amount absorbed in opening inventories	**11,907**	11,302
Less: amount absorbed in closing inventories	**(6,218)**	(12,974)
	169,370	158,043
Employee benefit expense	**197,412**	146,882
Changes in finished goods	**(71,703)**	(77,748)
Raw materials and consumables used	**3,078,119**	2,701,434
Operating leases		
– land use rights *(note 10)*	**6,529**	6,577
– buildings	**1,205**	108

5. Other gains (net)

	Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Transportation	**2,136**	(293)
Sales of scrap materials	**15,881**	14,221
Sales of electricity	**93,166**	81,902
Interest income	**13,918**	8,185
Net foreign exchange gains	**23,812**	–
	148,913	104,015

6. Finance costs

	Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank borrowings	**104,455**	169,101
Less: interest capitalised	**(11,625)**	(19,785)
	92,830	149,316
Bills discount charge	**17,474**	16,219
Other incidental borrowing cost	**2,036**	2,246
Exchange gains on borrowings	**(27,062)**	(11,357)
	85,278	156,424

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.870% for the half-year ended 31 December 2006 (half-year ended 31 December 2005: 5.642%).

7. Income tax expense

	Half-year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Current tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**27,052**	22,636
	27,052	22,636
Deferred income tax	**27,903**	24,428
	54,955	47,064

Hong Kong profits tax has not been provided as Zhang's Enterprises Company Limited ("Zhang's") did not have any assessable profits during half-year ended 31 December 2006. 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.

8. 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.

	Half-year ended 31 December	
	2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	**948,062**	560,216
Number of ordinary shares in issue *(shares in thousands)*	**4,150,000**	3,000,000
Basic earnings per share *(RMB per share)*	**0.23**	0.19

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.

	Half-year ended 31 December 2006
Profit attributable to equity holders of the Company *(RMB'000)*	**948,062**
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,150,000**
Adjustments — share options *(shares in thousands)*	**65,033**
Calculated for weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,215,033**
Diluted earnings per share *(RMB per share)*	**0.22**

9. Dividend

A 2006 final dividend of RMB2.30 cents (equivalent to approximately HK2.26 cents) (2005 final: Nil) per ordinary share, totalling RMB94,937,000 was paid in the half-year ended 31 December 2006 (half-year ended 31 December 2005: Nil).

10. Capital expenditure

	Land use rights *RMB'000*	**Property, plant and equipment** *RMB'000*
Half-year ended 31 December 2005		
Opening net book amount as at 1 July 2005	607,562	7,639,960
Additions	49,459	658,734
Disposals	–	(4,988)
Amortisation/depreciation charges *(note 4)*	(6,577)	(159,715)
Closing net book amount as at 31 December 2005	650,444	8,133,991
Half-year 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)**
Amortisation/depreciation charges *(note 4)*	**(6,529)**	**(163,681)**
Closing net book amount as at 31 December 2006	**692,095**	**11,333,366**

(a) Certain properties, plants and equipments of the Group with carrying values of approximately RMB2,168,335,000 as at 31 December 2006 (30 June 2006: RMB2,157,234,000) had been pledged for bank borrowings of the Group (note 14).

(b) No land use rights of the Group as at 31 December 2006 had been pledged for bank borrowings of the Group (30 June 2006: RMB151,520,000) (note 14).

(c) As at 31 December 2006, the Group has constructed certain buildings at cost of RMB25,621,000 (30 June 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.

(d) During the half-year ended 31 December 2006, the Group has received enterprise income tax credit of RMB23,693,000 (half-year ended 31 December 2005: Nil) relating to the purchase of qualified equipment manufactured in the PRC. The amounts of credit has been deducted from the cost of additions of the plant and equipment.

11. Intangible asset

Intangible asset as at 31 December 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 by the Company are based on the business valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), the independent valuer, on 1 January 2005. Accordingly, the goodwill is the cost to be paid, which 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 2006 is necessary based on the business valuation carried out by Vigers as at 30 June 2006.

12. Trade receivables

The Group's sales to corporate customers are entered into on credit terms around 30 to 60 days. As at 31 December 2006, the ageing analysis of trade receivables is as follows:

	31 December 2006 ***RMB'000***	30 June 2006 *RMB'000*
0-30 days	**686,870**	704,567
31-60 days	**214,925**	189,776
61-90 days	**31,036**	44,260
Over 90 days	**9,767**	14,015
	942,598	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.

13. Share capital

	Number of ordinary shares *Shares in thousands*	**Nominal value of ordinary shares** *HK$'000*	**Equivalent nominal value of ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
Half-year ended 31 December 2005					
As at 1 July 2005 and 31 December 2005	3,000,000	300,000	312,000	–	312,000
Half-year ended 31 December 2006					
As at 1 July 2006 and 31 December 2006	4,150,000	415,000	431,600	3,709,691	4,141,291

14. Borrowings

	31 December 2006 *RMB'000*	30 June 2006 *RMB'000*
Non-current	**4,168,162**	2,743,901
Current		
– Short-term bank borrowings	**380,789**	1,737,040
– Current portion of long-term bank borrowings	**315,000**	439,835
	695,789	2,176,875
Total borrowings	**4,863,951**	4,920,776

Movements in borrowings is analysed as follows:

	RMB'000
Half-year ended 31 December 2005	
Opening amount as at 1 July 2005	6,248,851
New borrowings	2,211,676
Repayments of borrowings	(2,137,596)
Closing amount as at 31 December 2005	6,322,931
Half-year ended 31 December 2006	
Opening amount as at 1 July 2006	**4,920,776**
New borrowings	**4,068,071**
Repayments of borrowings	**(4,124,896)**
Closing amount as at 31 December 2006	**4,863,951**

As at 31 December 2006, borrowings of RMB751,908,000 (30 June 2006: RMB1,046,901,000) are secured by assets of the Group and guarantees given by related parties, which are detailed as follows:

	31 December 2006 *RMB'000*	30 June 2006 *RMB'000*
Borrowings secured by assets of the Group only *(note (a))*	**751,908**	420,901
Borrowings secured by both assets of the Group and guarantees given by related parties *(notes (a))*	**–**	626,000
	751,908	1,046,901

(a) Details of the Group's assets pledged as securities for borrowings are disclosed in note 10.

The maturity of the borrowings is as follows:

	31 December 2006 *RMB'000*	30 June 2006 *RMB'000*
Within 1 year	**695,789**	2,176,875
Between 1 and 2 years	**1,735,857**	1,537,000
Between 2 and 5 years	**2,368,853**	1,016,901
Wholly repayable within 5 years	**4,800,499**	4,730,776
Over 5 years	**63,452**	190,000
	4,863,951	4,920,776

The effective interest rates as at 31 December 2006 are as follows:

	31 December 2006	30 June 2006
Long-term bank borrowings	**5.908%**	5.665%
Short-term bank borrowings	**5.191%**	5.453%

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

The carrying amounts of all the Group's borrowings as at 31 December 2006 are denominated in the following currencies:

	31 December 2006	30 June 2006
	RMB'000	*RMB'000*
RMB	**2,679,770**	2,771,318
US Dollars	**2,184,181**	502,418
HK Dollars	**–**	1,647,040
	4,863,951	4,920,776

The Group has the following undrawn borrowing facilities:

	31 December 2006	30 June 2006
	RMB'000	*RMB'000*
Floating rate:		
– expiring within one year	**3,504,370**	4,376,497
– expiring beyond one year	**1,216,803**	1,066,898
	4,721,173	5,443,395

15. Trade payables

The ageing analysis of trade payables as at 31 December 2006 is as follows:

	31 December 2006	30 June 2006
	RMB'000	*RMB'000*
0-90 days	**743,878**	1,048,913
91-180 days	**3,365**	23,386
181-365 days	**4,229**	17,949
Over 365 days	**9,933**	1,589
	761,405	1,091,837

16. Commitments

(a) Capital commitments

Capital expenditure as at 31 December 2006 but not yet incurred is as follows:

	31 December 2006	30 June 2006
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Property, plant and equipment	**3,013,894**	2,214,035
Authorised but not contracted for:		
– Property, plant and equipment	**987,657**	1,762,470
	4,001,551	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:

	31 December 2006	30 June 2006
	RMB'000	*RMB'000*
Property, plant and equipment:		
– Not later than one year	**2,336**	2,386
– Later than one year but not later than five years	**1,474**	2,574
	3,810	4,960

INTERIM DIVIDEND

The Board has resolved to recommend payment of an interim dividend of RMB1.60 cents (equivalent to approximately HK1.61 cents) per share for the half-year ended 31 December 2006, which is expected to be payable to shareholders by post on or about 23 March 2007. The dividend will be payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 21 February 2007. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 to RMB0.9935 as at 12 February 2007 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 February 2007 to 26 February 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 21 February 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the Group's newly added paper machines for the fiscal year of 2007 will be gradually put into production in the second half of the financial year, therefore, the Nine Dragons Group's annual design capacity at its production bases in Dongguan and Taicang for the half-year ended 31 December 2006 remained at 3.30 million tonnes, comprising 1.50 million tonnes of kraftlinerboard, 1.35 million tonnes of high performance corrugating medium and 450,000 tonnes of coated duplex board with grey back.

In November 2006, the Group expanded its third production base to Chongqing City in central-western China, and through which the Group further extended its sales coverage to regions well beyond Pearl River Delta and Yangtze River Delta.

Business Strategies

During the half-year ended 31 December 2006, the Group continues to focus on the implementation of four business strategies: further expanding market leadership position, enhancing operating efficiency, expanding geographical coverage and product offerings, as well as attracting high caliber employees. These business strategies can enhance the Group to become the world's leading containerboard product manufacturer with the highest efficiency and profitability in order to maintain sustainable business growth and increase shareholders' value.

Further expanding market leadership position

The Group plans to increase its annual designed capacity of 4.50 million tonnes as at the date of this announcement by 18.9% to 5.35 million tonnes by the end of June 2007. In terms of capacity, all the major products of the ND Paper, including kraftlinerboard, high performance corrugating medium and coated duplex board with grey back, have taken the leading position in the industry. It is anticipated that such leading position will extend to the whole Asia after the successive commencement of the production of newly added paper machines for the second half-year of the fiscal year of 2007. The Group will continue to expand its production capacity and market share and is well prepared to capture any opportunities for future growth so as to promote its leading position in the world.

Continuous investment in infrastructure for future development

The Group has made substantial investment in infrastructure, including power plants, land and piers.

As at 31 December 2006, the Group has sufficient power resources to meet the electricity demand of the Group's annual production capacity up to 5.35 million tonnes. The Group has also made substantial investments in acquiring land use rights in Dongguan, Taicang and Chongqing for its existing operations to allow for future development and expansion. The Group has obtained land use certificates for parcels of land with site area of approximately 1.1 million sq.m. and 2.5 million sq.m. in Dongguan and Taicang respectively, and is applying for the land use certificate for the acquired land with site area of 1.7 million sq.m. in Chongqing. The Group's land use rights are for 50 year terms. The land use rights obtained by the Group are sufficient to accommodate expansion of its total annual design capacity to no less than 9 million tonnes in the future.

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group will construct a pier or other transportation infrastructures for every production bases. A pier was completed for the Taicang base in 2005. The Group has also applied for the construction of a pier in Dongguan and all approval procedures are expected to be completed in 2007. In addition to the pier, the new production base at Chongqing will also has railway connected directly to the factory and this can further reduce the costs and expand the Group's sales coverage to the entire central-western region markets in China.

Committed to environmental protection practices

The Group considers that the implementation of environmental protection practices and the maintenance of high environmental standards are valuable asset and competitive strength of the Company. The Group obtained ISO14001 certification for its environmental management standards. As part of its commitment to environmental protection, the Group has invested in environmental facilities which include the water recycling and conservation system that significantly reduces its water consumption at each of its production lines, the circulating fluidized bed waste-to-energy boilers that minimises waste products, and the coal-fired cogeneration power plants that are equipped with particulate filtration and wet desulfuration equipment to allow their emission levels well below permitted emission levels under applicable PRC regulatory requirements. These measures significantly reduce the impact of the Group's operations on the environment and the risk of exposure to liabilities under environmental protection laws and regulations.

Based on its production know-how and technologies, the Group also further increased the percentage of fiber derived from the recovered paper in the Group's products by installing new paper machines ("PMs"), PM12 and PM13, to manufacture linerboard which adopted the use of pure recovered paper as raw materials for its default mode.

In December 2006, Guangdong Environmental Protection Bureau conducted a environmental credit rating on Dongguan Nine Dragons Paper Industries Company Limited and Dongguan Sea Dragon Paper Industries Company Limited, both being members of the Group, and granted the two companies with the honour of Green/Environmental Creditable Enterprise, which is the solid evidence of the Group's record of compliance with environmental protection.

Enhancing operating efficiency

The Group's multiple production lines and dual-machine production line layout provide economies of scale while its ability to manufacture a variety of products simultaneously allows it to minimise equipment shutdowns required for product and specification changes. The Group has designed its product mix to meet market demand in different markets and different industries. In 2006, ND Paper has successfully reduced the water consumption and solid waste for each tonne of paper produced by way of redeploying water and scrap fiber by-product from the production of one product into parts of the raw materials for the production of another product for recycling. Leveraging on its equipment know-how, the Group has been able to accommodate the use of an increased variety of recovered paper grades, and for some products produced with pure recovered paper content, while maintaining product quality and performance characteristics. This feature provides the Group with more room for cost reduction. The Group will make more research efforts on enhancing resources utilization efficiency, including human resources, so as to further reduce cost.

Adding new production facilities

As at 31 December 2006, the five new PMs, i.e. PM11 to PM13, PM16 and PM17, are still at construction stage and there is no change in the Group's production capacity during the half-year ended 31 December 2006. In the half-year ended 31 December 2006, the average utilisation rate of the Group's PMs was 95.2%, and their actual hours of operation and utilisation rates both improved across the board as compared with the same period last year.

The Group has installed additional PMs to allow the Group to further minimise equipment shutdown period required for product and basis weight changes. Through the concerted efforts and total commitment of all staff of the Group as well as the invaluable experience and outstanding know-how of the management, PM11, PM16 and PM17 were formally put into production in January 2007 and commenced operations at a date that was two months (PM11) and five months (PM16 and PM17) ahead of schedule respectively. With shortened construction time, the Group is able to save a substantial amount of resources and costs involved and enhance the returns to shareholders. This also reflects the execution power of the Group in strictly controlling the progress of the construction of new PMs.

Sources of high quality and price competitive raw materials

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

The Group's production and environmental policy is to maximise the use of recovered paper to produce high-quality products to meet its customers' cost objectives. As a result, the Group's sourcing strategy is to source from suppliers that can offer a reliable supply of recovered paper with consistent quality. The Group sources the majority of its recovered paper from a related company, America Chung Nam, Inc. ("ACN"), and the remainder from several trading companies. To secure the stability of supply and improve transparency in the course of dealing, the Group will source not less than 20% of its recovered paper in terms of aggregate value of its purchases of recovered paper from suppliers other than ACN annually. For the half-year ended 31 December 2006, the Group's purchases of recovered paper from ACN amounted to RMB1,203,375,000, representing 65.8% of Group's total purchases of recovered paper.

Due to the short supply of kraft pulp in China, a stable supply of substantial volumes of consistent high quality kraft pulp is critical to the Group's success. To secure a future supply of unbleached kraft pulp, the Group holds a 55% interest in an equity joint venture, Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An"), which has the capacity to produce 100,000 tonnes of long-fibred unbleached kraft pulp annually. During the half-year ended 31 December 2006, the Group's purchase from ND Xing An represents approximately 20.1% of the Group's total purchases of unbleached kraft pulp.

Retaining in-house maintenance teams

The Group has over 700 maintenance personnel who have undergone training provided by the original equipment vendors and are responsible for periodic repair and maintenance of the Group's paper machines. The paper machines are regularly inspected and maintained by the Group's maintenance teams to ensure that they are in proper working order. In addition, the Group also upgrades its production equipments concurrently with its repair and maintenance from time to time to increase their life span and efficiency.

Use of information technology

The progress of gradually implementing an enterprise resources planning (ERP) system for its Dongguan and Taicang operations is satisfactory. The system will manage, control and track all aspects of operations, including inventory control, operation and maintenance of the PMs, quality control of its products, sales and marketing and delivery of the Group's products through its internal transportation and delivery network. The ERP system is expected to be fully implemented in mid 2007, which will lay a sound foundation for further overall control on costs and make a significant improvement in the timing and accuracy of information transmission.

Expanding geographical coverage and product offerings

During the half-year ended 31 December 2006, the Group has successfully expanded its sales coverage beyond the Yangtze River Delta and the Pearl River Delta regions to Chongqing City in the central-western region of China, and will also seek business opportunities in the northern region of China. The first paper production line in Chongqing, with a designed capacity of 450,000 tonnes of linerboard, will commence operations in mid 2008.

As the manufacturing industries in the central-western and northern regions are more diversified and cover more consumer products like food, medicine, liquor and tobacco, home electrical appliance and spare parts for automobile etc., which are different from those manufacturing industries in the Yangtze River Delta and the Pearl River Delta regions, the Group is actively exploring opportunities to expand its product lines to allow the Group to offer a broader range of complementary products to customers.

Attracting high caliber employees

We believe that the quality of the Group's human resources, in particular, its management and engineers, are critical to its ability to compete effectively. The Group aims to achieve and exceed international standards of performance excellence by following international best practices for management and corporate governance, including OHSAS18001 certification for its occupational health and safety system,

As at 31 December 2006, the Group had approximately 7,480 full time management, administrative and production staff in the PRC and Hong Kong. The related employee's costs for the period (including directors' emoluments) amounted to approximately RMB197,412,000. The Group also seeks to continue to attract and retain domestic and international management and engineering talents by continuous implementation and refinement of its incentive bonus program and through staff development programs such as periodic in-house and overseas training.

Financial Review

The Group continued to record double-digit growth in turnover and earnings for the half-year ended 31 December 2006 as compared with the corresponding period of last year.

For the second half of previous financial year (being the half-year ended 30 June 2006) and the half-year ended 31 December 2006, the Group's designed capacity maintained at 3.30 million tonnes. The turnover and profit attributable to Company's equity holders (excluding the interest income of approximately RMB117,695,000 derived from over-subscription of shares during the initial public offering in March 2006) for the second half of last financial year were RMB4,127,842,000 and RMB696,871,000 respectively. As such, in the absence of capacity expansion, the turnover and earnings of the ND Paper for the first six months of this financial year increased by 12.4% and 36.0% respectively over that of the second half of previous financial year. These results were mainly the outcome of the economies of scale, full utilization of the Group's PMs and stringent cost control measures further implemented by the Group's management team.

Revenue

During the half-year ended 31 December 2006, the Group's revenue grew by 22.9% and reached RMB4,638,469,000, representing an increase of RMB864,155,000 over the corresponding period of the previous financial year. The growth in revenue was primarily due to the increase in the Group's total sales volume of packaging paperboard products to approximately 1,586,000 tonnes in the half-year ended 31 December 2006 from approximately 1,286,000 tonnes in the same period of last financial year, representing an increase of approximately 23.3%. The significant increase in the total sales volume of packaging paperboard products was a direct result of the commencement of operation of the Group's PM9 and PM10 in late December 2005.

The domestic market continues to be the largest market for the Group. For the two half-year periods ended 31 December 2006 and 2005, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises, constituted 41.0% and 40.8% of the Group's total sales respectively. For the two half-year periods ended 31 December 2006 and 2005, the Group's five largest customers in aggregate accounted for approximately 11.7% and 7.7% of sales for the period. Sales to the single largest customer for the same periods accounted for approximately 2.8% and 2.9% of the Group's sales respectively.

Gross Profit

The gross profit for the half-year ended 31 December 2006 was RMB1,203,941,000, an increase of RMB375,323,000 compared to the RMB828,618,000 recorded in the same period of the previous financial year. Gross margin for the year improved from 22.0% to 26.0%. The increase in gross margin was due to the economies of scale from production capacity expansion, further optimization of the Group's PMs and stringent cost control.

Other Gains (Net)

Other gains, net, of the Group increased 43.2% to RMB148,913,000 in the half-year ended 31 December 2006 from RMB104,015,000 in the same period of the previous financial year. The increase was due primarily to an increase in the sale of excess electricity of RMB11,264,000 to RMB93,166,000, an increase of RMB5,733,000 in interest income and a net exchange gain of RMB23,812,000 as a result of the appreciation of Renminbi in the half-year ended 31 December 2006.

Operating Profit

The operating profit for the half-year ended 31 December 2006 was RMB1,115,484,000, representing an increase of RMB335,505,000 or 43.0% over the same period of the previous financial year. The improvement mainly came from significant improvement in gross profit and gross margin which resulting from overall growth in revenue, a change in the sales mix and improvements in operational efficiency.

Selling and marketing costs increased by 38.5% from RMB69,905,000 in the same period of the previous financial year to RMB96,847,000 in the half-year ended 31 December 2006. The total amount of selling and marketing costs as percentage of Group revenue increased from 1.9% in the same period of the previous financial year to 2.1% in the half-year ended 31 December 2006.

Administrative expenses increased from RMB82,749,000 in the same period of the previous financial year to RMB140,523,000 in the half-year ended 31 December 2006. Additional management and administrative staff were hired in connection with the pre-allocation of human resources for the commencement of new PMs in Dongguan and Taicang and new base in Chongqing during the period under review. The Group also made new share option expenses of RMB16,419,000 following the adoption of HKFRS 2. The percentage of administrative expenses in the Group's revenue increased by 0.8 basis point to 3.0% as compared to 2.2% in the same period of last financial year. The Group's administrative expenses amounted to RMB124,104,000 after deducting the provision for the share option scheme, representing 2.7% of its revenue.

Net Profit and Dividend

The higher revenue and improved margin drove the profit attributable to shareholders for the half-year ended 31 December 2006 by 69.2% to RMB948,062,000, as compared to RMB560,216,000 recorded in the same period of last year. The ratios of EBIT and EBITDA to revenue were 23.9% and 27.7% respectively.

The Group's finance costs decreased by 45.5% to RMB85,278,000 in the half-year ended 31 December 2006 from RMB156,424,000 in the same period of last financial year, as a result of the Group's effort in cost control and improvement in liquidity of the Group after the listing in March 2006.

Basic earnings per share for the half-year ended 31 December 2006 were RMB0.23, representing an increase of 21.1%, compared to RMB0.19 in the same period of previous financial year. The directors have proposed an interim dividend of RMB1.60 cents per share, which will aggregate to approximately RMB66,649,000.

Liquidity and Financial Resources

The Group's financial resources continued to be strong. The shareholders' funds as at 31 December 2006 were RMB8,410,948,000, a 11.5% increase from RMB7,541,404,000 reported as at 30 June 2006. The net asset value per share increased from RMB1.82 to RMB2.03.

The Group continue to enjoy stable and strong net cash inflow from operating activities for the period of RMB885,340,000 as compared to RMB296,884,000 in the comparable period of last financial year.

In terms of the Group's available financial resources as at 31 December 2006, notwithstanding that RMB94,937,000 was distributed to shareholders as dividend payment in December 2006, the Group ended the period with RMB848,427,000 of cash and bank deposits and total undrawn bank loan and overdraft facilities of RMB4,721,173,000.

As at 31 December 2006, the Group had short-term borrowings and long-term borrowings of RMB695,789,000 and RMB4,168,162,000 respectively, accounting for 14.3% and 85.7% of the total borrowings respectively. As at 31 December 2006, the Group pledged assets with aggregate carrying value of RMB2,168,335,000 (30 June 2006 – RMB2,308,754,000) to secure bank loans facilities of the Group. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 84.5% of total borrowings as at 31 December 2006.

As at 31 December 2006, the net borrowings to equity ratio for the Group, expressed as a percentage of net borrowings of RMB4,015,524,000 and shareholder's equity of RMB8,410,948,000, was 47.7% (30 June 2006 – 25.2%).

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

Treasury Policies

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

As at 31 December 2006, total US dollars borrowings amounted to the equivalence of RMB2,184,181,000 and RMB loans amounted to RMB2,679,770,000. Total non-RMB borrowings represented approximately 44.9% of the Group's total borrowings. The Group's revenue is mainly denominated in Renminbi and HK dollars.

The Group entered into an unsecured syndicated loan agreement on 19 September 2006 for the future capital expenditure requirements and working capital requirements of the Group. The interest rate applied to this facility is London Interbank Offered Rate (LIBOR) plus 55 basis points. This facility enables the Group to increase the proportion of non-RMB loans in the Group's total loans. In addition, the Group can also better utilise its RMB income and accelerate the repayment of RMB loans in order to minimize exposure to exchange fluctuation and maximize the benefit from the appreciation of RMB brought to the Group.

As at 31 December 2006, 51.0% of the Group's borrowings are based on fixed interest rates, and the interest cost of the remaining borrowings are based on floating rates.

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

Working Capital

The inventory and trade debtors and bills receivable as at 31 December 2006 were RMB861,785,000 and RMB1,064,346,000 respectively, representing a decrease of 7.5% and 18.9% as compared to RMB932,031,000 and RMB1,312,378,000 as at 30 June 2006. The turnover days for inventory and trade debtors were 46 days and 42 days respectively, compared to 56 days and 48 days in the corresponding period of the last financial year. The turnover days for raw materials and finished products were 35 days and 11 days respectively for the half-year ended 31 December 2006, compared to 40 days and 16 days in the corresponding period of the last financial year. The control and utilisation rate of liquidity improved significantly as compared to last financial year. With a shorter cash turnover period, the Group also shortened the credit period from suppliers to reduce the costs of raw materials. The current ratio (current assets divided by current liabilities) was 1.3.

Capital Expenditure

The Group invested RMB2,877,468,000 during the half-year ended 31 December 2006 in capital expenditure for the construction of factory buildings, purchase of plant machinery, equipment and other tangible assets, as compared to RMB658,734,000 in the same period of last financial year. These capital expenditures were fully financed by internal resources, net proceeds from the issue of new shares and bank borrowings.

Use of Net Proceeds of the New Issue

The balance of the proceeds derived from the new issue of approximately RMB1,394,581,000 as at 30 June 2006, which was planned for funding the Group's future capital expenditure, has been fully applied during the half-year ended 31 December 2006.

Capital Commitments and Contingent Liabilities

Up to 31 December 2006, the future capital expenditure for which the Group had contracted but unprovided for and authorised but not yet contracted for amounted to approximately RMB4,001,551,000.

Future Plans and Prospects

The Group is positive about the prospects of its long-term sustainable expansion, and strongly believes that the simultaneous growth in supply and demand will continue to provide a favourable operating environment for the Group, promote the healthy expansion of its business and help realize the goal of increasing its annual production capacity to 7.75 million tonnes in 2008. The increase in the Group's production capacity will be in line with future demand, which will help maintain an orderly market in the long run, provide the necessary factors for the economy of scale, and further strengthen its leading position in the international and domestic packaging paper board market. Meanwhile, the Group will continue to seek business opportunities overseas as well as in the PRC and develop the upstream pulp business with competitive edge.

The review and approval procedures for the Group's pier in Dongguan will be completed in 2007, and the construction works of the pier is expected to commence in the the first half of 2008, and the Group's transportation cost will be further reduced upon completion of the pier. ND Paper's plan for its fourth production base is expected to be finalised in 2007 with all review and approval procedures completed and construction works will commence in 2008. In addition, the Group's headquarters and management centre will be located in Dongguan, where ND Paper's first production base is located. Such arrangement will bring to the Group maximized efficiency when all four production bases and the management centre are put into operation.

Looking ahead, ND Paper will strategically invest in overseas and domestic markets to gear up the sustainable expansion of its business. It is the Group's goal that ND Paper becomes the most efficient manufacturer with the largest production capacity worldwide and the leading manufacturer in the international packaging paper industry.

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

During the six months ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee meets at least four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit. The Audit Committee, together with the Company's management and its external auditor PricewaterhouseCoopers, has reviewed the accounting principles and practices adopted by the Company and discussed over and reviewed the auditing and financial matters, including all significant aspects involving financial, operational and compliance controls.

All members of the Audit Committee are independent non-executive directors, namely, Dr. Cheng Chi Pang (chairman), Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Mr. Wang Hong Bo.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report has been reviewed by the Company's Audit Committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE PRACTICES

ND Paper is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalizing best practices. Throughout the half-year ended 31 December 2006, the Company followed the principles and complied with all applicable provisions under the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code. Specific enquiries have been made with all directors, who have confirmed that, during the period under review, they were in compliance with provisions of the Model Code. Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

PUBLICATION OF INTERIM RESULTS

This results announcement is published on the websites of the Company (www.ndpaper.com) and the Stock Exchange (www.hkex.com.hk). The interim financial report will be dispatched to shareholders of the Company and made available on the above websites as soon as practicable.

APPRECIATION

The encouraging results achieved by the Group during the period under review are attributable to the hard work, commitment and vision of the management and our staff, who have contributed to the continuous growth of the Group. I would like to take this opportunity to thank the local governments for their continuous support in providing us with a favourable operating environment. I would also like to express my sincere gratitude to all shareholders, investors and business partners for their trust and support to the Group.

On behalf of the Board
Cheung Yan
Chairman

Hong Kong, 13 February 2007

As at the date of this announcement, the executive directors are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Ms. Gao Jing and Mr. Wang Hai Ying; the non-executive director is Mr. Lau Chun Shun; the independent non-executive directors are Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo.

* *For identification purposes only*