

Frequently Asked Questions

Industry

What is the management's outlook for the containerboard industry?

The rate of sustained growth in demand for containerboard products has exceeded our management's expectations. Given the promising market landscape on the horizon, we have full confidence in the Group's future development. We expect that the containerboard business will continue its fast pace of growth for the next 5 years and we expect that the imports of containerboard will stand at 4 million tonnes per year.

Will the market become saturated as other suppliers have also been increasing their capacity aggressively recently?

While there has been an increase in containerboard supply due to industry expansion, there has also been a significant increase in demand, which will serve to sustain a healthy pricing environment.

What are the barriers for entry to the containerboard industry?

There are significant barriers of entry and demanding technical requirements for large-scale containerboard manufacturing operations. Companies need to raise a large sum of capital and comply with increasingly stringent industry-specific environmental protection requirements as well as demands from government authorities. In addition, the major raw materials for paper making, namely, recovered paper and kraft pulp, are limited in supply. Consequently, the containerboard manufacturing industry in China remains dominated by a limited number of large manufacturers.

Business

What makes ND Paper's business model special?

With unique insights, especially into the development potential of the industry, ND Paper has invested substantially in its operations and infrastructure to maintain its competitive advantage in the industry. For example, what sets ND Paper apart from its peers is a steady supply of raw materials and access to its own port, which specifically serves the needs of its export business. Apart from expanding further into other areas, ND Paper has acquired land in the Pearl River Delta and the Yangtze River Delta, which can support an annual production capacity of 9 million tonnes, laying a solid base for the Group's future development.

ND Paper produces a variety of types of packaging paperboard and its production scale is extensive enough to function as a one-stop supplier. We attach a high value to cost control and technological research. In respect to operations, ND Paper has adopted the innovative dual-machine layout, which allows for a significant increase in production capacity and overall efficiency. As a result, the Group is progressively benefiting from economies of scale.

Finally, what makes ND Paper very special is its commitment to the environment, safety precautions for its employees, and high standards of corporate governance.

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Would rising prices of kraft pulp affect the performance of the Group?

Our risk exposure to rising raw material costs is limited and this is one of the competitive advantages of the Group. Still, we intend to strengthen our capability of in-house research and development and further reduce the use of unbleached kraft pulp as a raw material in our production in order to minimise our exposure to such risks. The raw material prices of the containerboard industry are highly transparent. Currently, ND Paper is able to transfer changes in costs to its customers within around 30 days. Besides, with our ready access to the latest and accurate market information through ACN and ND Xing An, our major raw material suppliers, we are able to react promptly to changes in raw material prices.

What is the relationship between ACN and ND Paper?

ACN is one of the largest US exporters of recovered paper to China and our solid relationship with this key provider allows us to enjoy economies of scale that elude our peers. This is also a core competitive advantage of ours. Under the agreement between both parties, we maintain a highly transparent procurement system, so that we can deal in prices at the most reasonable and favourable level.

Will the business of ACN be merged into ND Paper?

ND Paper and ACN were established at different times and our business objectives and geographic coverage also vary. Although we have the same controlling shareholders, our business operations are completely different. The Group is engaged in the manufacture of containerboard products, while ACN is engaged in the business of recovered paper recycling. We have been operating separately in various aspects since day one. For example, the Group is financially and operationally independent of ACN. Besides, we both have our own independent management team, geographic focus, sales and marketing channels, and ND Paper is able to source its recycled paper independently.

The recovered paper recycling business of ACN provides its customers with more than 100 different choices of recovered paper, but the Group only procures 10 types of recovered paper from ACN. Other than the Group, ACN has a number of other customers. For the financial year ended 30 June 2005, ACN had more than 200 customers. Both the Group and ACN have grown into a leaders in their respective industries. Hence, the Group and ACN are not dependent on each other. Given that ACN has its unique business focus and product lines as well as independent operations, the controlling shareholders of the Group do not have any plan to merge ACN into the Group. Besides, any acquisition plan is subject to the due consideration and approval of our shareholders.

How will the pre-investments of the Group translate into cost savings?

The China market has tremendous potential. In order to capture these opportunities, we started our aggressive investment activities in the early 1990's. Since then, we have been acquiring more and more production equipment to speed up the expansion of our production capacity. Meanwhile, we have introduced various world-class advanced production technologies to position ourselves as an environmentally friendly manufacturer with international standards. During the process, ND Paper has also laid a solid foundation for growth with the pre-investments in power plants, piers and land acquisitions, which allow us to make significant achievements in cost control.

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What are the expansion plans of ND Paper?

In its original plan as set out in the Prospectus, the Group intended to kick start the financial year 2007 with PM12 for the production of linerboard, and PM13 for the production of high performance corrugating medium, and envisaged a production layout of one paper machine in each workshop. In order to speed up the expansion of its production capacity, the Group has undertaken a thorough technical feasibility study of the original layout plan together with the technical advisers of its machine suppliers. By adopting the dual-machine layout, the Group's production capacity and operating efficiency can be significantly increased. The dual-machine layout is expected to enable the Group to further optimise its product mix and gain savings in investment, operation and labour costs as a result of sharing equipment and man hours by two machines along with more efficient utilisation of space.

Under the revised plan, the Group will adopt the dual-machine layout and put online two paper machines for each workshop, that is, PM 12 plus PM 13 (instead of only PM12 under the original plan) for one workshop, and PM16 plus PM 17 (instead of PM13 under the original plan) for the other. The aggregate annual production capacity will be 700,000 tonnes more than the original plan. The Group will upgrade the annual production capacity of PM8 from 450,000 tonnes of high performance corrugating medium with two-ply sheet to 500,000 tonnes of linerboard with three-ply sheet in the financial year 2007.

Capital Expenditure and Dividend

How will the Group finance its capital expenditure in the near future?

The source of funding for our future expansion plans is our own internal resources and bank borrowings.

What is the dividend policy of the Group?

Our policy is that not less than 20% of the profit will be made available for distribution.

Corporate Governance

What about the corporate governance standard of ND Paper?

We are firmly committed to maintaining and continuously improving our corporate governance standard. We have established three committees under the Board, including the Executive Committee, the Audit committee and the Remuneration Committee, in order to fulfill our commitment to our shareholders and our responsibility to regulatory authorities. The three committees, through performing their responsibilities in accordance with their terms of reference, will oversee the company's internal control system and ensure that it is always aligned with best practices. In respect of internal control and risk management, we have recently established the Risk Control Committee to report to the Board for the establishment of a thorough system for internal control.