

Growth



Report of the Directors

The board of directors of the Company is pleased to present the audited consolidated financial statements of Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2006.

Principal Businesses

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

Results and Appropriations

The results of the Group for the year ended 30 June 2006 are set out in the accompanying financial statements on page 83.

The Company did not recommend payment of any interim dividend for the six months ended 31 December 2005. The Board has resolved to recommend payment of a final dividend of RMB2.30 cents (equivalent to approximately HK2.26 cents) per share for the year ended 30 June 2006, which is expected to be payable on or about 5 December 2006 subject to the approval of the forthcoming annual general meeting. 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 10 November 2006. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK\$1.00 = RMB1.018 as at 20 September 2006 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

Financial Summary

A summary of the consolidated results and of the assets and liabilities of the Group for the last four financial years is set out on page 3 to page 6.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 9 to the financial statements.

Fixed Assets

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

Borrowings

Details of the borrowings of the Group are set out in note 17 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 14 to the financial statements.

Reserves

Details of the change in reserves of the Group and the Company during the year are set out in note 15 to the financial statements.

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Major Customers and Suppliers

For the year ended 30 June 2006, the five largest customers of the Group accounted for approximately 7.9% of its aggregate turnover, while the total purchases attributable to the five largest suppliers of the Group account for less than 82.6% of its aggregate purchases.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Ms. Cheung Yan ("Ms. Cheung")
Mr. Liu Ming Chung ("Mr. Liu")
Mr. Zhang Cheng Fei ("Mr. Zhang")
Ms. Gao Jing ("Ms. Gao")
Mr. Wang Hai Ying ("Mr. Wang")

Non-Executive Director

Mr. Lau Chun Shun

Independent non-executive Directors

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

* All the directors were appointed on 6 February 2006, except Ms. Gao, who was appointed on 6 July 2006.

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

Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange"), and considers that all of the independent non-executive directors are independent.

Directors' Service Contracts

Each of Ms. Cheung, Mr. Liu and Mr. Zhang had entered into a service contract with the Company for a period of three years commencing on 3 March 2006, which may be terminated by either party upon six months' notice.

Each of Mr. Wang and Mr. Lau Chun Shun had entered into a service contract with the Company for a period of one year commencing on 3 March 2006, which may be terminated by either party upon three months' notice. Ms. Gao had entered into a service contract for a period of one year, commencing from 6 July 2006, with the Company which may be terminated by either side upon three months' notice.

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Each of Independent non-executive directors, Ms. Tam, Mr. Chung, Dr. Cheng and Mr. Wang Hong Bo, had entered into a letter of agreement with the Company for a period of one year commencing on 3 March 2006, which may be terminated according to the bye-laws of the Company.

Save as disclosed above, no director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporation

As at 30 June 2006, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules:

The Company

(A) Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the directors and the chief executive of the Company.

Name of Directors	Capacity	Number of issued ordinary shares	Number of underlying shares (in respect of share options) <i>(Note 2)</i>	Approximate percentage of total number shareholding
Ms. Cheung	Interest in controlled corporation <i>(Note 1)</i>	2,986,800,000	–	71.97%
	Beneficial owner <i>(Note 3)</i>	–	16,923,315	0.40%
	Family interest <i>(Note 3)</i>	–	16,914,184	0.40%
Mr. Liu	Interest in controlled corporation <i>(Note 1)</i>	2,986,800,000	–	71.97%
	Beneficial owner <i>(Note 3)</i>	–	16,914,184	0.40%
	Family interest <i>(Note 3)</i>	–	16,923,315	0.40%
Mr. Zhang	Beneficial owner	–	11,814,821	0.28%
Ms. Tam	Beneficial owner	–	1,166,670	0.03%
Mr. Chung	Beneficial owner	–	1,166,670	0.03%
Dr. Cheng	Beneficial owner	–	1,166,670	0.03%

Report of the Directors

Notes:

1. Best Result Holdings Limited ("Best Result") directly held 2,986,800,000 shares in the Company. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 37.1% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.
2. The share options were granted, under the pre-IPO share option scheme of the Company, with effect from 1 January 2006.
3. Ms. Cheung and Mr. Liu were granted options under the pre-IPO share option scheme, which may subscribe for 16,923,315 shares and 16,914,184 shares respectively. Mr. Liu is the spouse of Ms. Cheung. Therefore, pursuant to Part XV of the SFO, Ms. Cheung is deemed to be interested in the shares subject to the share options granted to Mr. Liu and Mr. Liu is deemed to be interested in the shares subject to the share options granted to Ms. Cheung.

(B) Interests in the Associated Corporation - Best Result

Name of directors	Capacity	No. of ordinary shares held in Best Result	Approximate percentage of total number shareholding
Ms. Cheung	Beneficiary of a trust	37,073	37.073%
Mr. Liu	Beneficiary of a trust	37,053	37.053%
Mr. Zhang	Beneficiary of a trust	25,874	25.874%

All the interests disclosed in sections (A) and (B) above represent long positions in the shares of the Company or the associated corporation. Save as disclosed above, none of the directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as at 30 June 2006, 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.

Report of the Directors

Interests and Short Positions of Substantial Shareholders Discloseable under the SFO

As at 30 June 2006, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons, other than the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in the shares or underlying shares of the Company:

Name	Capacity	Number of issued Ordinary Shares of the Company Held <i>(Note 1)</i>	Approximate percentage of shareholding
Best Result <i>(Note 2)</i>	Beneficial Owner	2,986,800,000	71.97%
HSBC Bank USA, National Association <i>(Note 2)</i>	Trustee of YC 2006 QuickGRAT	2,986,800,000	71.97%
Bank of the West <i>(Note 2)</i>	Trustee of MCL Living Trust	2,986,800,000	71.97%

Notes:

- (1) All of the above interests are long positions.
- (2) Best Result directly held 2,986,800,000 shares in the Company. The issued share capital of Best Result is held as to approximately 37.1% by Ms. Cheung as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 37.1% by Ms. Cheung and her spouse, Mr. Liu, as the trustees and the special trustees and Bank of The West as the trustee of MCL Living Trust.

Save as disclosed above, as at 30 June 2006, 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.

Directors' Interests in Material Contracts

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

Donations

During the year, the Group donated a total of HK\$1,000,000 for charitable purposes.

Post Balance Sheet Date Event

Details of post balance sheet date event of a material nature are set out in note 31 to the financial statements.

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Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

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

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

- (a) "Corporate Governance" on page 45, in which the details of the Company's corporate governance compliance are set out;
- (b) "Remuneration Committee" on page 49, in which the scope of duties, activities and evaluation results of the Remuneration Committee during the year are set out;
- (c) "Audit Committee" on page 53, in which the scope of duties, activities and evaluation results of the Audit Committee during the year are set out;
- (d) "Internal Control and Risk Management" on page 54, in which the structure and policy of the Company in respect of internal control and risk management are set out;
- (e) "Connected Transactions" on page 55, in which the details of the connected transactions of the Group are set out; and
- (f) "Corporate Social Responsibility" on page 60, in which the details of the Company's environmental protection policy and contributions to society are set out;

Related Party Transactions

Details of related party transactions conducted during the ordinary course of business, which cover all transactions with related parties which constitute connected transactions as defined under the Listing Rules, are set out in note 30 to the consolidated financial statements. Such transactions all complied with the applicable provisions under the Listing Rules.

Public Float

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

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Auditors

The Group's financial statements for the year ended 30 June 2006 were audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Cheung Yan

Chairman

Hong Kong, the PRC, 20 September 2006