Notes to the Financial Statements

1. General information and group reorganisation

(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 reorganisation (the "Reorganisation"). The Company became the holding company of the Group as result of the Reorganisation 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 Reorganisation became effective on 30 December 2005. Details of the Reorganisation 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 Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation 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 Reorganisation 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.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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. Summary of significant accounting policies *(continued)*

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 recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated 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. **Summary of significant accounting policies** *(continued)*

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 recognised 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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

Notes to the Financial Statements

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

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. Summary of significant accounting policies *(continued)*

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, 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 amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (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 realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operation capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised 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 recognised 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, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the Financial Statements

2. Summary of significant accounting policies *(continued)*

2.14 Borrowings *(continued)*

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 capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognised 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 realised or the deferred income tax liability is settled.

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

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

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

2. Summary of significant accounting policies *(continued)*

2.16 Employee benefits *(continued)*

(b) Employee leave entitlements

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

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

(c) Share-based compensation

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

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

(d) Termination benefits

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

2.17 Provisions

Provisions are recognised 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 recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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 recognised as interest expense.

Notes to the Financial Statements

2. Summary of significant accounting policies *(continued)*

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 recognised as follows:

(a) Sales of goods and scrap materials

Sales of goods and scrap materials are recognised 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 recognised in the accounting period in which the services are rendered.

(c) Interest income

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

(d) Sales of electricity

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

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

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

2.21 Dividend distribution

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

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, recognised 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 judgements

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

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

(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 realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

4. **Critical accounting estimates and judgements** *(continued)*

(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 recognised 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

Notes to the Financial Statements

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**

6. Property, plant and equipment – Group *(continued)*

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 analysed 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
Amortisation 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).

Notes to the Financial Statements

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 ownd enterprise	Manufacture of paper/PRC	US$213,368,000	100%
Taicang Nine Dragons	PRC/wholly foreign ownd 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 ownd 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%

9. Investments in subsidiaries – Company *(continued)*

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
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 ***RMB'000***	30 June 2005 *RMB'000*
At cost:		
Raw materials	**661,582**	669,312
Finished goods	**270,449**	328,862
	932,031	998,174

The cost of inventories recognised 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.

Notes to the Financial Statements

12. Restricted cash – Group

	30 June 2006 RMB'000	30 June 2005 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 RMB'000	30 June 2005 RMB'000	30 June 2006 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:

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised						
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 authorised 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

14. Share capital *(continued)*

(a) At the date of incorporation, the Company's authorised 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 authorised 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 *RMB'000* *(note a)*	Capital reserve *RMB'000*	Share options reserve *RMB'000* *(note d)*	Statutory reserve and enterprise expansion fund *RMB'000* *(note b)*	Translation *RMB'000*	Total *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)
Capitalisation 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

15. Other reserves *(continued)*

Company

	Contributed surplus RMB'000 (note c)	Share options reserve RMB'000 (note d)	Total 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 Reorganisation (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 Reorganisation (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.

Notes to the Financial Statements

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 utilised an amount of RMB21,650,000 to acquired certain buildings (note 6).

16. Trade and other payables *(continued)*

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.

Notes to the Financial Statements

17. Borrowings – Group *(continued)*

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 RMB'000	30 June 2005 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 RMB'000	30 June 2005 RMB'000
Beginning of the year	**169,747**	103,716
Acquisition of subsidiaries	**–**	28,548
Recognised 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 RMB'000	2005 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

Notes to the Financial Statements

20. Expenses by nature

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

	For the year ended 30 June	
	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

21. **Employee benefit expense** *(continued)*

(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.

* 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.

Notes to the Financial Statements

21. Employee benefit expense *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 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 capitalised	**(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 capitalisation 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

Notes to the Financial Statements

23. Income tax expense *(continued)*

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 recognised	**6,274**	343
Less: Utilisation of previously unrecognised 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%.

23. Income tax expense *(continued)*

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

25. Earnings per share *(continued)*

Diluted

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

	For the year ended 30 June 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
Amortisation *(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).

Notes to the Financial Statements

29. Commitments

(a) *Capital commitments*

Capital expenditures as at 30 June 2006 but not yet incurred are as follows:

	30 June 2006 *RMB'000*	30 June 2005 *RMB'000*
Contracted but not provided for:		
– Property, plant and equipment	**2,214,035**	595,586
Authorised 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 *RMB'000*	30 June 2005 *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.

30. Related party transactions *(continued)*

(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

30. Related party transactions *(continued)*

(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

30. Related party transactions *(continued)*

(e) Movements of non-trade balances with related parties

	30 June 2006 **RMB'000**	30 June 2005 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)
Capitalisation 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)
Capitalisation 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.

Notes to the Financial Statements

30. Related party transactions *(continued)*

(e) Movements of non-trade balances with related parties *(continued)*

The non-trade balances due from directors have the following terms and conditions:

Name of director	Amount outstanding at 30 June 2006 RMB'000	Amount outstanding at 30 June 2005 RMB'000	Maximum outstanding during the year ended 30 June 2006 RMB'000	Maximum outstanding during the year ended 30 June 2005 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 RMB'000	30 June 2005 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.