

Chief Executive Officer's Operation Review and Outlook

Dear Shareholders,

I am delighted to share with you our continued success for the year ended 30 June 2007. The Group has made amazing strides in our organic development and expansion plans while continuing to improve our operating margins through product optimization, stringent cost control and leveraging economies of scale.

Review of Operations

During the year, the Group recorded revenue and gross profit of approximately RMB9,837.7 million and RMB2,528.9 million respectively, representing an increases of 24.5% and 35.9% over the previous year. Profit attributable to Company's equity holders was RMB2,003.4 million and basic earnings per share was RMB0.48.

The Group's production capacity and sales of containerboard reached a new high during the financial year. For the year ended 30 June 2007, the Group's production capacity increased by 36.4% over the previous year to 4.5 million tpa and the sales volume also increased by 18.7% to approximately 3.36 million tonnes. Resilient market demand and higher production capacity stimulated sales and fostered conditions for concurrent growth in both supply and demand. At the time of this report, production capacity has already reached 5.35 million tpa and we anticipate that ND Paper's production capacity will reach 7.75 million tpa in FY2008 and 10.15 million tpa in FY2009.





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Earnings contributions are the result of our efforts on several fronts. The increase in production has further allowed us to enjoy the benefits of economies of scale. Our overall efficiency has also improved as we have upgraded our existing machines and added new machines with technological advantages which have both contributed to a reduction in average production costs.

Our operational efficiency has been a significant contributor to our success and continues to be one of our primary competitive advantages. We have realized this achievement by increasing our standards of production while continuing to reinvest in human capital. We will remain vigilant in our pursuit of constant improvement in order to maintain our status as the market leader in the PRC in all three major packaging paperboard categories, namely kraftlinerboard, high performance corrugating medium and coated duplex board. We will maintain this status even as we branch out to produce other products and further diversify our product portfolio.

Production

Production in both our Dongguan and Taicang bases have increased considerably over the year in review. PM11 located in Dongguan commenced operation at the end of January 2007, adding a capacity of 0.5 million tpa of coated duplex board. Meanwhile, PM16 & 17 commenced operation in January 2007 with a capacity of 0.7 million tpa of high performance corrugating medium. We were able to initiate production well ahead of schedule for our new machines which is a testament to our improving efficiency which translates to a better return on equity to our shareholders. Meanwhile, PM8 and PM12 & 13 commenced production in August of this year with an additional 50,000 tpa of linerboard by PM8 and 800,000 tpa of linerboard by PM12 & 13. Due to poor weather conditions and the delivery of mechanical parts by suppliers that did not meet our requirements, the commencement operations of PM12 & 13 were slightly later than initially expected.

In keeping with the theme of constant improvement and diversification, we will increase our scope with the addition of two high-speed new paper machines, PM18 and PM21 which will produce light weight high performance corrugating medium. At this time, this is the only product line of its kind in Asia, including Japan. It is also not available in North America, Central America or South America. This product will serve to meet our client's demand for "Reduce, Reuse and Recycle" which has been spear-headed by leading international retail chains and e-commerce logistics providers.

Previously this product was only available overseas due to the limited availability of the proper machinery required for manufacturing. With forward looking resolve, ND Paper will procure the required hardware and successfully assemble two production lines capable of developing this high-end product in China for the first time. The addition of these machines will serve to meet the demand for lighter weight corrugating medium with the same strength while laying the groundwork for an additional growth driver within the ND Paper portfolio. Efforts to initiate such an endeavor were driven by market demand and an opportunity to capture a new, commercially viable scale of production. PM18 and PM21 will initially produce a total of 700,000 tpa by June 2008. We will closely monitor supply and demand to determine the appropriate scale of output, although it is widely anticipated that the desire for a strong, yet lighter weight corrugating medium will



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appeal to an increasing number of vendors, especially with the ability to source the product domestically, thus reducing the cost and tightening the supply chain.

In addition to developing our scope of operations, our scale and geographic reach will increase considerably as we add our third and fourth production bases. The third base located in Chongqing, China will have the land use rights of approximately 1,700,000 sq.m. The local government has also set aside 700,000 sq.m. of land for our future development. This production base will also be equipped with a self-owned pier and rail spur along with convenient access to the highway to allow for easy distribution. When fully operational, the third production base will provide a capacity of 5 million tpa. The first phase of the facility and its related ancillary are projected to be completed by mid 2008 which will immediately provide an additional capacity of 0.8 million tpa.

Our fourth base is a direct response to growing demand and the need to extend our footprint in China. The new base will be situated in Ninghe Economic Development Zone, only 30km from the Tianjin port, one of the major ports in China. This allows the base to take advantage of direct ocean transportation for freight reduction. It will have the land use rights of approximately 2,400,000 sq.m. The site will commence production in June 2009 and will initially have the capacity to produce 800,000 tpa. When fully functional, the base will contribute 4.0 million tpa. It will enjoy an abundant supply of good quality water and convenient transportation access via the railway and highway network.

In order to further control our raw material costs, we have stepped up our efforts in the development of pulp production and a suitable kraft pulp resource production base. We plan to expand our upstream business by building pulp production plants and securing forestry resources overseas. We currently have several prospects under consideration that will provide excellent forestry resources, forestry planting technologies and reasonable growth speed of forestry. These endeavors may be pursued through various modes of investment and cooperation, depending on what makes sound business sense and is economically viable.

Environment

ND Paper sets the industry standard for conscientious environmental protection and we will go to any lengths to ensure that we are doing everything possible to be a responsible corporate citizen. The majority of our products use an average of 85% to 90% recovered paper in the manufacturing process. We have also changed to wet desulfurization from the semi-dry desulfurization which will further reduce gas emissions. The Group also maintains strict control over sewage treatment, solid waste treatment and noise pollution during the production process.

It is not enough to simply meet government standards and regulations. To maintain our status as the industry standard for environmental consciousness and responsibility, it is important that we exceed these requirements and anticipate what we can do better in the future. This philosophy is in line with the culture that permeates ND Paper which emphasizes always improving. Our belief of "No environment, no paper" requires that we remain committed to conscientious growth. In the long run, responsible growth provides higher returns for Shareholders, a better environment for our people, and longevity for our business. The



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Group has been granted with the honour of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and continued to achieve ISO 9001, ISO 14001 and OHSAS 18001 certification.

Human Resources

The Group has completed the construction of new staff residences at both the Taicang Base and the Dongguan Base and a sports center in Taicang Base to meet the needs of our future growth and provide a better living and working environment for our staff. We encourage the development of our employees and future recruits at all levels by offering subsidies for university attendance and hiring students from rural, underprivileged areas. For our middle and high-level management staff, we offer EMBA and MBA courses to ensure that they continue to expand their knowledge in a dynamic business environment. ND Paper will also continue to seek out the highest level of talent from both domestic and overseas sources, including university recruitment.

Forward

Looking ahead, we will continue to expand our business in terms of scale, scope and geographic reach to ensure the vitality of ND Paper and a positive return for our Shareholders. To successfully capture increasing demand, we aim to expand our capacity from the current 5.35 million tpa to 10.15 million tpa by 2009 which would bring our CAGR growth to not less than 40%. This would conceivably increase our domestic market share from our current 18% to 35%. Meanwhile, to capitalize on changing demands, we will also expand our product offerings, including the introduction of light weight corrugating medium, light weight linerboard, high-end packaging board and other products that have a sustainable demand while offering attractive returns on investment.

ND Paper will be vigilant regarding strict cost control and the utilization of the highest standard of technology that provides superior results for our Shareholders. We will continue to closely monitor market conditions to ensure that our growth is executed in a responsible, prudent manner while simultaneously capturing opportunities to meet the growing demand for packaging paperboard.

Liu Ming Chung

Deputy Chairman and Chief Executive Officer

Hong Kong, 20 September 2007