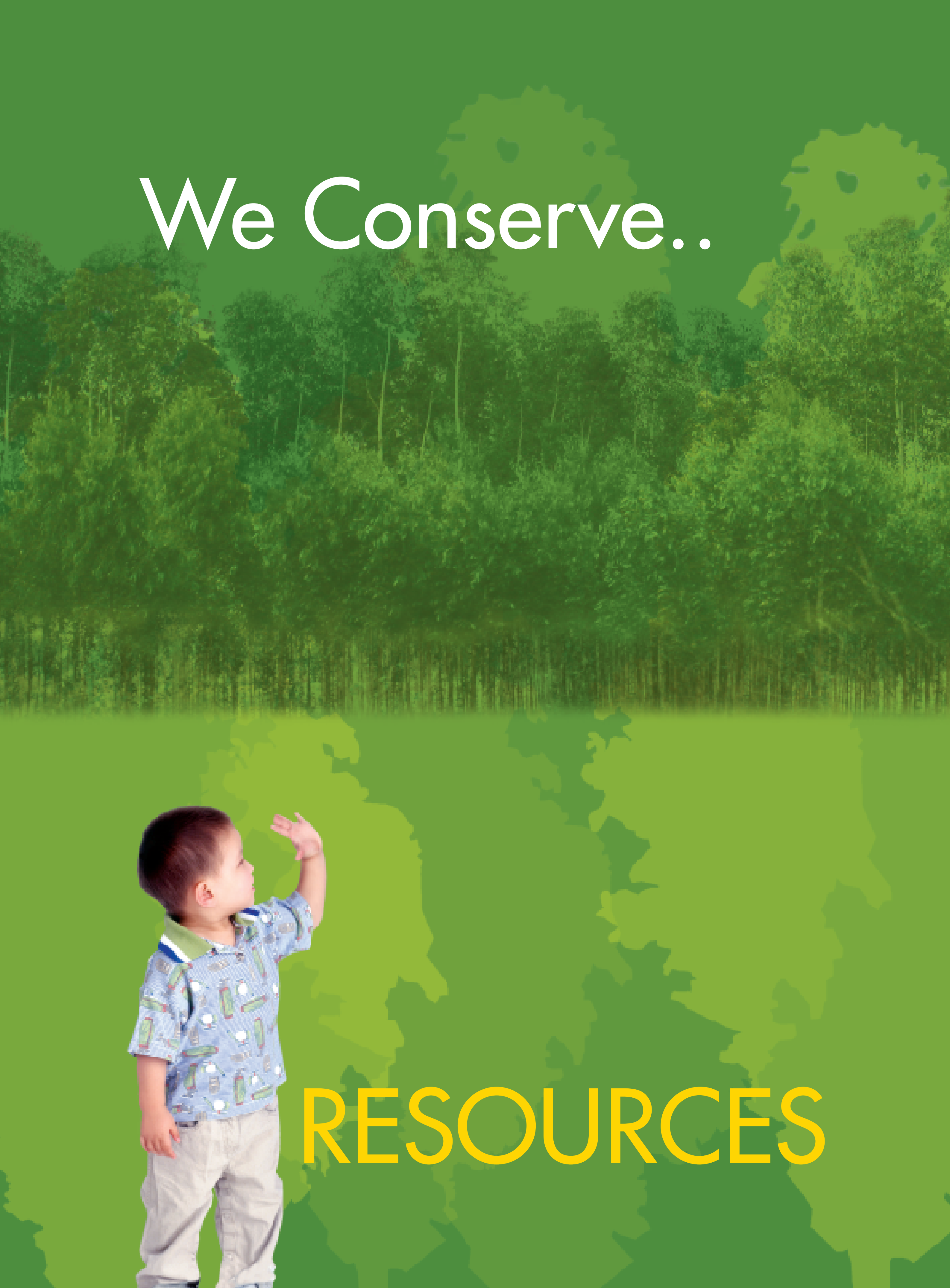

We Conserve..
RESOURCES

Cohesive Infrastructure

Business Review

The Group is the largest containerboard producer in Asia and one of the leading players in the world. The Group primarily produces linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board. The Group also participates in unbleached kraft pulp production.

The Group's operations enable it to serve as a one-stop shop for a broad range of high quality containerboard products. Due to the size, width, versatility and number of its paper machines, it is able to offer a diversified product portfolio with various types, grades, burst indices, stacking strengths, basis weights, printability and brands to meet a variety of customer requirements. The Group's multiple production lines allow a flexible configuration offering of diversified products in an efficient manner. The broader width of its machines also allows the Group to manufacture products in a large variety of sizes, increasing its flexibility to meet customer demands. Its five principal products are available in 40 different basis weights and over 1,000 different sizes and type specifications.

The Group added three paper machines, namely PM11, PM16 and PM17 during FY2007. The thirteen technologically advanced paper machines imported from Europe, North America and Japan have an annual aggregate designed capacity of 4.5 million tpa, comprising 1.5 million tpa of linerboard, 2.05 million tpa of high performance corrugating medium and 950,000 tpa of coated duplex board. All of the Group's paper machines have advanced DCSs and quality control systems to monitor and control the equipment. These are located in the Group's two production bases in Dongguan, Guangdong Province, in the Pearl River Delta and in Taicang, Jiangsu Province, in the Yangtze River Delta.

The Group has a fully functional infrastructure that helps it to control costs and operate in an efficient manner. In addition to the thirteen paper machines, the Group also operates facilities that supply power, steam, water supplies and logistical support. These features allow the Group to be self sustaining in several areas while also ensuring the highest standard of environmentally friendly manufacturing.

During FY2007, the Group successfully developed its third production base in Chongqing, a regional industrial hub in central and western China, with its proximity to Hubei, Yunnan, Guizhou and Sichuan. The commercial production of Chongqing base is expected to commence by mid 2008 with an initial capacity of 800,000 tpa.

In September 2007, the Group confirmed the location for its fourth base in Tianjin, which covers the northern and north-eastern market. The commercial production of Tianjin base is expected to commence by June 2009 with an initial capacity of 800,000 tpa.

The Group's Dongguan and Taicang production bases obtained the ISO9001:2000 certification in November 2003 and December 2004 respectively. Meanwhile, the Group also obtained the ISO14001 certification for its environmental management standards in February 2005. In December 2006, Guangdong Environmental Protection Bureau awarded both Dongguan Nine Dragons Paper Industries Company Limited and Dongguan Sea Dragon Paper Industries Company Limited, both being members of the Group, with honours of Green/Environmental Creditable Enterprise for their laudable environmental protection practices. Besides, the Group obtained the OHSAS18001 certification for its occupational health and safety management system in March 2005.

Business Strategy

The Group strives to achieve the status of the world's number one containerboard manufacturer. While operational efficiency will continue to provide benefits of economies of scale as the Group increases its capacity to meet growing demand, it also continuously strives to improve through the implementation of new, more efficient technologies. During FY2007, the Group maintained its vigilance in consolidating the Group's market leadership position in Asia, further enhancing operating efficiency, attracting high caliber employees and continuing to emphasize and reward performance excellence.

Consolidating the Group's Market Leadership Position in Asia

The Group has achieved significant growth in production capacity, sales volumes, sales and profit attributable to equity holders at a compound annual growth rate of 45.6%, 41.7%, 44.7% and 106.3%, respectively, from FYs 2003 to 2007.

The Group will continue to expand its production capacity and market share so as to further strengthen its leading position in Asia. Its annual designed capacity increased by 36.4% to 4.5 million tpa during FY2007 and is expected to increase by 72.2% to 7.75 million tpa in FY2008. The Group is well-prepared to capture any opportunity for future growth. The Group has made the following substantial moves to enlarge its market shares:

Further Capacity Expansion and Investment in Infrastructure in Dongguan and Taicang Bases to Achieve Economies of Scale

(1) Production capacity

During FY2007, the Group not only commenced production of three paper machines, namely PM11, PM16 and PM17, but also commenced construction of six new paper machines, namely PM12, PM13, PM18, PM19, PM20 and PM21 in Dongguan and Taicang bases. The Group also enlarged the production capacity of PM8 with an additional 50,000 tpa and commenced the operations of PM12 & 13 in August 2007.

Paper machine	Product	Annual production capacity	Expected date of commencement of production	Actual date of commencement of production
Completed:				
PM 8	Linerboard	Increased by 50,000 tpa to 500,000 tpa	June 2007	August 2007
PM11	Coated duplex board	500,000 tpa	March 2007	January 2007
PM12 & 13	Linerboard	800,000 tpa	June 2007	August 2007
PM16 & 17	High performance corrugating medium	700,000 tpa	June 2007	January 2007
In construction:				
PM18	Light weight high performance corrugating medium	350,000 tpa	June 2008	On schedule
PM19	Linerboard	450,000 tpa	June 2008	On schedule
PM20	Linerboard	450,000 tpa	June 2008	On schedule
PM21	Light weight high performance corrugating medium	350,000 tpa	June 2008	On schedule

(2) Power Resources

To facilitate expanding production capacity and support large-scale containerboard manufacturing, the Group requires a significant amount of electricity and steam for its daily operations. The Group has set up central coal-fired cogeneration power plants in both Dongguan and Taicang with aggregate installed capacity of 591 MW, providing both electric power and steam for use in the drying process in the production process to all of its paper machines, thereby saving energy costs and valuable land resources. Because of their high thermal efficiency and low coal consumption, the Group can achieve savings as much as approximately one-third by using electric power from the Group's cogeneration plants compared to the cost of purchasing power from third parties. The Group's sourcing strategy for coal is to purchase from suppliers that can provide a stable and reliable supply at the lowest cost. To lower its coal costs, since September 2005, the Group has started to purchase all of its coal directly from coal distributors and arranged its own shipping. The Group receives the coal by ship at its pier in Taicang and at Xinsha Port.

All of the Group's power plants are connected with the regional power grid, which enables the Group to sell excess power. In addition, the connection to the grid provides the Group with a back-up power source.

(3) Land resources

Apart from investment in infrastructure, the Group has made substantial investments in acquiring land use rights in Dongguan, Taicang and Chongqing for its existing operations to allow for future development and expansion. During FY2007, the Group further obtained the land use rights for approximately 2.4 million sq.m. of land in Dongguan and Chongqing bases.

(4) Pier

In order to reduce port loading and unloading charges, avoid transportation bottlenecks and take advantage of ocean and inland waterway transportation, the Group has constructed a shipping pier at Taicang.

The current shipping pier in Taicang is capable of accommodating oceangoing vessels of up to 50,000 tonnes. The Group has obtained all necessary permits to operate the shipping pier for its own use and to offer loading and unloading services to third parties.

The operating berth, with an annual loading and unloading capacity of 2.7 million tonnes, is dedicated to receiving coal deliveries. The Group plans to utilise approximately 1.0 million tonnes of the capacity per year of this berth for delivery of coal used for power generation at its Taicang facility. Given that the Group can take direct delivery by ocean freight from the major coal ports on China's coast, including Qinhuangdao, Tianjin and others, the Group is able to realise significant cost savings by eliminating loading and unloading charges that the Group would otherwise incur for transit of coal.

In Dongguan base, the Group also plans to construct a pier to meet the transportation requirements for finished products, raw materials and coal. The relevant approval procedures are expected to be completed by the end of 2007. The Group plans to commence the construction of Dongguan pier in 2008. The expected total annual loading and unloading capacity of Dongguan pier will be approximately 3.0 million tones.

Establishment of the third and fourth production bases to extend market coverage

(1) Chongqing base — third base

In order to further extend our reach and meet the various needs in different regions in the PRC, the Group has been actively seeking opportunities to expand its geographical coverage beyond the Yangtze River Delta and the Pearl River Delta regions. During FY2007, the Group established its third base in Chongqing. Chongqing is a regional hub for the central-western provinces of Hubei, Yunnan, Guizhou and Sichuan and exports to Southeast Asia. The fast growing domestic demand is brought by strong local consumption and matured formation of a supply chain with support from industrial development in various sectors.

The site of Chongqing base is only 40 minutes drive from Chongqing city centre and on the Yangtze River coast with a self-owned pier. It enjoys direct access by a railway spur and nearby expressway system.

The Group commenced the construction of two paper machines with total annual capacity of 800,000 tpa which are expected to commence operations in mid 2008. The Group has obtained a total land reserve of approximately 2.4 million sq.m. that can accommodate 5 million tonnes of annual production capacity. Besides, the Group has planned the construction of ancillary facilities to support packaging paperboard production. The Group has commenced the construction of a self-owned pier and planned to construct a direct railway access to the Chongqing base.

Paper machine	Product	Annual production capacity	Expected date of commencement of operation	Actual date of commencement of operation
PM22	Linerboard	450,000 tpa	June 2008	On schedule
PM23	High performance corrugating medium	350,000 tpa	June 2008	On schedule

(2) Tianjin Base — Fourth Base

In addition to the Chongqing base, the Group continued its efforts to expand its geographical reach to achieve comprehensive market coverage. In September 2007, the Group confirmed that its fourth base will be built in the Ninghe Economic Development Zone in Tianjin. This will enable the Group to fully cover the major economic regions and provide services to customers throughout the PRC.

The Group's fourth base centres around the Tianjin and Beijing areas and services the northern and north-eastern regions, where the supply chains are well formed with escalating containerboard demand from key sectors such as food, medicine, high-tech and IT products, electronics, textile and various light industries. Current containerboard supply in these regions are still limited, with the largest producer having less than 400,000 tpa in capacity. The rest of the suppliers only have annual production capacity of less than 50,000 tpa each — a segment that is expected to go through fast market consolidation in the foreseeable future. Today customers in these regions have to rely on supplies from other provinces such as Henan, Shandong and Jiangsu.

The Tianjin base is situated next to the Binhai New Area and enjoys investment incentives that are the same as those available from the Binhai New Area. It has reserved the land use rights for approximately 2,400,000 sq.m. which can accommodate a planned capacity of 4 million tpa. The first phase will consist of one high performance linerboard paper machine of 450,000 tpa and one high performance corrugating medium paper machine of 350,000 tpa. Production is expected to commence by June 2009.

The Tianjin base is located only 30 km from the Tianjin port, one of the major port destinations in China that serves ocean bound vessels directly, thus allowing direct access to ocean transportation at lower transportation costs as trans-shipment is not required. This also alleviates the need for the base to build its own pier — a significant reduction in capital expenditure. The base is also served by a rail spur for direct movement of coal, raw materials and finished products, and is conveniently accessible by the statewide highway network linking the north-eastern and southern provinces in China. There is an abundant supply of good quality water for paper production in the base.

The establishment of its fourth base in China will enable the Group to take advantage of the needs in northern and north-eastern China and to fully cover the major economic regions while providing services to customers throughout the PRC. The site is planned to commence production by June 2009 and will initially have the capacity to produce 800,000 tpa. When fully functional, the base will contribute 4 million tpa.

Introduction of New Products to Expand Product Offerings

As the leader in the Asian market, the Group is always ahead of its peers by introducing the newest products to the market. The Group is not only able to expand its product lines to offer a broader range of complementary products to customers, but also to leverage its existing production expertise and distribution network.

During FY2007, the Group developed plans for light weight high performance corrugating medium (70-90 g/m^2) which is expected to be commercially produced by mid 2008 through PM18 and PM21. These will be the first facilities to have industrial scale production of light weight high performance corrugating medium outside Europe. The introduction of such high-end product to the market further demonstrates the Group's leading position in Asia.

The light weight high performance corrugating medium is becoming a new trend in the market. It meets customers' increasing demand for lighter weight corrugating medium with the same strength along the 3R's strategy "Reduce, Reuse and Recycle". It is now mainly sourced by leading international retail chains and e-commerce logistics providers. The Group anticipates that the new product will become one of the substantial growth drivers in future.

Committed to Environmentally Responsible Practices

The Group considers the implementation of environmentally responsible practices and the maintenance of high environmental standards as an essential part of being the market leader in the industry. The Group was granted with the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau in December 2006 and obtained ISO14001 certification for its environmental management standards in February 2005. Since its establishment, the Group has been in compliance with the environmental laws and regulations promulgated by central and local environmental authorities. It has obtained all required permits for wastewater discharge, airborne emissions and solid waste disposal. It is believed that the Group's record of environmental compliance has been a positive factor in obtaining regulatory approvals for its expansion projects.

As part of this environmental commitment, the Group has adopted the following practices and invested in the following facilities, which significantly reduce the impact of its operations on the environment and the risk of exposure to liabilities under environmental protection laws and regulations:

- Approximately 80% to 90% of the fiber in the Group's products on average is derived from recovered paper and the Group's target is to increase the percentage of recovered paper fiber to more than 90%.

- To minimise impact on waste resources and the environment, the Group has wastewater treatment facilities in Dongguan and Taicang that incorporate state-of-the-art technologies with automated programmable logic controller (PLC) systems and online monitoring equipment systems that allow the Group to monitor its wastewater discharge.

- The Group also maintained the water consumption of less than half of the water consumption set forth in the standards governing water consumption in the manufacturing of paper products issued by the China National Standardization Administration Commission.

- To minimise waste products, the Group has a circulating fluidized bed waste-to-energy boiler at Dongguan capable of burning 87,500 tonnes of waste a year to produce 315,000 tonnes of steam. To optimise its use, the Group collects solid waste from its wastewater for incineration or produce recycled pallets. The circulating fluidised bed waste-to-energy boiler provides efficient combustion, low atmospheric emissions and has the ability to burn a wide range of low-grade fuels, including waste sludge, in an efficient and environmentally friendly manner. The Group believes that its waste to energy boiler is the only one of its kind used by paper manufacturers in China.

- The Group's coal-fired cogeneration power plants in Dongguan and Taicang are equipped with particulate filtration and desulfuration equipment, with emission levels well below permitted emission levels under applicable PRC regulations.

The high level of commitment and environmental management standard will be maintained in the Group's Chongqing and Tianjin bases.

Continuing to Enhance Operating Efficiency

With the expanding production capacity, the Group is able to enjoy better economies of scale while its ability to manufacture a variety of products simultaneously allows it to minimise equipment shutdowns required for product and specification changes.

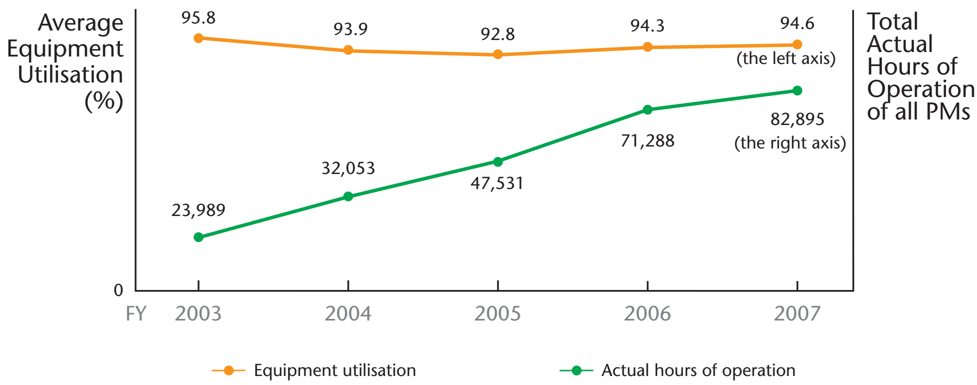
The Group has technologically advanced paper machines with automated DCSs and quality control systems. Its fourdrinier kraftlinerboard paper machines are among the largest and fastest in China, and certain machines can shift the production from one type of product to another without halting production or with a very brief pause before resuming production. The Group has designed its product mix both to meet market demand and to meet the target of recycling by redeploying water and scrap fiber byproduct from the production of one product into the production of another product. Leveraging on its technological know-how, the Group has been able to accommodate the use of a broader variety of recovered paper while maintaining product quality and performance standards. This feature provides the Group with increased flexibility in sourcing raw materials at competitive prices.

The Group seeks to continue enhancing its operating efficiencies mainly through the following means: optimising and upgrading its production process and equipment to eliminate or minimise impediments to increase production volumes while enhancing production efficiency and product quality, and developing the use of new alternative chemicals with suppliers to improve machine performance and reduce costs.

Adding New Production Facilities to Save Time and Increase Utilisation

The Group has installed three additional paper machines during FY2007 to allow the Group to further minimise equipment shutdown period required for product and basis weight changes. With the exception of periodic repair and scheduled maintenance, the Group seeks to maintain uninterrupted operation of its paper machines. PM11, which has an annual production capacity of 500,000 tpa of coated duplex board and PM 16 & 17, which have a total production capacity of 700,000 tpa of high performance corrugating medium, all commenced production in January 2007. The machines achieved the optimal operating efficiency in less than four months, within the historical average optimising time range of three to six months.

The following chart sets forth information on the average utilisation rates and total actual hours of operation of the Group's paper machines:



As of 30 June 2007, the management of the Group has accumulated extensive experience in successful installation of thirteen paper machines. In FY2007, the average utilisation rate of the Group's paper machines was 94.6%, improved even though there was three new paper machines commenced operation during FY2007 as compared with last year. Meanwhile, the optimising time of PM11 and PM16 & 17 was also substantially reduced and achieved the designed capacity and quality within four months. Therefore, we believe the commencement of new paper machines in the future will not materially and adversely affect the average gross profit margin of the Group.

Sources of high quality and price competitive raw materials

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

(1) Recovered Paper

Recovered paper usually accounts for more than half of the production cost of the Group's products. Like most large-scale containerboard manufacturers, the Group's ability to source large volumes of consistent high-quality recovered paper under stable, long-term arrangements is critical to its success. Because of the Group's policy of maximising the use of recovered paper to produce high-quality products to meet its customers' cost objectives and environmental policies, this ability is even more critical to the Group's strategy. As a result, the Group's sourcing strategy is to purchase from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. To select additional suppliers, the Group's sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy its volume and delivery requirements. As the quality of recovered paper improved the Group started to source its recovered paper domestically in late 2006 which can diversify the risk of overreliance on the supply from North America and Europe.

The Group sources the majority of its recovered paper from ACN and the remainder from several trading companies. For FYs 2006 and 2007, the Group's purchases of recovered paper from ACN amounted to RMB2,591.7 million and RMB2,922.4 million, respectively, representing 78.9% and 65.2% of the Group's total purchases of recovered paper. During the same periods, the Group purchased approximately 2.45 million tonnes and 2.59 million tonnes of recovered paper from ACN and the remaining 0.53 million tonnes and 1.25 million tonnes of recovered paper from other suppliers.

Due to the Group's recurring purchases of recovered paper in large quantities, the Group has been able to secure supplies from ACN at a price lower than the market average. The Group also has a policy to diversify its sources of supply and to maintain not less than 20% of its recovered paper in terms of aggregate value of its purchase of recovered paper from suppliers other than ACN.

Consistently with previous years, the Group has also maintained an independent system with the following features to govern and monitor its recovered paper purchase process:

- the Group will obtain bids from a number of suppliers and select the successful bid based on objective standards such as price and quality of recovered paper, and delivery schedule and services;

- the Group's selection of successful bid will be reviewed by one of the INEDs with solid industry expertise each time before placement of orders by the Group;

- the INEDs, if required, will decide on whether the Group should proceed with a particular purchase transaction; and

- regular reports regarding the Group's purchase and other relevant information will be provided to the INEDs who will conduct a quarterly review of the purchase terms and the fairness of the Group's basis for selecting its recovered paper suppliers.

We believe that the above system will ensure that the terms of the Group's purchases with its suppliers, including ACN, are in the best interests of the Company and its independent shareholders as a whole. As the Group's purchases from ACN currently account for only approximately half of ACN's total sales volumes to China, with its priority to purchase from ACN under the long-term supply contract as well as the Group's other sources of recovered paper supply, the Group will have sufficient raw material supply to support its capacity expansion.

(2) Kraft Pulp

Kraft pulp is the Group's second largest raw materials component. The Group uses both bleached and unbleached kraft pulp in the production of some of its products to increase the consistency of appearance and strength of the products. Due to the short supply of kraft pulp in China, a stable supply of substantial volumes of consistent high quality kraft pulp is critical to the Group's success. The Group's sourcing strategy is to seek to maintain a diversified source of kraft pulp, to ensure stable supply and cost competitiveness while meeting its quality requirement.

To secure a future supply of unbleached kraft pulp, on 16 February 2004, the Group established an equity joint venture, Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited ("ND Xing An"), with China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) ("Forestry Industry Group"). The Group holds a 55% interest, with a capital investment of RMB90 million, in ND Xing An while Forestry Industry Group holds the remaining 45%. Up until 30 June 2007, the Group recorded an ample return on investment of 136.7%.

As at 30 June 2007, ND Xing An had the capacity to produce 120,000 tonnes of long-fibred unbleached kraft pulp annually. The Group plans to further increase ND Xing An's annual production capacity to 300,000 tonnes in the future. During FY2007, the Group purchased approximately RMB86.0 million of kraft pulp from ND Xing An. The ND Xing An joint venture enables the Group to secure a future supply of unbleached kraft pulp.

In order to further control raw material costs, the Group has considered developing pulp production and kraft pulp resource. The Group plans to expand its upstream business by building pulp production plants and investing in forestry overseas. As of the date of this report, the Group has several prospects under consideration that provide excellent forestry resources, advanced forestry planting technologies and reasonable growth speed of forestry.

Retaining In-house Maintenance Teams to Enhance the Life Span and Efficiency of Production Equipment

The Group has over 800 maintenance personnel in total in Dongguan and Taicang bases who have undergone training provided by the original equipment vendors and are responsible for periodic repair and maintenance of its paper machines. The paper machines are regularly inspected and maintained by the Group's maintenance teams to ensure that they are in proper working order. The paper machines are also subject to scheduled inspections and maintenance twice a month and are shut down for approximately 20 hours during this monthly maintenance. The Group also schedules an annual maintenance program for each paper machine during which the paper machine is shut down for approximately 3 to 5 days, and a major maintenance program for each paper machine once every three years, during which the paper machine is shut down for approximately 10 to 15 days. The Group upgrades its production equipment concurrently with its repair and maintenance from time to time to increase the life span and efficiency of its production equipment.

Use of Information Technology to Optimise Resource Allocation

The Group is in the process of implementing an enterprise resource planning (ERP) system for its Dongguan and Taicang operations. It will manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of its products, sales and marketing and delivery of its products through its internal transportation and delivery network. The system is scheduled to be fully implemented by the end of 2007. All paper machines have DCSs that monitor and control all aspects of production and automated quality control systems. In order to enhance work place safety, the Group installed an additional protection device in the DCSs of the paper machines for the operating staff to confirm activation of the paper machines. The Group also has a fleet of trucks equipped with GPS.

Attracting high caliber employees and continuing to emphasize and reward performance excellence

The Group is led by an experienced stable and dedicated management team with an average of over 8 years' experience in the field. The Group also retains international talents from overseas with professional qualifications to join its senior management team. Through management's leadership, vision and drive, and their consistent effort to implement international best practices, the Group has become the market leader in Asia within a short period of time. In September 2007, a veteran with 25 years' experience in international paper manufacturing business was recruited from Australia and will head the Group's southern China operations commencing October 2007.

We believe that the quality of the Group's human resources, particularly its management and professional engineers, are critical to its ability to compete effectively. The Group aims to achieve and exceed international standards of performance excellence by following international best practices for management processes and corporate governance. The Group obtained the OHSAS18001 certification for its occupational health and safety system in February 2005.

As at 30 June 2007, the Group had approximately 8,600 full time management, administration and production staff in Hong Kong and the PRC. The related employee's costs for the period (including directors' emoluments) amounted to approximately RMB503.0 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's remuneration system. The Group adopted a share option scheme for employees. It also seeks to continue to attract and retain domestic and international management and engineering talent by continued implementation and refinement of its incentive bonus program and through staff development programs such as periodic in-house and overseas training.

Financial Review

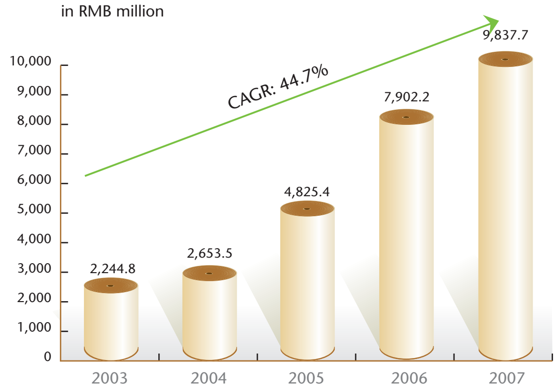
Revenue

The Group achieved a new record revenue of RMB9,837.7 million for FY2007, representing an increase of 24.5% as compared with the last financial year's revenue of RMB7,902.2 million.

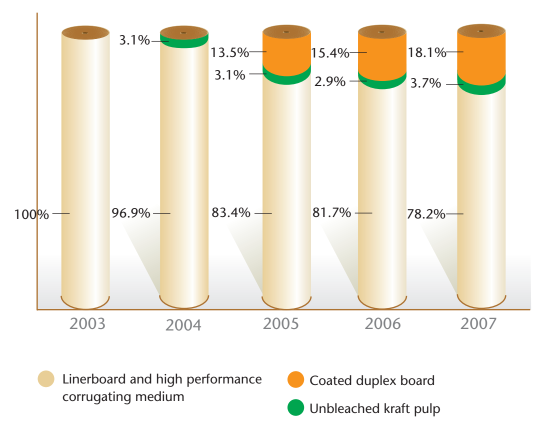
The major contributor of the revenue growth was the increase of sales volume. In FY2007, the Group's total sales volume of packaging paperboard products reached approximately 3,269,000 tonnes, representing an increase of 18.4% as compared to that of the last financial year. The Group's total sales volume of kraft pulp

Revenue and revenue growth

in RMB million



Revenue by products



products increased to approximately 88,000 tonnes from approximately 66,000 tonnes in FY2006, representing an increase of approximately 33.3%. The increase of sales volume was supported by the full year contribution in FY2007 by PM9 and PM10, which commenced operation in January 2006 as well as the newly commenced operation of PM11, PM16 & 17 in January 2007.

The price increment of all the Group's product lines recognised during FY2007, particularly during its second half, also bolstered the top line figure and confirmed the Group's industry leadership and the robust market demand.

The Group mainly manufactures packaging paperboard products, which include containerboard, coated duplex board and high performance corrugating medium, and kraft pulp products. The majority of the Group's sales is in China, whereas a significant portion of the Group's export sales is made to foreign invested processing enterprises for further export sales and is denominated in foreign currency. For FY2007, sales denominated in foreign currencies, which primarily represented sales made to foreign invested processing enterprises and direct export, constituted 42.3% of the Group's total sales as compared with 40.1% in the last financial year.

For FY2007, sales to the Group's top five customers in aggregate accounted for approximately 13.4% of the Group's revenue, with that to the single largest customer accounted for 3.8%. The corresponding percentages for the financial years ended 30 June 2006 were 7.9% and 2.4% respectively.

Gross profit

The gross profit for FY2007 was RMB2,528.9 million, an increase of RMB668.0 million or 35.9% as compared with the RMB1,860.9 million recorded in the last financial year. Overall gross margin for the year improved from 23.5% to 25.7%. In the financial year 2007, the gross margin of packaging paperboard products and kraft pulp were improved from 23.4% to 25.4% and 27.2% to 34.0% respectively. The increase in gross margin was due to the Group's strong bargaining power in the industry value chain, economies of scale provided by production capacity expansion, further optimisation of the Group's paper machines, further realisation of synergies from the group companies and management's efforts on overhead control.

Other gains — net

Other gains, net, of the Group decreased to RMB311.2 million in FY2007 from RMB357.0 million in the last financial year. By excluding the interest income of RMB117.7 million derived from the lock up of subscription funds from over-subscription during the listing of the Company's Shares in March 2006, there was an increment of RMB71.9 million over the last financial year. The increment was mainly the net effects of increase in sales of scrap materials and net foreign exchange gains and partly offset by decrease in sales of electricity. The decrease of electricity sales was mainly due to the increase in paper production capacity, which resulted in higher electricity consumption as compared with the last financial year.

Management Discussion & Analysis

Operating profit

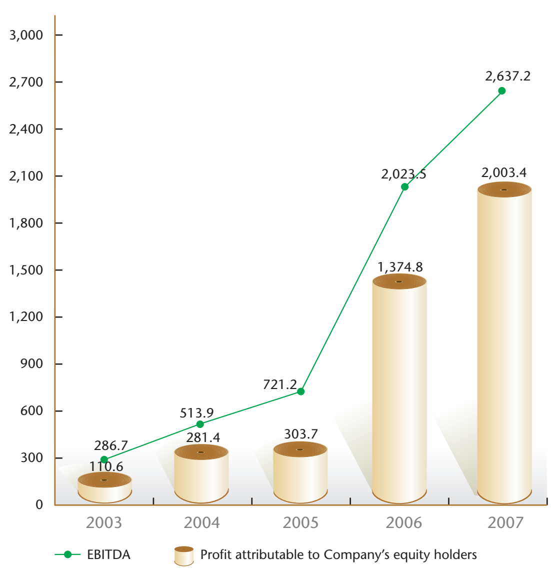
The operating profit for FY2007 was RMB2,293.4 million, going up by 26.6% over the last financial year. The increase percentage was in line with revenue growth rate.

Selling and marketing costs were RMB195.4 million in FY2007, compared with RMB172.8 million in FY2006. The total amount of selling and distribution costs as a percentage of the Group's revenue decreased from 2.2% in the last financial year to 2.0% in FY2007, which was resulted from the Group's continual improvement of management efficiency and strong sales performance.

Administrative expenses increased from RMB233.9 million in the last financial year to RMB351.3 million in FY2007. The increase was mainly a result of RMB102.4 million expenses on share options granted under Pre-IPO Option Scheme and 2006 Option Scheme. Additional management and administrative costs were also incurred to support the commencement of new paper machines. The amount of administrative expenses as a percentage of Group revenue increased from 3.0% in the last financial year to 3.6% in FY2007. The Group's administrative expenses amounted to RMB248.9 million after deducting the share option expenses, representing 2.5% of the group's revenue. While offsetting the profitability enhancement contributed by lower proportion of selling and marketing costs to revenue, the proactive investment in human resources assures the Group's growth sustainability.

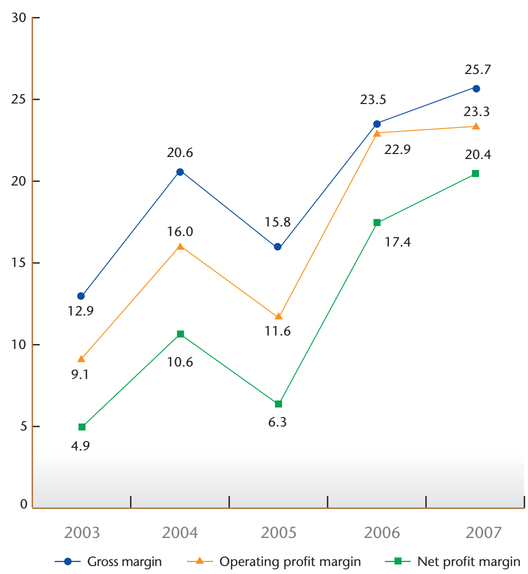
Results performance

RMB million



Profitability ratios

Percentage (%)



Net profit and dividends

The profit attributable to equity holders for FY2007 was RMB2,003.4 million, an increase of RMB628.6 million as compared with the last financial year. The ratios of EBIT and EBITDA to revenue were 23.1% and 26.8% respectively.

The Group's finance costs decreased by 55.4% to RMB131.4 million in FY2007 from RMB294.8 million in FY2006. The substantial decrease in the Group's finance costs was mainly the result of the upgrade of the Group's credit profile and optimising loan portfolio mix in terms of maturity and currency, which was attributable to the amelioration of the Group's financial position after listing and the exchange gains of foreign currency borrowings attributed by continuous appreciation of RMB during the financial year.

Basic earnings per share for FY2007 and the last financial year were RMB0.48 and RMB0.41 respectively. During the year, the Group declared and paid an interim dividend of RMB1.60 cents per share, which amounted to RMB65.6 million. The directors have proposed a final dividend of RMB10.00 cents per share, which will aggregate to RMB429.1 million. The total dividend for the year amounted to RMB11.60 cents per Share, representing an increase of RMB9.30 cents per Share or approximately 4 times from the previous financial year.

Working capital

	As at 30 June	
	2007	2006
Inventories (in RMB million)	1,502.5	932.0
Average inventories as a percentage of Group cost of goods sold (%)	20.6	15.4
Turnover days (days)	75	56
Trade receivables and bills receivable ("trade receivables") (in RMB million)	1,770.4	1,312.4
Average trade receivables as a percentage of Group revenue (%)	18.0	16.6
Turnover days (days)	66	61
Trade payables and bills payable ("trade payables") (in RMB million)	1,068.5	1,516.8
Average trade payables as a percentage of cost of goods sold (%)	14.6	25.1
Turnover days (days)	53	92

The inventories increased by approximately RMB570.5 million for FY2007 and amounted to approximately RMB1,502.5 million, representing an increase of 61.2% from that of last financial year. Inventories mainly comprise recovered paper and kraft pulp of approximately RMB1,219.4 million and finished goods of approximately RMB283.1 million. During FY2007, inventory turnover was approximately 75 days as compared to 56 days for FY2006. The longer inventory turnover period during FY2007 was primarily the result of storing a stable amount of raw materials for deployment by increased production capacity in FY2008.

Trade receivables increased by approximately RMB458.0 million for FY2007 and amounted to approximately RMB1,770.4 million, representing an increase of 34.9% from that of last financial year. During FY2007, the turnover days of trade receivables was approximately 66 days as compared to 61 days for FY2006.

Trade payables decreased by approximately RMB448.3 million for FY2007 and amounted to approximately RMB1,068.5 million, representing a decrease of 29.6% from that of last financial year. Creditors' turnover days was approximately 53 days for FY2007 and was in line with the credit period granted by most suppliers.

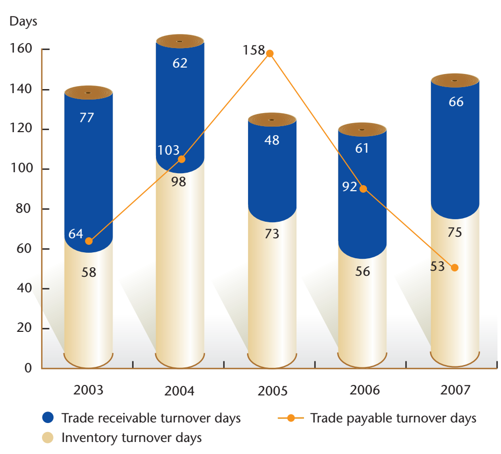
Liquidity and financial resources

The working capital and long-term funding required by the Group primarily comes from its operating cash flows and borrowings, while the Group's financial resources are used in its capital expenditures, operating activities and repayment of borrowings.

The Group's net cash inflow from operating activities decreased from approximately RMB1,067.1 million in 2006 to approximately RMB756.1 million in 2007, representing a decrease of approximately 29.1%. The decrease was attributable primarily to the changes in working capital, mainly the increase of year end trade receivables and inventories. In terms of available financial resources as at 30 June 2007, the Group had total undrawn borrowing facilities of RMB8,865.5 million and cash and bank balances of RMB1,748.2 million.

As at 30 June 2007, the shareholders' funds were RMB11,512.9 million, an increase of RMB3,971.5 million from that of the last financial year. The shareholders' fund per share increased by 47.3% from RMB1.82 to RMB2.68.

Liquidity ratios



The Group had outstanding bank loans and borrowings as at 30 June 2007 of approximately RMB6,632.0 million of which approximately RMB2,543.1 million shall be repaid within 1 year, approximately RMB1,028.3 million shall be repaid after 1 year but within 2 years, approximately RMB3,057.4 million shall be repaid after 2 years but within 5 years and approximately RMB3.2 million shall be repaid after 5 years. With most of the procedures for the release of securities for borrowings after listing of the Group completed during FY2007, the percentage of secured loans decreased from 21.3% in previous financial year to 0.05%.

The net borrowings to equity ratio of the Group as at 30 June 2007 increased from 25.2% to 42.4%, due to draw down of bank loans to fund the capital expenditure requirements of the Group.

Treasury policies

The Group has established a treasury policy with the objective of achieving better control of treasury operations and lowering cost of funds. Therefore, funding for all its operations and foreign exchange exposure have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments were used to hedge material exposure. It is the policy of the Group not to enter into any derivative products for speculative activities.

The treasury policies followed by the Group aim to:

(a) *Minimise interest risk*

This is accomplished by loan re-financing and negotiation. The Board closely monitors the Group's loan portfolio and compares the loan margin under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

During FY2007, the Group executed new loan agreement to refinance substantial portfolio of the loans draw down under previous agreements which carried a higher interest rate.

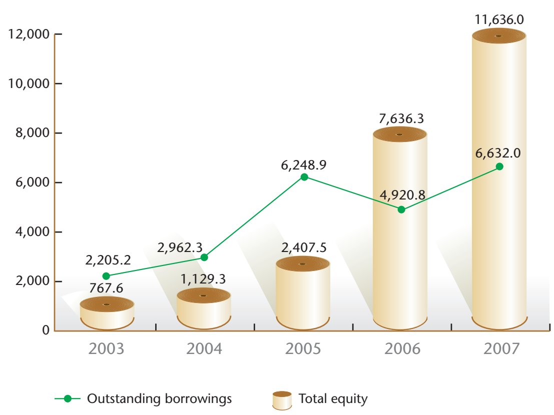
The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR and LIBOR interest rate swap contracts at a minimal price.

(b) *Minimise currency risk*

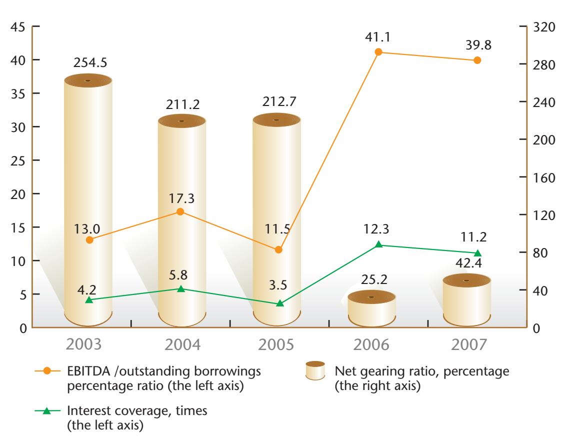
The Group has contracted new bank loans in US$ or HK$ for its subsidiaries in China to the extent allowable in view of the continued strengthening of the RMB.

Debt and equity

RMB million



Debt Serving Capability



Taking advantage of the liquidity in the Hong Kong banking system and with a view to address the Group's capital commitment requirements for capacity expansion, the Group executed two unsecured syndicated loan agreements, one in US$ and the other one in HK$, with financial institutions during FY2007 in a total amount of equivalent to US$644.3 million. The US$ unsecured syndicated loan was executed on 19 September 2006 and has a maturity of 4 years with interest cost of 55 basis points over LIBOR. The 5 year HK$ unsecured syndicated loan was concluded on 18 June 2007 which bears interest rate of 45 basis points over HIBOR. The syndicated loans both received encouraging responses from the market with the support from financial institutions including China Development Bank and Export Development Canada. These new loans have served to push out maturities of loans, reduced the Group's average loan interest margin and have also increased the proportion of non-RMB borrowings considering the appreciation of RMB.

As at 30 June 2007, total foreign currency borrowings amounted to the equivalent of RMB3,406.9 million and RMB loans amounted to RMB3,225.1 million, representing 51.4% and 48.6% of the Group's borrowings respectively. It is the policy of the Group to increase the proportion of foreign currency borrowings in view of the appreciation of RMB.

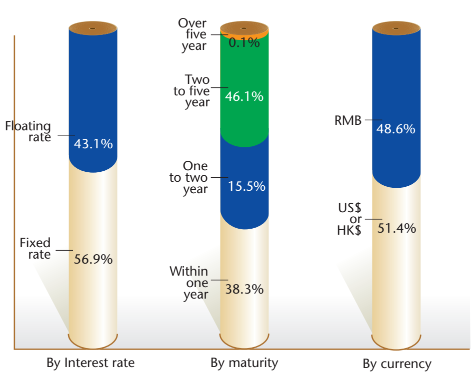
With the fast development of the bond market in China, Dongguan Nine Dragons Paper Industries Limited ("Dongguan Nine Dragons"), a subsidiary of the Company, has issued a RMB short-term corporate bond of RMB400.0 million on 18 September 2007 with annual interest rate of 5.25%. The purpose of the corporate bond is to finance the working capital of Dongguan Nine Dragons. With the issuance of short-term corporate bond, the Group has successfully diversified its funding channel and explored a new fund raising channel, China's bond market, with the benefits of relative lower funding cost, sizeable market and higher efficiency as compared to the traditional short-term bank loans.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

Capital expenditures

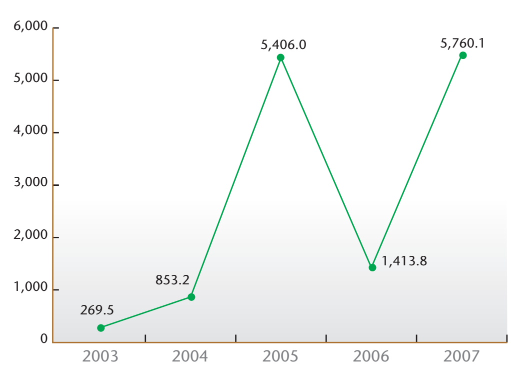
For FY2007, the Group invested approximately RMB5,760.1 million for the construction of factory buildings, purchase of plant and machinery, equipment and land use rights. These capital expenditures were fully financed by internal resources, net proceeds from the issue of new shares and bank borrowings.

Financing means and currency



Capital expenditures

in RMB million



Review of lives for depreciation purpose of property, plant and equipment

The long lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the Group's total assets. The annual depreciation charge depend primarily on the estimated lives of each type of assets and, in certain circumstances, estimates of fair values and residual values. The Directors are reviewing periodically these assets lives and the expected pattern of consumption of the future economic benefits embodied in the assets and change the depreciation method necessary to reflect current consideration on remaining lives in light of technological change, respective economic utilisation and physical conditions of the assets concerned.

Capital commitments and contingencies

The Group expected to invest approximately RMB6,748.8 million on capacity expansion in FY2008 and FY2009.

The Group made capital expenditure commitments mainly for machineries of approximately RMB939.2 million which were authorized but not contracted and approximately RMB5,809.5 million were contracted but not provided for in the financial statements as at 30 June 2007. These commitments were mainly related to the expansion of the Group's production capacity.

As of the financial year end date, the Group had no material contingent liabilities.

Use of proceeds from issue of new Shares

The net proceeds raised from the successful placing and public offer of the Company's Shares on 3 March 2006 amounted to approximately RMB3,829.3 million. During the year, the Group has fully utilised the remaining balance of the net proceeds of RMB1,394.6 million as funding for capital expenditures.

On 16 April 2007, the Group raised proceeds of RMB2,011.0 million by way of subscription for new Shares. The proceeds has been applied to supplement the Group's funding of its expansion and growth plan of the paper manufacturing facilities of the Group in China.