Notes to the Financial Statements

1. General information

Nine Dragons Paper (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") mainly engages in the manufacture and sale of packaging paperboard products and kraft pulp in the People's Republic of China (the "PRC").

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.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 September 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Nine Dragons Paper (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss, which are carried at fair value.

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.

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

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations effective but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 July 2006 but are not relevant to the Group's operations:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6 and HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS-int 4	Determining whether an Arrangement Contains a Lease
HKFRS-int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

(b) New standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

- HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis for market risk and capital disclosures required by the amendment to HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 July 2007.

- HKFRS 8, Operating Segment, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 will replace HKAS 14, Segment Reporting. HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resource to segments and assess its performance.

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

2.1 Basis of preparation *(continued)*

(b) New standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group *(continued)*

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment, effective for annual periods beginning on or after 1 November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

- HK(IFRIC)-Int 11, HKFRS 2 Group and Treasury Share Transactions, effective for annual periods beginning on or after 1 March 2007. The management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 12, Service Concession Arrangements, effective for annual periods beginning on or after 1 January 2008. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operations in public-to-private service concession arrangements. The management does not expect the interpretation to be relevant to the Group.

- HKAS 23 (Revised), Borrowing Costs, effective for annual periods beginning on or after 1 January 2009. In accordance with the revised standard, management no longer has an option to expense borrowing costs on qualifying assets. It only applies to qualifying assets measured at cost. Inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis, are outside the scope. Companies that expense borrowing costs under their current accounting policies must identify their qualifying assets. It is not expected to have any impact on the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June 2007.

(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.

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

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

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 unless the transaction provides evidence of an impairment 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 (Note 2.9). The results of subsidiaries are accounted 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.

Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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 is subject to risks and returns that are different from those of segments operating in other economic environments.

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

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 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.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

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 financial period in which they are incurred.

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

2.5 Property, plant and equipment *(continued)*

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

The assets' residual values are ranged from 3% to 5%. 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 the proceeds with the carrying amount and are recognised within other gains — net, in the income statements.

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 operating 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 leases which range from 30 years to 50 years.

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

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 ("CGU") for the purpose of impairment testing. The allocation is made to those CGU or groups of CGU that are expected to benefit from the business combination in which the goodwill arose.

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

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

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value though profit and loss. Changes in fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains — net.

2.12 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.

2.13 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 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.

2.15 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

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.

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

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 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 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.

2.19 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)*

2.19 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 equity-settled, share-based compensation plans. 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.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

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

2.20 Provisions *(continued)*

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 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.

2.21 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, rebate and discount after eliminating sales within the group companies.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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 the 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.

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

2.21 Revenue recognition *(continued)*

(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.

2.22 Leases (as the lessee for operating leases)

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.

2.23 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, plants 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.

2.24 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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk

The sales transactions of the Group are denominated in United States Dollars ("US$"), Hong Kong Dollars ("HK$") and RMB. There are purchases of raw materials and acquisition of plant and equipment that are required to be settled in US$, HK$, Euro, Great Britain Pound ("GBP") and Japanese Yen ("JPY"). RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Details of the Group's bank and cash balances and borrowings denominated in foreign currencies as at 30 June 2007 are disclosed in Notes 13 and 17 respectively.

To mitigate the impact of currency exchange rate fluctuations, the Group continually assesses the exposure to currency risk, and a portion of the risk is hedged by using derivative financial instruments. During the year ended 30 June 2007, the Group used foreign currency forward contracts and cross currency interest rate swaps to hedge the exposure to foreign currency risk on certain transactions.

(b) 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 2007, RMB1,228,259,000 (2006: RMB2,491,318,000) of the Group's borrowings were at fixed rates.

The Group has neither used floating-to-fixed interest rate swaps to hedge cash flow interest rate risk nor used fixed-to-floating interest rate swaps to hedge fair value interest rate risk.

(c) Credit risk

The carrying amounts of cash and cash equivalents, derivative financial instruments and trade and other receivables except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on cash and cash equivalents is limited because the counterparties are banks with good reputation. 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.

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(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 derivative financial instruments is determined by reference to the market available information. 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 CGU 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 CGU is based would not cause a reduction in carrying value of goodwill as at 30 June 2007.

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

(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 write-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 2007 would be an estimated RMB78,039,000 (2006: RMB57,297,000) higher or RMB95,381,000 (2006: RMB70,029,000) lower.

(c) Valuation of share options

The fair value of options granted under the Pre-IPO Share Option Scheme and 2006 Share Option Scheme is determined using the Binomial and Black-Scholes valuation model, respectively. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected life, expected volatility, 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.

(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.

(f) Value-added taxes ("VAT")

The export sales of the Group are subject to VAT under relevant PRC tax regulations. The interpretations on relevant VAT regulations of the Group's management may be different from that of the in-charge tax bureaus. The ultimate tax determination is uncertain and the Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and provisions of VAT in the period in which such determination is made.

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

(g) Income taxation and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially records, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Segment information

The Group is principally engaged in the manufacture and sales of packaging paperboard products and kraft pulp. 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.

The Group's principal market is 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.

6. Property, plant and equipment — Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
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 28)	(430)	(14,872)	(126)	(1,382)	—	(16,810)
Depreciation (Note 21)	(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
Year ended 30 June 2007						
Opening net book amount	1,477,864	6,183,015	72,148	126,292	766,167	8,625,486
Additions	10,981	34,938	22,524	64,627	5,406,113	5,539,183
Transfer	424,271	2,429,006	9,613	5,321	(2,868,211)	—
Disposals (Note 28)	—	(1,009)	(793)	(6,922)	—	(8,724)
Depreciation (Note 21)	(73,151)	(244,041)	(13,757)	(22,269)	—	(353,218)
Closing net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727
At 30 June 2007						
Cost	2,108,223	9,260,342	128,407	238,223	3,304,069	15,039,264
Accumulated depreciation	(268,258)	(858,433)	(38,672)	(71,174)	—	(1,236,537)
Net book amount	1,839,965	8,401,909	89,735	167,049	3,304,069	13,802,727

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

Certain property, plant and equipment of the Group with carrying values of approximately RMB5,200,000 as at 30 June 2007 (2006: RMB2,157,234,000) had been pledged for bank borrowings of the Group (Note 17).

As at 30 June 2007, the Group has constructed certain buildings at cost of RMB32,244,000 (2006: RMB21,650,000) 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 RMB70,580,000 (2006: RMB11,520,000) and value added tax refund of RMB33,322,000 (2006: Nil) relating to the purchase of qualified equipment manufactured in the PRC. The amount of credit and refund has been deducted from the cost of additions of the plant and machinery.

Depreciation was expensed in the following category in the consolidated income statement:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Cost of goods sold	289,363	277,283
Other gains — net	10,393	16,918
Administrative expenses	35,205	28,678
Selling and marketing costs	19,286	8,450
Total depreciation expense (Note 28)	354,247	331,329

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 30 years to 50 years. The net book value are analysed as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Opening	592,125	607,562
Additions	220,915	79,562
Acquisition of a subsidiary (Note 30)	151,930	—
Amortisation of prepaid operating lease payments (Note 21)	(15,711)	(21,324)
Disposals	—	(73,675)
	949,259	592,125

No bank borrowings are secured on land as at 30 June 2007 (2006: RMB151,520,000) (Note 17).

7. Land use rights — Group *(continued)*

As at 30 June 2007, the Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB182,366,000 (2006: RMB99,528,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights.

8. Intangible asset — Group

Intangible asset as at 30 June 2006 and 2007 represents goodwill, being the excess of the fair value of the shares of Zhang's Enterprises Company Limited ("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 2007 is necessary based on the business valuation carried out by Vigers Appraisal & Consulting Limited as at 30 June 2007.

Goodwill is allocated to the Group's CGU 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	18.1%–21.9%
— Rate of return on equity	12.1%
— Discount rate	13.2%

These assumptions have been used for the analysis of the CGU.

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 2007:

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Directly held:				
Nine Dragons Paper (BVI) Group Limited ("NDP (BVI)")	British Virgin Islands (the "BVI")	Investment holdings/PRC	US$10,000	100%
Indirectly held:				
Zhang's	Hong Kong	Investment holdings/ Hong Kong	HK$1,220,064	100%
Nine Dragons Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Millennium Scope Limited	BVI	Investment holdings/PRC	US$2,300	100%
River Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$200	100%
Emperor Dragon Paper Industries Co., Ltd.	BVI	Investment holdings/PRC	US$100	100%
Sky Dragon Paper Industries (HK) Co., Ltd.	Hong Kong	Investment holdings/ Hong Kong	HK$1	100%
Sky Dragon Paper Industries Co., Ltd. ("Sky Dragon (BVI)")	BVI	Investment holdings/PRC	US$100	100%
Nine Dragons Finance (Group) Limited	BVI	Investment holdings/PRC	US$1	100%
ND Finance Limited	BVI	Financing activities/Hong Kong	US$1	100%
NDP Worldwide Investment Limited	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Worldwide Investment Limited	Hong Kong	Investment holdings/PRC	HK$1	100%

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

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: *(continued)*				
Nine Dragons Machinery Supplies Limited	Hong Kong	Trading of machinery/ Hong Kong	HK$1	100%
Strong Dragon Co., Ltd.	BVI	Investment holdings/PRC	US$1	100%
Nine Dragons Resources Limited	Hong Kong	Investment holdings/ Hong Kong	HK$1	100%
Dongguan Nine Dragons Paper Industries Co., Ltd.[1]	PRC	Manufacture of paper/PRC	US$214,024,000	100%
Dongguan Sea Dragon Paper Industries Company Limited[2]	PRC	Manufacture of paper/PRC	US$100,300,000	99.9%
Dongguan Land Dragon Paper Industries Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$68,040,000	99.9%
Dongguan Sky Dragon Paper Industries Company Limited[1] ("Dongguan Sky Dragon")	PRC	Manufacture of paper/PRC	—	100%
Nine Dragons Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$169,570,000	99.5%
Sea Dragon Paper Industries (Taicang) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$26,440,000	99.5%
Nine Dragons Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$29,702,000	99.9%
Sea Dragon Paper Industries (Chongqing) Co., Ltd.[2]	PRC	Manufacture of paper/PRC	US$4,500,000	99.9%

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

Company	Place of incorporation	Principal activities/ place of operation	Issued and fully paid share capital/ paid-in capital	Attributable equity Interest held
Indirectly held: *(continued)*				
Nine Dragons Terminal (Chongqing) Company Limited[1]	PRC	Provision for loading services/ PRC	US$4,640,000	100%
Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited[2]	PRC	Manufacture of pulp/PRC	RMB163,640,000	55%
Dongguan Nine Dragons Transportation Company Limited[3]	PRC	Provision for transportation services/PRC	RMB5,000,000	90%
Nine Dragons Transportation (Taicang) Company Limited[3]	PRC	Provision for transportation services/PRC	RMB2,000,000	89.6%
Taicang Nine Dragons Coal and Charcoal Trading Company Limited[3]	PRC	Wholesales of coal and charcoal/PRC	RMB5,000,000	99.5%
Taicang Nine Dragons Recycling Company Limited[3]	PRC	Recycle of waste paper/PRC	RMB500,000	99.5%
Sea Dragon Resources (Chongqing) Co., Ltd.[1]	PRC	Recycle of waste paper/PRC	US$2,350,000	100%
Sea Dragon (Lianzhou) Mineral Co., Ltd.[1]	PRC	Manufacture of Calcium Carbonate/PRC	US$200,000	100%

Kind of legal entities in PRC:

1 Wholly foreign owned enterprise
2 Sino-foreign equity joint venture enterprise
3 Domestic enterprise

10. Inventories — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
At cost:		
Raw materials	1,219,399	661,582
Finished goods	283,110	270,449
	1,502,509	932,031

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB7,308,753,000 (2006: RMB6,041,282,000).

11. Trade and other receivables

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade receivables due from:				
— third parties	1,509,713	945,260	—	—
— related parties (Notes a and 31)	33,466	7,358	—	—
	1,543,179	952,618	—	—
Bills receivable	227,235	359,760	—	—
Prepayments	229,621	146,555	—	—
Amounts due from subsidiaries (Note a)	—	—	6,536,315	2,685,445
Amounts due from directors (Notes a and 31)	—	2,191	—	—
Amounts due from related parties (Notes a and 31)	76	55	—	—
Other receivables	187,996	97,833	1,379	1,438
	2,188,107	1,559,012	6,537,694	2,686,883

As at 30 June 2007, 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 major customers are entered into on credit terms around 30 to 60 days.

11. Trade and other receivables *(continued)*

As at 30 June 2007, the ageing analysis of trade receivables is as follows:

	Group	
	30 June 2007 RMB'000	30 June 2006 RMB'000
0 — 30 days	1,158,030	704,567
31 — 60 days	269,387	189,776
61 — 90 days	114,214	44,260
Over 90 days	1,548	14,015
	1,543,179	952,618

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.

12. Derivative financial instruments — Group

	30 June 2007		30 June 2006	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swaps	12,000	—	—	—
Forward foreign exchange contracts	12,900	7,417	—	—
	24,900	7,417	—	—

(a) Cross currency interest rate swaps

As at 30 June 2007, the Group has cross currency interest rate swaps in which the Group has an aggregate outstanding notional amount of US$350,000,000 (2006: Nil) which is subject to interest at LIBOR plus 55 basis points per annum to be receivable from counterparties. In exchange, the Group has an outstanding notional amount of HK$1,951,100,000 (2006: Nil) which is subject to interest at HIBOR plus 59.89 basis points per annum and an outstanding notional amount of HK$781,980,000 (2006: Nil) which is subject to interest at HIBOR plus 61 basis points per annum to be payable to counterparties. The contracts will mature on 17 September 2010.

(b) Forward foreign exchange contracts

As at 30 June 2007, the Group has 4 contracts to buy a total notional amount of US$40,000,000 (2006: Nil) for conversion currency of RMB and has 4 contracts to sell a total notional amount of US$40,000,000 (2006: Nil) for conversion currency of RMB. The contracts will mature within 12 months.

13. Bank and cash balances

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Cash at bank and in hand	1,180,541	582,832	3,453	77,183
Time deposits	567,683	2,233,828	257,570	1,263,017
	1,748,224	2,816,660	261,023	1,340,200
Denominated in:				
RMB	286,629	319,803	—	—
HK$	1,270,605	2,019,355	258,355	1,334,088
US$	187,112	468,956	2,668	6,112
Others	3,878	8,546	—	—
	1,748,224	2,816,660	261,023	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
Issued and fully paid						
At 1 July 2005		3,000,000,000	300,000	312,000	—	312,000
Issue of shares in connection with IPO		1,150,000,000	115,000	119,152	3,931,999	4,051,151
Listing expenses		—	—	—	(221,860)	(221,860)
At 30 June 2006		4,150,000,000	415,000	431,152	3,710,139	4,141,291
Placement of shares for cash	(a)	125,000,000	12,500	12,353	1,998,695	2,011,048
Placing expenses		—	—	—	(32,358)	(32,358)
Exercise of share options	15(b)	15,652,029	1,565	1,554	57,626	59,180
At 30 June 2007		4,290,652,029	429,065	445,059	5,734,102	6,179,161

The total authorised number of ordinary shares as at 30 June 2007 is 8 billion shares (2006: 8 billion shares) with a par value of HK$0.1 per share (2006: HK$0.1 per share).

(a) Pursuant to a placing and subscription agreement entered into between Best Result Holdings Limited ("Best Result"), the Company and certain placing agents on 16 April 2007, the placing agents have agreed to place, on a fully underwritten basis, 125,000,000 existing shares at a price of HK$16.28 per share on behalf of Best Result, and Best Result has agreed to subscribe for 125,000,000 new shares at the placing price. The gross proceeds to the Company amounted to HK$2,035,000,000 (equivalent to approximately RMB2,011,048,000).

15. Other reserves

Group

	Contributed surplus RMB'000 (Note a)	Capital reserve RMB'000	Share options reserve RMB'000 (Note b)	Statutory reserve and enterprise expansion fund RMB'000 (Note c)	Translation RMB'000	Total RMB'000
As at 1 July 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
Transfer from net profit	—	—	—	62,896	—	62,896
Share options granted to directors and employees	—	—	102,393	—	—	102,393
Exercise of share options	—	—	(11,636)	—	—	(11,636)
Currency translation differences	—	—	—	—	530	530
As at 30 June 2007	660,542	98,980	107,554	188,583	530	1,056,189

Company

	Contributed surplus RMB'000 (Note d)	Share options reserve RMB'000 (Note b)	Total RMB'000
As at 30 June 2006	2,074,700	16,797	2,091,497
Transfer from net profit	—	—	—
Share options granted to directors and employees	—	102,393	102,393
Exercise of share options	—	(11,636)	(11,636)
As at 30 June 2007	2,074,700	107,554	2,182,254

15. Other reserves *(continued)*

(a) Contributed surplus of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

(b) A summary of the share option schemes, details of the movement in share options and valuation of the share options are set out on pages 48 to 52.

(c) Statutory reserve and enterprise expansion fund

In accordance with relevant rules and regulations in the PRC, except for Sino-foreign equity joint venture enterprises, 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 offset 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 Sino-foreign equity joint venture enterprises, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by the board of directors of respective companies.

(d) Contributed surplus of the Company represents the difference between the costs of investments in NDP (BVI) acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

16. Trade and other payables

	Group		Company	
	30 June 2007 RMB'000	30 June 2006 RMB'000	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade payables due to:				
— third parties	570,649	474,279	—	—
— related parties (Notes a and 31)	420,564	617,558	—	—
	991,213	1,091,837	—	—
Bills payable, secured	77,300	425,000	—	—
Deposits from customers	90,411	64,281	—	—
Other payables	515,368	378,599	34	23,875
Staff welfare benefits payable	40,343	32,953	—	—
Accrued expenses	69,179	22,537	—	—
	1,783,814	2,015,207	34	23,875
Less: other payables included in non-current liabilities				
Deferred government grants (Note b)	(17,215)	(27,809)	—	—
	1,766,599	1,987,398	34	23,875

(a) The amounts due are unsecured, interest free and repayable upon demand.

(b) In last year, the Group had 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. Up to 30 June 2007, the Group has utilised an amount of RMB32,244,000 (2006: RMB21,650,000) to acquired certain buildings (Note 6).

The ageing analysis of trade payables as at 30 June 2007 is as follows:

	Group	
	30 June 2007 RMB'000	30 June 2006 RMB'000
0 — 90 days	949,693	1,048,913
91 — 180 days	9,536	23,386
181 — 365 days	27,141	17,949
Over 365 days	4,843	1,589
	991,213	1,091,837

17. Borrowings — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
Non-current bank borrowings	4,088,927	2,743,901
Current		
— Short-term bank borrowings	2,373,082	1,737,040
— Current portion of long-term bank borrowings	170,000	439,835
	2,543,082	2,176,875
Total borrowings	6,632,009	4,920,776

(a) As at 30 June 2007, borrowings of RMB3,276,000 (2006: RMB1,046,901,000) are secured by assets of the Group and guarantees given by related parties, which are detailed as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Borrowings secured by assets of the Group only*	3,276	420,901
Borrowings secured by both assets of the Group and guarantees given by related parties* (Note 31)	—	626,000
	3,276	1,046,901

* The above borrowings are secured by the Group's property, plant and equipment (Note 6), land use rights (Note 7) and restricted cash.

(b) The maturity of the borrowings is as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Within 1 year	2,543,082	2,176,875
Between 1 and 2 years	1,028,259	1,537,000
Between 2 and 5 years	3,057,392	1,016,901
Wholly repayable within 5 years	6,628,733	4,730,776
Over 5 years	3,276	190,000
	6,632,009	4,920,776

17. Borrowings — Group *(continued)*

(c) The effective interest rates as at 30 June 2007 are as follows:

	30 June 2007	30 June 2006
Long-term bank borrowings	5.770%	5.665%
Short-term bank borrowings	5.233%	5.453%

(d) The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

The carrying value and fair value of non-current bank borrowings are as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Carrying amounts	4,088,927	2,743,901
Fair values	4,074,037	2,742,635

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(e) The carrying amounts of all the Group's borrowings as at 30 June 2007 are denominated in the following currencies:

	30 June 2007 RMB'000	30 June 2006 RMB'000
RMB	3,225,089	2,771,318
US$	2,657,392	502,418
HK$	749,528	1,647,040
	6,632,009	4,920,776

17. Borrowings — Group *(continued)*

(f) The Group has the following undrawn bank borrowing facilities:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Floating rate:		
— expiring within one year	4,471,618	4,376,497
— expiring beyond one year	4,393,874	1,066,898
	8,865,492	5,443,395

18. Deferred income tax — Group

	30 June 2007 RMB'000	30 June 2006 RMB'000
Deferred income tax liabilities to be recovered after more than 12 months	281,746	226,808

The gross movement on the deferred income tax account is as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Beginning of the year	226,808	169,747
Recognised in the consolidated income statement (Note 24)	54,938	57,061
End of the year	281,746	226,808

18. Deferred income tax — Group *(continued)*

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000
At 1 July 2005	169,747
Charged to the consolidated income statement	57,061
At 30 June 2006	226,808
Charged to the consolidated income statement	54,938
At 30 June 2007	281,746

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. Sales

Sales recognised during the year are as follows:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Sales of packaging paper	9,469,325	7,675,351
Sales of pulp paper	368,339	226,805
	9,837,664	7,902,156

20. Other gains — net

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Sales of scrap materials	55,338	23,450
Sales of electricity	123,227	150,118
Interest income	25,099	140,347
Net foreign exchange gains	77,855	33,222
Transportation	5,985	(219)
Net gain arising from change in fair value of derivative financial instruments	26,423	—
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	(2,711)	—
Tax refund of re-investment	—	10,064
	311,216	356,982

21. 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	
	2007 RMB'000	2006 RMB'000
Depreciation	342,825	315,016
Employee benefit expense (Note 22)	503,054	337,155
Changes in finished goods	(12,661)	58,413
Raw materials and consumables used	6,647,307	5,432,032
Transportation	55,134	45,212
Operating leases		
— Land use rights (Note 7)	15,711	21,324
— Buildings	902	883
Auditor's remuneration	4,428	3,903
Non-deductible value added tax for indirect export sales	98,793	39,015
Other expenses	199,963	194,982
	7,855,456	6,447,935

22. Employee benefit expense

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Wages and salaries	383,110	306,052
Share options granted to directors and employees (Note 15)	102,393	16,797
Pension costs — defined contribution plans (Note a)	10,763	8,648
Medical benefits	2,772	3,165
Other allowances and benefits	4,016	2,493
	503,054	337,155

(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	
	2007 RMB'000	2006 RMB'000
Gross scheme contributions	10,763	8,648

22. Employee benefit expense *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 30 June 2007 is set out below:

Name of Director	Fees RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Cheung Yan ("Ms. Cheung")	1,748	—	29,809	—	31,557
Mr. Liu Ming Chung ("Mr. Liu")	3,128	—	29,807	—	32,935
Mr. Zhang Cheng Fei ("Mr. Zhang")	2,930	—	28,508	—	31,438
Mr. Wang Hai Ying (*)	34	—	—	—	34
Ms. Gao Jing (*)	439	—	129	—	568
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
Ms. Tam Wai Chu, Maria	480	114	297	—	891
Mr. Chung Shui Ming, Timpson	480	114	297	—	891
Dr. Cheng Chi Pang	480	114	297	—	891
Mr. Wang Hong Bo	240	198	—	—	438
	9,959	540	89,144	—	99,643

* Mr. Wang Hai Ying is an executive director, and resigned as an executive director of the Company with effect from 28 February 2007. Ms. Gao Jing is an executive director with effect from 6 July 2006.

22. Employee benefit expense *(continued)*

(b) Directors' and senior management's emolúments *(continued)*

The remuneration of every Director for the year ended 30 June 2006 is set out below:

Name of Director	Fees RMB'000	Discretionary bonus RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Cheung Yan	1,188	—	2,892	—	4,080
Mr. Liu Ming Chung	2,026	—	2,891	—	4,917
Mr. Zhang Cheng Fei	1,958	—	2,019	—	3,977
Mr. Wang Hai Ying	162	—	—	—	162
Non-executive director					
Mr. Lau Chun Shun	—	—	—	—	—
Independent non-executive directors					
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

No director received any emoluments 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 presented.

22. 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 2007 include three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Pension costs	23	18
Salaries, share options, other allowances and benefits in kind	4,075	4,306
	4,098	4,324

The emoluments fell within the following bands:

	Number of individuals For the year ended 30 June	
	2007	2006
RMB1,500,001 to RMB2,000,000	1	1
RMB2,000,001 to RMB2,500,000	1	1

23. Finance costs

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Interest on bank borrowings		
— wholly repayable within five years	260,404	293,714
— not wholly repayable within five years	139	10,944
	260,543	304,658
Less: interest capitalised	(86,742)	(31,880)
	173,801	272,778
Bills discount charge	35,964	33,647
Other incidental borrowing cost	5,827	4,713
Exchange gains on borrowings	(84,151)	(16,345)
	131,441	294,793

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 5.649% for the year ended 30 June 2007 (2006: 5.366%).

24. Income tax expense

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Current tax		
— Hong Kong profits tax	—	—
— PRC enterprise income tax	94,368	59,225
— Reversal of prior years' PRC enterprise income tax	(47,661)	—
	46,707	59,225
Deferred income tax (Note 18)	54,938	57,061
	101,645	116,286

24. 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	
	2007 RMB'000	2006 RMB'000
Profit before taxation	2,161,983	1,516,410
Tax calculated at tax rates applicable to respective companies ranging from 18% to 27% (2006: 27%) within the Group	661,206	393,603
Effect of tax holidays	(549,860)	(283,591)
Add: tax losses for which no deferred income tax asset was recognised	11,634	6,274
Less: deferred income tax effect from change of tax rate (Note b)	(21,335)	—
Income tax expense	101,645	116,286

(a) Hong Kong profits tax

Hong Kong profits tax has not been provided as the Group did not have any assessable profits for the year ended 30 June 2007 (2006: Nil).

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law unifies the corporate income tax rate for domestic and foreign enterprises at 25% with effect from 1 January 2008. Foreign enterprises which are entitled to special incentive will be given concessions throughout a five-year transition period, if applicable. As a result of the new CIT Law, the carrying value of deferred tax liabilities has been written down by RMB21,335,000 in the year ended 30 June 2007.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

25. 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 RMB827,883,000 (2006: RMB157,120,000).

26. Earnings per share

— Basic

	For the year ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	2,003,408	1,374,782
Weighted average number of ordinary shares in issue (shares in thousands)	4,179,049	3,376,027
Basic earnings per share (RMB per share)	0.4794	0.4072

— 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	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	2,003,408	1,374,782
Weighted average number of ordinary shares in issue (shares in thousands)	4,179,049	3,376,027
Adjustments for share options (shares in thousands)	80,658	23,980
Weighted average number of ordinary shares for diluted earnings per share (shares in thousands)	4,259,707	3,400,007
Diluted earnings per share (RMB per share)	0.4703	0.4043

27. Dividend

	For the year ended 30 June	
	2007	2006
Interim dividend of RMB1.60 cents (2006: Nil) per ordinary share (Note a)	65,585	—
Proposed final dividend of RMB10.00 cents (2006: RMB2.30 cents) per ordinary share (Note b)	429,065	95,450
	494,650	95,450

(a) An interim dividend for the six months ended 31 December 2006 of RMB1.60 cents per ordinary share, totalling approximately RMB65,585,000 has been approved in the meeting of board of directors of the Company on 13 February 2007 and paid in the year.

(b) At a meeting held on 20 September 2007, the directors of the Company proposed a final dividend of RMB10.00 cents per share for the year ended 30 June 2007, totalling approximately RMB429,065,000. This 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 2008.

28. Cash generated from operations

	For the year ended 30 June	
	2007	2006
	RMB'000	RMB'000
Profit for the year	2,060,338	1,400,124
Adjustments for		
Income tax expense (Note 24)	101,645	116,286
Depreciation (Note 6)	354,247	331,329
Amortisation (Note 7)	15,711	21,324
Share options granted to directors and employees (Note 15)	102,393	16,797
Loss on sale of property, plant and equipment (see below)	7,737	15,517
Negative goodwill (Note 30)	(2)	—
Loss on disposal of equity interests in certain subsidiaries to minority shareholders (Note 20)	2,711	—
Net gain arising from change in fair value of derivative financial instruments (Note 20)	(26,423)	—
Interest income (Note 20)	(25,099)	(140,347)
Finance cost (Note 23)	131,441	294,793
Exchange losses on bank and cash balance	27,514	—
	2,752,213	2,055,823
Changes in working capital		
Inventories	(571,507)	66,748
Trade and other receivables	(457,126)	(148,434)
Trade and other payables	(603,000)	(536,430)
Cash generated from operations	1,120,580	1,437,707

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	30 June 2007	30 June 2006
	RMB'000	RMB'000
Net book amount (Note 6)	8,724	16,810
Loss on sale of property, plant and equipment	(7,737)	(15,517)
Proceeds from sale of property, plant and equipment	987	1,293

29. Commitments

(a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred is as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
Contracted but not provided for:		
— Property, plant and equipment	5,809,540	2,214,035
Authorised but not contracted for:		
— Property, plant and equipment	939,222	1,762,470
	6,748,762	3,976,505

(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 2007 RMB'000	30 June 2006 RMB'000
Property, plant and equipment:		
Not later than one year	2,131	2,386
Later than one year and not later than five years	612	2,574
	2,743	4,960

30. Business combination

On 18 May 2007, the Group acquired 100% of the share capital of Sky Dragon (BVI) from Mr. Zhang, a director of the Company.

Sky Dragon (BVI) is an investment holding company and its principal investment is holding 100% equity in Dongguan Sky Dragon. Dongguan Sky Dragon did not engage in the manufacture of paper but holding of certain land use rights for future paper manufacturing establishment.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000	Fair value RMB'000
Bank and cash balances	669	669
Land use rights (Note 7)	145,156	151,930
Payables	(152,597)	(152,597)
Net assets	(6,772)	2
Purchase consideration settled in cash*		—
Negative goodwill		2
Purchase consideration settled in cash*		—
Cash and cash equivalents in subsidiary acquired		669
Cash inflow on acquisition		669

* Nominal value of the consideration was RMB1.

31. 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
Nine Dragons Packaging (Taicang) Company Limited ("Taicang Packaging")	Beneficially owned by Mr. Zhang

31. Related party transactions *(continued)*

(b) Transactions with related parties

For the year ended 30 June 2007, 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	
	2007 RMB'000	2006 RMB'000
Sales of goods:		
Taicang Packaging	193,592	78,043
Sales of utilities:		
Taicang Packaging	4,553	1,352
Purchase of recovered paper:		
ACN	2,922,405	2,591,692
Taicang Packaging	6,353	5,296
	2,928,758	2,596,988
Purchase of logistic services		
ACN	—	3,627

(c) Key management compensation

Other than compensation for directors as disclosed in Note 22, compensation for other key management is as follows:

	For the year ended 30 June	
	2007 RMB'000	2006 RMB'000
Salaries and other short-term employee benefits	7,443	9,816
Share options	7,563	4,842
	15,006	14,658

31. Related party transactions *(continued)*

(d) On 18 May 2007, the Group acquired the issued share capital of Sky Dragon (BVI) from Mr. Zhang, a director of the Company. Details of the business combination are disclosed in Note 30.

(e) Balances with related parties

	30 June 2007 RMB'000	30 June 2006 RMB'000
Trade balances due from:		
Related parties:		
— Taicang Packaging	33,466	7,358
Non-trade balances due from:		
Related parties:		
— Taicang Packaging	76	55
Directors:		
— Ms.Cheung	—	867
— Mr. Liu	—	869
— Mr. Zhang	—	455
	—	2,191
Trade balances due to:		
Related parties:		
— ACN	417,589	616,850
— Taicang Packaging	2,975	708
	420,564	617,558

31. Related party transactions *(continued)*

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

	30 June 2007 RMB'000	30 June 2006 RMB'000
Non-trade balances due from:		
Directors:		
Beginning of the year	2,191	500
Cash advances	—	2,191
Cash receipts	(2,191)	(500)
End of the year	—	2,191
Related parties:		
Beginning of the year	55	10,768
Cash advances	21	—
Cash receipts	—	(10,713)
End of the year	76	55
Non-trade balances due to:		
Related parties:		
Beginning of the year	—	1,063
Cash repayments	—	(1,063)
End of the year	—	—

31. Related party transactions *(continued)*

(f) 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		Maximum outstanding during the year ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Ms. Cheung	—	867	867	867
Mr. Liu	—	869	869	869
Mr. Zhang	—	455	455	455
	—	2,191	2,191	2,191

(g) Guarantees

Guarantees given by related parties for bank borrowings and credit facilities granted to the Group at the balance sheet date presented are as follows:

	30 June 2007 RMB'000	30 June 2006 RMB'000
ACN	—	176,000
ACN together with Dongguan Sea Dragon	—	450,000
Total	—	626,000

32. Event after balance sheet date

On 18 September 2007, Nine Dragons Worldwide Investment Limited has entered into an agreement with the Government of Ninghe County, Tianjin City in the PRC, for the establishment of a production base at the Ninghe Economic Development Zone. The funding commitment is estimated to be approximately RMB2,300,000,000.

33. Ultimate holding company

The directors of the Company regard Best Result, a company incorporated in the British Virgin Islands, as the ultimate holding company of the Group.