玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(*Incorporated in Bermuda with limited liability*)
(Stock Code: 2689)

UNAUDITED RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

- Sales jumped 44.2% to approximately RMB6.69 billion.
- Gross profit rose by 30.9% to approximately RMB1.58 billion.
- Gross profit margin decreased from 26.0% to 23.6%.
- Operating profit rose by 13.8% to RMB1.27 billion.
- Profit attributable to Shareholders increased 11.4% to approximately RMB1.06 billion.
- Net profit margin decreased from 20.4% to15.8%.
- Basic earnings per share increased 8.7% from RMB0.23 to RMB0.25.
- Proposed interim dividend per share of RMB1.68 cents (equivalent to approximately HK1.84 cents).

FINANCIAL RESULTS

The Board of Directors ("Board") of Nine Dragons Paper (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group" or "ND Paper") for the six months ended 31 December 2007, together with the comparative figures for the corresponding period of the previous year:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited	
		Six months ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Sales	*3*	**6,690,409**	4,638,469
Cost of goods sold	*4*	**(5,114,195)**	(3,434,528)
Gross profit		**1,576,214**	1,203,941
Other gains (net)	*5*	**125,142**	148,913
Selling and marketing costs	*4*	**(144,419)**	(96,847)
Administrative expenses	*4*	**(287,241)**	(140,523)
Operating profit		**1,269,696**	1,115,484
Finance costs	*6*	**(64,562)**	(85,278)
Profit before income tax		**1,205,134**	1,030,206
Income tax expense	*7*	**(126,452)**	(54,955)
Profit for the period		**1,078,682**	975,251
Profit attributable to:			
Equity holders of the Company		**1,056,163**	948,062
Minority interests		**22,519**	27,189
		1,078,682	975,251
Earnings per share for profit attributable to equity holders of the Company *(expressed in RMB per share)*			
– basic	*8*	**0.25**	0.23
– diluted	*8*	**0.24**	0.22
Dividend	*9*	**72,140**	65,585

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	31 December 2007 Unaudited RMB'000	30 June 2007 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**17,321,208**	13,802,727
Land use rights	*10*	**1,094,758**	949,259
Intangible asset	*11*	**146,694**	146,694
Total non-current assets		**18,562,660**	14,898,680
Current assets			
Inventories		**1,565,866**	1,502,509
Trade and other receivables	*12*	**2,806,520**	2,188,107
Derivative financial instruments		**5,483**	24,900
Restricted cash		**262,719**	—
Bank and cash balances		**691,653**	1,748,224
Total current assets		**5,332,241**	5,463,740
Total assets		**23,894,901**	20,362,420
EQUITY			
Capital and reserves attributable to Shareholders of the Company			
Share capital	*13*	**6,191,767**	6,179,161
Other reserves		**1,190,111**	1,056,189
Retained earnings			
Proposed dividend		**72,140**	429,065
Unappropriated retained earnings		**4,794,915**	3,848,519
		12,248,933	11,512,934
Minority interests		**147,482**	123,084
Total equity		**12,396,415**	11,636,018
LIABILITIES			
Non-current liabilities			
Deferred government grants		**16,934**	17,215
Borrowings	*14*	**6,759,815**	4,088,927
Deferred income tax liabilities		**346,013**	281,746
Total non-current liabilities		**7,122,762**	4,387,888

	Note		
Current liabilities			
Derivative financial instruments		**7,750**	7,417
Trade and other payables	*15*	**2,102,739**	1,766,599
Current income tax liabilities		**47,037**	21,416
Borrowings	*14*	**2,218,198**	2,543,082
Total current liabilities		**4,375,724**	4,338,514
Total liabilities		**11,498,486**	8,726,402
Total equity and liabilities		**23,894,901**	20,362,420
Net current assets		**956,517**	1,125,226
Total assets less current liabilities		**19,519,177**	16,023,906

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit for the period	**1,078,682**	975,251
Adjustments for non-cash items/ Income tax expense/Finance costs	**513,828**	336,265
Working capital changes	**(822,985)**	(324,584)
Cash generated from operations	**769,525**	986,932
Income tax paid	**(42,490)**	(5,021)
Interest paid	**(251,126)**	(96,571)
Net cash generated from operating activities	**475,909**	885,340
Net cash used in investing activities	**(3,626,333)**	(2,712,573)
Net cash generated from /(used in) financing activities	**2,126,718**	(129,700)
Net decrease in bank and cash balances	**(1,023,706)**	(1,956,933)
Bank and cash balances at beginning of the period	**1,748,224**	2,816,660
Exchange losses on bank and cash balances	**(32,865)**	(11,300)
Bank and cash balances at end of the period	**691,653**	848,427

Notes:

1. General information and basis of preparation

Nine Dragons Paper (Holdings) Limited was incorporated in Bermuda on 17 August 2005 under the Companies Act 1981 as an exempt company with limited liability. The Group is principally engaged in the manufacture and sales of paper.

This condensed consolidated interim financial information for the six months ended 31 December 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2007.

2. Accounting policies

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 30 June 2007, except for changes in accounting policies made thereafter in adopting the following new standards and interpretations to existing standards which are effective for the Group's accounting periods beginning on or after 1 July 2007:

HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC) - Int 10	Interim Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2 Group and Treasury Share Transactions

The adoption of these accounting standards has no impact on the Group's results of operations.

The following new standards have been issued but effective for annual periods beginning on or after 1 January 2008 and have not yet been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segment
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 13	Customer loyalty programmes
HK(IFRIC) - Int 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The management is currently in the process of assessing the impact of application of these new standards, amendments and interpretations to existing standards that will have on the Group's financial statements in the period of initial application.

3. Sales

Sales recognised during the six months ended 31 December 2007 are as follows:

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Sales of paper	**6,546,213**	4,494,570
Sales of unbleached kraft pulp	**144,196**	143,899
	6,690,409	4,638,469

4. Expenses by nature

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

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Depreciation of fixed assets	**214,731**	157,162
Employee benefit expense	**419,075**	197,412
Changes in finished goods	**(97,369)**	71,703
Raw materials and consumables used	**4,567,148**	3,078,119
Transportation	**61,934**	18,118
Operating leases		
– land use rights *(note 10)*	**11,085**	6,529
– buildings	**1,079**	1,205
Non-deductible value added tax for export sales	**178,588**	33,866
Other expenses	**189,584**	107,784
	5,545,855	3,671,898

5. Other gains (net)

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Transportation	**1,965**	2,136
Sales of scrap materials	**51,328**	15,881
Sales of electricity	**11,734**	93,166
Interest income	**4,138**	13,918
Net foreign exchange gains on operating activities	**20,766**	23,812
Negative goodwill recognised (note 17)	**56,840**	-
Net loss arising from change in fair value of derivative financial instruments	**(19,750)**	-
Loss on partial disposal of equity interests in certain subsidiaries to minority shareholders	**(1,879)**	-
	125,142	148,913

6. Finance costs

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank borrowings	**187,818**	104,455
Less: interest capitalised	**(17,398)**	(11,625)
	170,420	92,830
Bills discount charge	**42,896**	17,474
Other incidental borrowing cost	**3,474**	2,036
Exchange gains on borrowings	**(152,228)**	(27,062)
	64,562	85,278

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.660 % for the six months ended 31 December 2007 (six months ended 31 December 2006: 5.870%).

7. Income tax expense

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**68,111**	27,052
	68,111	27,052
Deferred income tax	**58,341**	27,903
	126,452	54,955

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the six months ended 31 December 2007. PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the rates of taxation applicable to the respective subsidiaries.

8. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**1,056,163**	948,062
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,291,792**	4,150,000
Basic earnings per share *(RMB per share)*	**0.25**	0.23

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 market share price of the Company's shares during the period) 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.

	Six months ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**1,056,163**	948,062
Weighted average number of ordinary shares in issue *(shares in thousands)*	**4,291,792**	4,150,000
Adjustments for share options *(shares in thousands)*	**135,490**	65,033
Weighted average number of ordinary shares for diluted earnings per share *(shares in thousands)*	**4,427,282**	4,215,033
Diluted earnings per share *(RMB per share)*	**0.24**	0.22

9. Dividend

	Six months ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Interim dividend *(note (a))*	**72,140**	65,585

(a) A 2007 final dividend of RMB10.00 cents (2006 final: RMB2.30 cents) per ordinary share, totaling approximately RMB429,065,000 (2006 final: RMB95,450,000) has been declared in the Company's Annual General Meeting on 27 November 2007 and paid in the six months ended 31 December 2007.

(b) An interim dividend for the six months ended 31 December 2007 of RMB1.68 cents (Six months ended 31 December 2006: RMB1.60 cents) per ordinary share, totaling approximately RMB72,140,000 (Six months ended 31 December 2006: RMB65,585,000) has been approved in the meeting of board of directors of the Company on 17 March 2008.

10. Capital expenditure

	Land use rights *RMB'000*	Property, plant and equipment *RMB'000*
Six months ended 31 December 2006		
Opening net book amount as at 1 July 2006	592,125	8,625,486
Additions	106,499	2,877,468
Disposals	–	(5,907)
Amortisation/depreciation charges *(note 4)*	(6,529)	(163,681)
Closing net book amount as at 31 December 2006	692,095	11,333,366
Six months ended 31 December 2007		
Opening net book amount as at 1 July 2007	**949,259**	**13,802,727**
Additions	**93,454**	**3,740,182**
Acquisition of a subsidiary *(note 17)*	**63,130**	**270**
Disposals	**–**	**(3,337)**
Amortisation/depreciation charges *(note 4)*	**(11,085)**	**(218,634)**
Closing net book amount as at 31 December 2007	**1,094,758**	**17,321,208**

11. Intangible asset

Intangible asset as at 31 December 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 by the Company are based on the business valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), the independent valuer, 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 31 December 2007 is necessary based on the business valuation carried out by Vigers as at 30 June 2007.

12. Trade receivables

The Group's sales to corporate customers are entered into on credit terms around 30 to 60 days. As at 31 December 2007, the ageing analysis of trade receivables is as follows:

	31 December 2007	30 June 2007
	RMB'000	*RMB'000*
0-30 days	**1,446,461**	1,158,030
31-60 days	**397,711**	269,387
61-90 days	**51,844**	114,214
Over 90 days	**15,210**	1,548
	1,911,226	1,543,179

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.

13. Share capital

	Number of ordinary shares	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium**	**Total**
	Shares in thousands	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 31 December 2006					
Balances as at 1 July 2006 and 31 December 2006	4,150,000	415,000	431,600	3,709,691	4,141,291
Six months ended 31 December 2007					
Balances as at 1 July 2007	4,290,652	429,065	445,059	5,734,102	6,179,161
Exercise of share options	3,383	338	328	12,278	12,606
Balances as at 31 December 2007	4,294,035	429,403	445,387	5,746,380	6,191,767

14. Borrowings

	31 December 2007	30 June 2007
	RMB'000	*RMB'000*
Non-current	**6,759,815**	4,088,927
Current		
– Short-term bank borrowings	**1,378,198**	2,373,082
– Current portion of long-term bank borrowings	**40,000**	170,000
– Short-term financial bills	**800,000**	—
	2,218,198	2,543,082
Total borrowings	**8,978,013**	6,632,009

As at 31 December 2007, borrowings of RMB268,059,000 (30 June 2007: RMB3,276,000) are secured by assets of the Group.

15. Trade payables

The ageing analysis of trade payables as at 31 December 2007 is as follows:

	31 December 2007	30 June 2007
	RMB'000	*RMB'000*
0-90 days	**992,060**	949,693
91-180 days	**8,378**	9,536
181-365 days	**4,154**	27,141
Over 365 days	**14,110**	4,843
	1,018,702	991,213

16. Commitments

(a) Capital commitments

Capital expenditure as at 31 December 2007 but not yet incurred is as follows:

	31 December 2007	30 June 2007
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Property, plant and equipment	**5,625,514**	5,809,540
Authorised but not contracted for:		
– Property, plant and equipment	**10,058,006**	939,222
	15,683,520	6,748,762

(b) Operating lease commitments – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2007	30 June 2006
	RMB'000	*RMB'000*
Property, plant and equipment:		
– Not later than one year	**2,086**	2,131
– Later than one year but not later than five years	**38**	612
	2,124	2,743

17. Business combination

On 20 December 2007, the Group acquired 100% of the share capital of Sichuan Qian Wei Baiya Paper Co., Ltd. (“Qian Wei”) from three independent third parties with no consideration.

Qian Wei was established in December 2005 and will principally be engaged in the production of high value specialty board products, mainly insulating paper and capacitor tissue paper, bleached wood pulp and bleached bamboo pulp. As at the date of acquisition, Qian Wei has not yet commenced production but holding of certain land rights for future paper manufacturing establishment.

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

	Fair value RMB’000	Acquiree’s carrying amount RMB’000
Bank and cash balances	2	2
Land use rights (note 10)	63,130	39,425
Property, plant and equipment (note 10)	270	270
Other receivables	1,364	1,364
Other payables	(2,000)	-
Deferred tax liabilities	(5,926)	—
Net assets	56,840	41,061
Purchase consideration settled in cash	-	
Negative goodwill	56,840	
Purchase consideration settled in cash	-	
Cash and cash equivalents in subsidiary acquired	2	
Cash inflow on acquisition	2	

INTERIM DIVIDEND

The Board has resolved to recommend payment of an interim dividend of RMB1.68 cents (equivalent to approximately HK1.84 cents) per share for the six-month period ended 31 December 2007, which is expected to be payable to shareholders by post on or about 21 May 2008. The dividend will be payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on 15 April 2008. The translation of RMB into Hong Kong dollars is made at the exchange rate of HK$1.00 to RMB0.9111 as at 17 March 2008 for illustration purpose only. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be subject to exchange rate at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 April 2008 to 18 April 2008, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m., 15 April 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is the largest containerboard producer in Asia and one of the leading players in the world. The Group primarily produces diversified containerboard products, including linerboard (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 two paper machines PM12 and PM13 during the six months ended December 2007. PM8 also underwent a revamping to boost its capacity by another 50,000 tpa. The 15 paper machines in operation command design capacities aggregating 5.35 million tpa, of which 2.80 million tpa are for linerboard, 1.60 million are for high performance corrugating medium and 950,000 tpa are for coated duplex board. Until 31 December 2007 all the paper machines in operation were located in the Dongguan base (3.65 million tpa) and the Taicang base (1.70 million tpa).

The Group has started construction of its third production base in Chongqing during the period under review. With the construction proceeding as scheduled, installation of PM22 and PM23 has already started, targeting to add capacities of 450,000 tpa of linerboard and 350,000 tpa of high performance corrugating medium when they commence production by June 2008 as planned.

Establishment of the fourth production base in Tianjin received green light during the period. This base will serve north and northeast China. It will commence production in 2009 with an initial capacity of 800,000 tpa including both linerboard and high performance corrugating medium.

The Group has a fully functional infrastructure that helps it to control costs and operate in an efficient manner. In addition to the 15 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.

Business Strategy
The Group aspires to become the world's premier packaging board manufacturer. It is gradually evolving itself into fully-integrated manufacturer from forestry to end-product with international reach and diversified offerings. While operational efficiency will continue to provide benefits of economies of scale as the Group increases its capacity, it also continuously strives to improve through the implementation of advanced and more efficient technologies. The long term value growth momentum and cost competitiveness were strengthened. During the period, 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 Leading Industry Position
The Group continued to expand its capacity and market share according to market demand/ supply situation and government policies, to become one of the leading players globally. As fostered in our annual report for 2006 we plan to achieve a compound annual growth rate of no less than 40% in our packaging board production between 2006 and 2008. We now expect that this target will be achieved by mid-2008. We plan to expand our aggregate capacity from 5.35 million tpa by the end of 2007 to 7.75 million tpa by June 2008 and further to 10.55 million tpa by 2009. At 7.75 million tpa by June 2008, we shall become the world's largest containerboard manufacturer. The Group is well-prepared to capture any opportunity for future growth via the following initiatives:

Further Capacity Expansion to Achieve Economies of Scale
During the period the Group enlarged the production capacity of PM8 with an additional 50,000 tpa and commenced the operations of PM12 and PM13 in August 2007.

Paper Machine	Location	Product	Capacity
PM8	Taicang	Linerboard	500,000 tpa (addition of 50,000 tpa)
PM12 and PM13	Dongguan	Linerboard	800,000 tpa in total

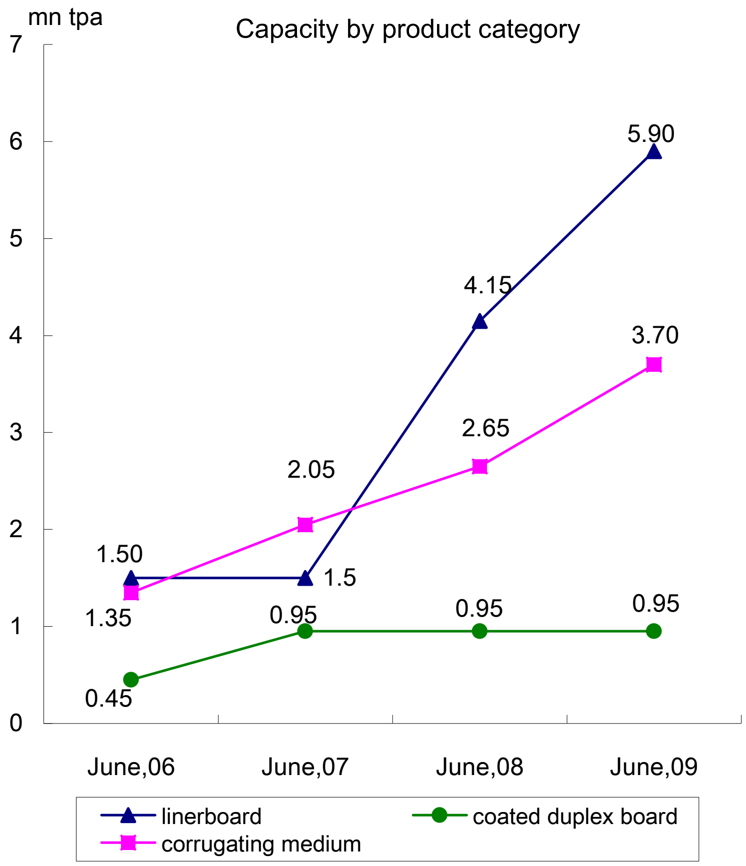
The Group commenced installation of PM18 and PM19 in Dongguan, PM20 and PM21 in Taicang and PM22 and PM23 in Chongqing. Commencement of commercial production of these six new paper machines by June 2008 will boost ND Paper's aggregate capacity by 2.40 million tpa.

Paper machine	Location	Product	Capacity
PM18	Dongguan	Light weight high performance corrugating medium	350,000 tpa
PM19	Dongguan	Linerboard	450,000 tpa
PM20	Taicang	Linerboard	450,000 tpa
PM21	Taicang	Light weight high performance corrugating medium	350,000 tpa
PM22	Chongqing	Linerboard	450,000 tpa
PM23	Chongqing	high performance corrugating medium	350,000 tpa

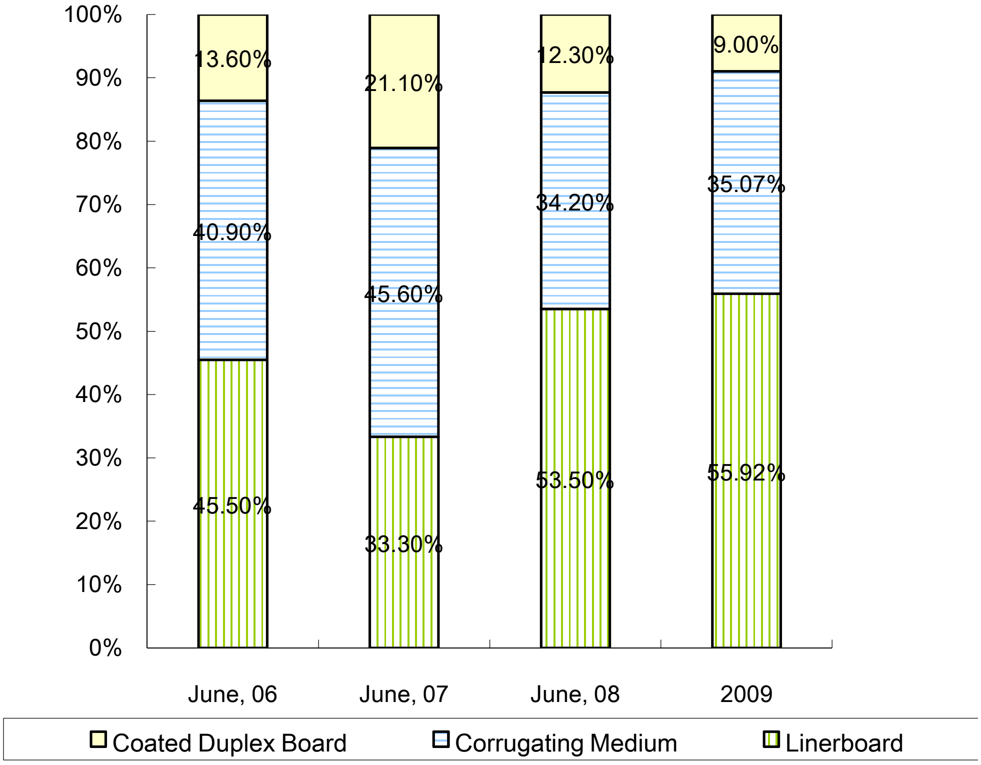
In March 2008, the Group announced its plan to acquire controlling interest in a paper manufacturer in Vietnam, in order to develop production and export bases outside China, resulting in further strengthening of the Group's position in the global market. Upon completion of the acquisition, the Group plans to increase the production capacity of the Vietnam paper manufacturer to a level where economy of scale can be attained.

Owing to the plan for investment in Vietnam, the Group's 2009 capacity expansion plan has been modified, with the new capacity allocated by product as follows:

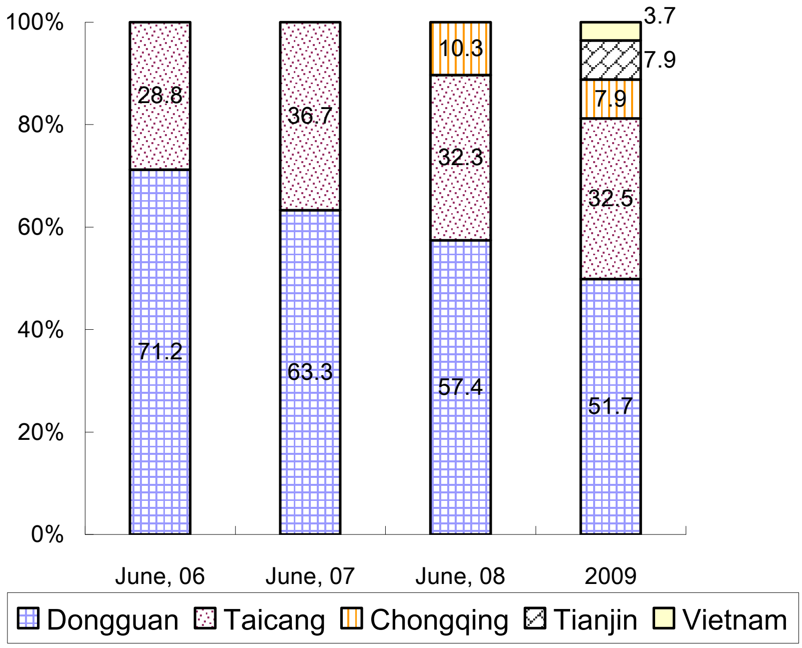
Paper Machine	**Product**	**Capacity**
PM25	Linerboard	450,000 tpa
PM26	High performance corrugating medium	350,000 tpa
PM27	Linerboard	450,000 tpa
PM28	Light weight high performance corrugating medium	350,000 tpa
PM29	Linerboard	450,000 tpa
PM30	Light weight high performance corrugating medium	350,000 tpa
PM31*	Linerboard	400,000 tpa
* To be confirmed		



Capacity by Product Category (cont'd)



Capacity by production base



Investing in infrastructure to accommodate capacity expansion

(1) *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 by end-December 2007. In Chongqing we are building two power generators with aggregating installed capacity of 120 MW to propel the new paper machines there. The Group also plans to build power generating facilities in the Tianjin base. These power plants provide 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, the Group purchases 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 Ports.

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

(2) *Land resources*

Apart from investment in infrastructure, the Group has made substantial investments in acquiring land use rights for large-scale land plots for its existing operations to allow for future development and expansion. Until 31 December 2007, the Group invested a total of RMB1.12 billion to secure land use rights for land plots in Dongguan, Taicang, Chongqing and Tianjin aggregating 5.99 milion sq.m.

(3) *Transportation infrastructure*

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 self-owned pier at Taicang. The Chongqing base construction blueprint already included a self-owned pier while another pier is in the middle of the planning stage for the Dongguan base.

The current 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. 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 unloading charges that the Group would otherwise incur for transit of coal.

The Group has commenced the construction of a self-owned pier and a direct railway access to the Chongqing base. These ancillary facilities will be ready to start operation to cope with commencement of commercial production of the paper machines there.

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 still underway. This Dongguan pier is scheduled to complete construction and commence service by 2010. It has a design annual loading and unloading capacity of approximately 3.0 million tonnes.

Establishing a Highly Balanced Geographical Coverage of Production Bases

In addition to production bases in Dongguan, Taicang and Chongqing, the Group continued its efforts to extend 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 supplies in these regions are still limited and primarily met by small-scale manufacturers. This segment 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 2.4 million sq.m. capable of accommodating 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 in 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 transshipment 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.

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.

(1) *High value-added containerboard*

Targeting to meet customers' increasing demand for lighter weight corrugating medium (70-90 g/m^2) along the 3R's strategy "Reduce, Reuse and Recycle", during the period the Group commenced construction of high-speed paper machines PM18 and PM21 specifically dedicated for this product category. These machines are expected to commence commercial production by June 2008 with capacities aggregating 700,000 tpa.

(2) *High value specialty board*

The Group plans to diversify into production of high value specialty board products through acquisitions into Sichuan Qian Wei Baiya Paper Co. Ltd. ("Qian Wei") and Sichuan Rui Song Paper Co. Ltd. ("Rui Song").

Pursuant to the sale and purchase agreements (the "Qian Wei Agreements") for the acquisition of Qian Wei, the Vendors transferred their entire equity interests in Qian Wei to the Group free of consideration. Except for those items which the Group has expressly agreed to be responsible, the Vendors will be responsible for all debts and liabilities of Qian Wei prior to completion of the acquisition. Pursuant to the Qian Wei Agreements, the Group will only be responsible for the payment of the balance of the land premium and construction costs for site formation, and the compensation for relocating the residents on the land up to an amount of RMB2 million. Payment in excess of RMB2 million would be borne by the Vendors. Qian Wei was established in December 2005 and will principally be engaged in the production of high value specialty board products (mainly insulating paper and capacitor tissue paper), bleached wood pulp and bleached bamboo pulp. The site formation work for the setting up of the manufacturing facility is currently underway.

The terms on the transfer of the Rui Song are still being negotiated and no definite share transfer agreement has been entered into as at the date of this report. Rui Song was established in June 2003 and is principally engaged in the production of high value specialty board products, mainly insulating paper and capacitor tissue paper, bleached wood pulp and bleached bamboo pulp. The existing annual designed production capacity of Rui Song for the production of high value specialty board products and bleached wood pulp and bleached bamboo pulp is

15,000 tonnes and 26,000 tonnes respectively. The Directors estimate that the market share of Rui Song's existing specialty board products in the China market is approximately 50%.

The terms of the Acquisition will include the relocation of Rui Song's existing operation to another premises and combine Rui Song's operation with the future expansion of Qian Wei. As the concrete plan for the development of Qian Wei and Rui Song and the exact terms for the acquisition of Rui Song are still being finalized, the Company cannot ascertain at this stage the exact scale of investment that may be involved with the development of Qian Wei and Rui Song.

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(3) *Liquid packaging board*

The Group also has planed to invest in a non-aseptic and aseptic liquid packaging board in the Group's Taicang base in China. The paper machines can produce varies kinds of different products. The facility will have an initial annual production capacity of 520,000 tonnes with commencement planned for 2010. It will be capable of producing other coated folding box board, food packaging board, cup stock and other high end packaging. The main raw material for the production of the liquid packaging board is pulp. It is estimated the initial funding commitment of the Group for the establishment of the liquid packaging board investment is approximately RMB1,400 million.

China currently has few non-aseptic liquid packaging board manufacturing capabilities and relies mostly on imports for its requirements of aseptic products. With economic development, demand for liquid packaging board products has increased significantly in the past few years. In view of the premium that liquid packaging products command and with higher selling prices than the normal packaging paper products (on average 100% higher), the Directors are of the view that the liquid packaging board investment has significant development potentials.

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's production bases have been granted the honours of Green/Environmental Creditable Enterprise by the Guangdong Environmental Protection Bureau and Taicang Environmental Protection Bureau and obtained ISO14001 certification for its environmental management standards. 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.

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. During the period, the Group's paper machines were operated at 94.0% efficiency on average, compared with 95.2% in the last corresponding period.

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 a diversified product mix. It meets the target of recycling by redeploying water and scrap fiber byproduct from the production of one product into the production of another product. Leveraging 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.

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 increasing price of overseas recovered paper and the quality of recovered paper improved, the Group increased sourcing recovered paper from the domestic market in China during the period. The Group targets to jack up this proportion further to 30% within 2008 to mitigate the risk of over-reliance on the supply from the overseas.

The Group sources its recovered paper from ACN and the remainder from several trading companies. For the six months to December 2007, the Group's purchases of recovered paper from ACN amounted to RMB1,839.9 million (2006/07: 1,203.4 million) , representing 56.3% of the Group's total purchases of recovered paper (2006/07: 65.8%). Due to the Group's recurring purchases of recovered paper in large quantities and centralized procurement, the Group has been able to secure supplies from suppliers (including from ACN) at more competitive prices and incur lower transportation costs.

We believe that the above arrangement can better 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 a part 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 in the future.

(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 shortage 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. ND Paper has inked on strategies to expand into upstream and resources activities to tighten its control on raw material costs.

On the top of an initiative to secure part of the supply of unbleached kraft pulp through the joint venture Nine Dragons Xing An Paper Industries (Inner Mongolia) Company Limited, the Group also participates in kraft pulp manufacturing activities via various projects and prospecting into appropriate forestry resources to secure stable and low-cost pulp supplies. ND Paper's demand for kraft pulp is set to spur following the Group's decision to increase production of packaging paper product and expand its product range into high value products. Parallel to the rapid development of the domestic market in China for kraft pulp, a new business trend has been evolved for ourselves in distribution and sale of this raw material category in China. In addition to the Qian Wei and Rui Song projects, we are in the process of examining a number of kraft pulp projects sourced from the domestic market, from Asia and from the international market. Negotiations are underway with selected international conglomerates on wide array of options. They include kraft pulp manufacturing and resources ventures, investments into joint venture kraft pulp manufacturing businesses in a non-controlling shareholding capacity, and securing of stable supply of kraft pulp from joint venture companies and alliance partners under favourable terms. We also actively identify in Asia appropriate kraft pulp projects which are supported by adequate forestry resources nearby. These projects will provide us with convenient accesses to kraft pulp supplies to support our paper production bases.

Retaining In-house Maintenance Teams to Enhance Efficiency and Quality

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 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 to better ensure delivery of high quality products.

The Group is 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. All paper machines have DCSs that monitor and control all aspects of production and automated quality control system to ensure that every segment of the production process comply with our quality requirements. This arrangement enabled the Group to maintain its ISO9001 quality standard accreditation.

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.

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 31 December 2007, the Group had approximately 10,068 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 RMB419.1 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 will comply with the new Labour Contract Law in full to provide staff members with the protection they are entitled to. 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

The Group continued to record growth in turnover and earnings for the six months ended 31 December 2007 as compared with the corresponding period of last year.

Revenue

The Group's revenue for the six months ended 31 December 2007 increased by 44.2% over the corresponding period of the previous financial year to RMB6,690.4 million. The major contributor of the Group's sales revenue was still from its paper business which accounted for 97.8% of the total group revenue, with the remaining sales revenue generated from its pulp business.

The Group's paper sales revenue for the period under review increased by 45.6% over the corresponding period of last financial year, as a result of both the increase in the Group's sales volume and average selling price of its packaging paperboard products. Sales revenue of linerboard, high performance corrugated medium and coated duplex board for the six months ended 31 December 2007 accounted for 44.7%, 28.5% and 24.7% respectively of the total sales revenue, compared to 52.8%, 26.3% and 17.8% respectively in the corresponding period of last year.

The Group's annual designed production capacity as at 31 December 2007 was 5.35 million tpa, comprising 2.80 million tpa of linerboard, 1.60 million tpa of high performance corrugating medium and 0.95 million tpa of coated duplex board. The Group's sales volume of packaging paperboard products increased by 30.6% to approximately 2,071,000 tonnes in the six months ended 31 December 2007 from approximately 1,586,000 tonnes in the same period of the last financial year. The 30.6% growth in sales volume was supported by full period contribution of PM11 and PM16 & 17, as well as the newly commenced operations of PM12 & 13 and upgrade of the production capacity of PM8 by 50,000 tpa in August 2007.

The sales volume of linerboard, high performance corrugated medium and coated duplex board for the six months ended 31 December 2007 increased by 11.7%, 38.1% and 75.7% respectively which is in line with the change in production mix as compared with the corresponding period of last year.

The price increment of all the Group's products also contributed to the increase in the top line figure and confirms the Group's price-setting power as a result of its market leadership position, one-stop product offer and the robust market demand. The average selling prices of linerboard, high performance corrugated medium and coated duplex board for the six months ended 31 December 2007 increased by 9.2%, 13.4% and 13.6% respectively.

The majority of the Group's sales continued to be realized from the domestic market, in particular from the corrugating medium and coated duplex board sectors. For the two six-month periods ended 31 December 2007 and 2006, domestic sales represented 57.7% and 59.0% of the Group's total sales respectively, while the remaining revenue are sales denominated in foreign currencies which primarily represented sales made to foreign invested processing enterprises and direct export.

For the two six-month periods ended 31 December 2007 and 2006, sales to the Group's top five customers in aggregate accounted for approximately 8.6% of the total revenue, with that to the single largest customer accounted for 2.7%. The corresponding percentages for the last corresponding period were 11.7% and 2.8% respectively.

Gross Profit

The gross profit for the six months ended 31 December 2007 was RMB1,576.2 million, an increase of RMB372.3 million or 30.9% as compared with the RMB1,203.9 million recorded in the same period of the last financial year. Overall gross profit margin for the period decreased from 26.0% to 23.6%. Despite the robust market demand of the Group's product, the Group suffered from the negative impact of fast rising raw materials costs, especially recovered paper and pulp, during the period under review. In view of the increase in the magnitude and frequency of the raw materials price increases during the period under review, the Group needed longer time in the process of passing the cost increases to its customers.

The average utilization rate of the Group's paper machines for the six months ended 31 December 2007 decreased from 95.2% in the corresponding period of the previous financial year to 94.0%. The decrease in utilization rate was mainly due to increase in shutdown period required for product and basis weight changes as the Group has changed its product mix to increase the production of high performance corrugating medium and more packaging paperboard products with lighter weight to cope with the changes in the market demand.

Other Gains (net)

Other gains (net) of the Group decreased 16.0% to RMB125.1 million in the six months ended 31 December 2007 from RMB148.9 million in the same period of the last financial year. The decrease was mainly the net effects of increases in the sale of scrap materials and negative goodwill from the acquisition of Qian Wei, offset by decrease in sales of electricity and the net loss arising from the change in fair value of derivative financial instruments.

Operating Profit

The operating profit for the six months ended 31 December 2007 was RMB1,269.7 million, representing an increase of RMB154.2 million or 13.8% over the RMB1,115.5 million of the same period of the last financial year.

Selling and marketing costs increased 49.2% from RMB96.8 million in the same period of the last financial year to RMB144.4 million in the six months ended 31 December 2007. The increase in the selling and marketing costs was due to larger sales volume and geographical coverage. When counted as a percentage of the Group's revenue, the total amount of selling and marketing costs remained at approximately 2.1% in the six-month periods ended 31 December 2006 and 31 December 2007.

Administrative expenses increased from RMB140.5 million in the first six months of the last financial year to RMB287.2 million in the six months ended 31 December 2007. The amount of administrative expenses as a percentage of group revenue increased from 3.0% in the six months ended 31 December 2006 to 4.3% in the six months ended 31 December 2007. The increase during the period under review was mainly a result of the increase in share options expenses of RMB87.1 million and additional management and administrative costs incurred to support the commencement of new paper machines and new production bases. The Group's administrative expenses amounted to RMB183.7 million after deducting the total share option expenses, representing 2.7% of the Group's revenue.

Net Profit and Dividend

The profit attributable to the equity holders for the six months ended 31 December 2007 was RMB1,056.2 million, representing an increase of 11.4% over the same period of the last financial year. The ratios of EBIT and EBITDA to revenue were 20.5% and 23.9% respectively.

The Group's finance costs decreased by 24.3% to RMB64.6 million in the six months ended 31 December 2007 from RMB85.3 million in the same period of the last financial year. To fund the expansion of production capacity, additional borrowings were raised during the period under review and led to increase in interest on bank borrowings from RMB92.8 million to RMB170.4 million. The increase in the Group's interest on bank borrowing was partly offset by the exchange gains of foreign currency borrowings attributed by continuous appreciation of RMB during the period under review as a result of the increase in the proportion of foreign currency loans under the Group's loan portfolio currency mix optimization efforts during the six months ended 31 December 2007.

Basic earnings per share for the two six-month period ended 31 December 2007 and 2006 were RMB0.25 and RMB0.23 respectively. The directors have proposed an interim dividend of RMB1.68 cents per share, with a total of approximately RMB72.1 million.

Working Capital

The level of inventory as at 31 December 2007 increased by 4.2% to RMB1,565.9 million from RMB1,502.5 million at 30 June 2007. Inventories mainly comprised recovered paper, pulp and other raw materials of approximately RMB1,185.4 million and finished goods of approximately RMB380.5 million.

The turnover days for raw materials and finished products were 42 days and 14 days respectively during the six months ended 31 December 2007, compared to 35 days and 11 days in the corresponding period of the last financial year.

The trade receivables and bills receivable as at 31 December 2007 were RMB2,215.3 million, increased by 25.1% from RMB1,770.4 million at the end of financial year 2007. The turnover days for trade debtors were 60 days, compared to 42 days in the corresponding period of the last financial year. The increase in trade debtors was mainly due to increase in receivables generated upon the completion of ramp up of PM12 & 13 in December 2007. As at 31 December 2007, the trade receivables with age less than 60 days accounted for approximately 96.5% of the total trade receivables.

The trade payables and bills payable decreased by 3.2% to RMB1,034.7 million as compared to the corresponding figure at 30 June 2007. Given the Group's advantage in obtaining favorable financing costs relative to its suppliers, creditors' turnover days was shortened to approximately 37 days, comparing to 46 days of the same period of the last financial year.

Liquidity and Financial Resources

The working capital and long-term investment funding requirements of the Group during the period under review was primarily satisfied by the Group's operating cash flows and borrowings.

The Group's net cash inflow from operating activities for the reported period decreased from RMB885.3 million in the same period of the last financial year to RMB475.9 million. The decrease was attributable primarily to the changes in working capital, mainly from the increase in period end trade receivables and inventories due to increase in operation scale, and the increase in the payment of income tax and interest during the period under review. In terms of the Group's available financial resources as at 31 December 2007, the Group had bank and cash balances of RMB954.4 million and total undrawn bank loans and overdraft facilities of RMB5,866.1 million.

As at 31 December 2007, the shareholders' funds were RMB12,248.9 million, an increase of RMB736.0

million from that as at 30 June 2007. The shareholders' fund per share increased by 6.3% from RMB2.68 to RMB2.85.

The Group had outstanding bank loans and borrowings as at 31 December 2007 of approximately RMB8,978.0 million. The short-term and long-term borrowings amounted to RMB2,218.2 million and RMB6,759.8 respectively, accounting for 24.7% and 75.3% of the total borrowings respectively. As at the end of the period, more than 97.0% of the Group's debts were on unsecured basis.

The net borrowings to equity ratio for the Group as at 31 December 2007, expressed as a percentage of net borrowings of RMB8,023.6 million and shareholder's equity of RMB12,248.9 million, was increased to 65.5% from 42.4% as at 30 June 2007, due to draw down of bank loans to fund the capital expenditure requirements of the Group.

Treasury Policies

The Group has established treasury policies with the objectives of achieving effective control of treasury operations and of 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 exchange rates and interest rates on specific transactions and 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 contracts 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 spread under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

During the six months ended 31 December 2007, the Group executed new RMB short-term financing bills in China to refinance those parts of the loan portfolio drawn down under previous loan agreements at higher interest rates.

(b) Minimise currency risk

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

As at 31 December 2007, total foreign currency borrowings amounted to the equivalent of RMB4,392.2 million and RMB loans amounted to RMB4,585.8 million, representing 48.9% and 51.1% of the Group's borrowings respectively. It is the policy of the Group to increase the proportion of foreign currency borrowings in anticipation of the further 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 two RMB short-term financing bills of RMB400.0 million each on 18 September 2007 and 23 October 2007 with annual interest rate of 5.25% and 5.90% respectively. The purpose of the financing bills is to finance the working capital of Dongguan Nine

Dragons. With the issuance of short-term financing bills, the Group has successfully 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 traditional short-term bank loans.

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

Capital Expenditures

The Group invested approximately RMB3,740.2 million for the construction of factory buildings, purchase of plant and machinery, and equipment during the six months ended 31 December 2007, as compared to RMB2,877.5 million in the same period of the last financial year. These capital expenditures were fully financed by internal resources and debts.

Capital Commitments and Contingencies

The Group expected to further invest approximately RMB15,683.5 million on capacity expansion in the coming few years for the purposes of further extending the market reach and meeting the various needs of customers.

The Group made capital expenditure commitments mainly for machinery of approximately RMB10,058.0 million, which were authorized but not contracted, and approximately RMB5,625.5 million, which were contracted but not provided for in the financial statements, as at 31 December 2007. These commitments were mainly related to the expansion of the Group's production capacity.

As of 31 December 2007, the Group had no material contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six-month period ended 31 December 2007.

AUDIT COMMITTEE

The Audit Committee meets at least four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit. The Audit Committee, together with the Company's management and its external auditors, PricewaterhouseCoopers, has reviewed the accounting principles and practices adopted by the Company and discussed over and reviewed the auditing and financial matters, including all significant aspects involving financial, operational and compliance controls.

All members of the Audit Committee are independent non-executive directors, namely, Dr. Cheng Chi Pang (chairman), Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson and Mr. Wang Hong Bo.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report has been reviewed by the Company's Audit Committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalizing best practices. Throughout the six-month period ended 31 December 2007, the Company followed the principles and complied with all applicable provisions under the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code. Specific enquiries have been made with all directors, who have confirmed that, during the period under review, they were in compliance with provisions of the Model Code. Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

PUBLICATION OF INTERIM RESULTS

This results announcement is published on the websites of the Company (www.ndpaper.com) and the Stock Exchange (www.hkexnews.hk). The interim financial report will be dispatched to shareholders of the Company and made available on the above websites as soon as practicable.

APPRECIATION

The encouraging results achieved by the Group during the period under review are attributable to the hard work, commitment and vision of the management and our staff, who have contributed to the continuous growth of the Group. I would like to take this opportunity to thank the local governments for their continuous support in providing us with a favourable operating environment. I would also like to express my sincere gratitude to all shareholders, investors and business partners for their trust and support to the Group.

On behalf of the Board
Cheung Yan
Chairman

Hong Kong, 17 March 2008

As at the date of this announcement, the executive directors are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Ms. Gao Jing; the non-executive director is Mr. Lau Chun Shun; the independent non-executive directors are Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo.

* *For identification purposes only*