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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **NINE DRAGONS PAPER (HOLDINGS) LIMITED**, you should at once hand this circular and the form of proxy enclosed with this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 5 to 24 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 25 to 26 of this circular. A letter from Gram Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advices to the Independent Board Committee and the Independent Shareholders on the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps is set out on pages 27 to 49 of this circular.

A notice convening the Special General Meeting to be held at 3:00 p.m. on Monday, 23 June 2014, at the Auditorium, 4/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong is set out on pages 57 to 61 of this circular. A form of proxy for the Special General Meeting for use by the Shareholders is enclosed with this circular.

Whether or not you are able to attend the Special General Meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

29 May 2014

* For identification purposes only

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“2011 Continuing Connected Transactions”	the continuing connected transactions of the Company entered into on 16 May 2011 between the Company and (a) Dongguan Longteng in relation to (i) the purchase of packaging materials and chemicals by the Group, and (ii) the supply of paperboard products by the Group to Dongguan Longteng; (b) ACN in relation to the purchase by the Group of recovered paper; and (c) Taicang Packaging in relation to (i) the supply of paperboard products by the Group to Taicang Packaging, and (ii) the purchase by the Group of scrap materials from Taicang Packaging, the details of which were set out in the announcement of the Company dated 16 May 2011 and the circular of the Company dated 1 June 2011;
“ACN”	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, which is indirectly wholly-owned by Ms. Cheung Yan and Mr. Liu Ming Chung, Directors and substantial shareholders of the Company;
“ACN Recovered Paper Purchase Agreement”	the agreement entered into between the Company and ACN on 8 May 2014 in relation to the purchase by the Group of recovered paper from ACN;
“associate(s)”	has the same meaning as given to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Dongguan Longteng”	Dongguan Longteng Industrial Co., Ltd. (東莞市龍騰實業有限公司) (former name known as Dongguan Longteng Paper Co., Ltd. (東莞市龍騰紙業有限公司)), a limited liability company established in the PRC which is 80% owned by Mr. Zhang Cheng Ming, a brother of Ms. Cheung Yan and Mr. Zhang Cheng Fei, both being Directors and substantial shareholders of the Company;

DEFINITIONS

“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Honglong Packaging”	Dongguan Honglong Packaging Co., Ltd. (東莞弘龍包裝有限公司), a company established in the PRC which is beneficially owned as to 60% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, all being Directors and substantial shareholders;
“Honglong Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Honglong Packaging on 8 May 2014 in relation to the sale of paperboard products by the Group to Honglong Packaging;
“Independent Board Committee”	the committee of the Directors comprising the independent non-executive Directors formed to advise the Independent Shareholders in respect of the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps;
“Independent Shareholders”	Shareholders who are not interested in the transactions described in this circular;
“Latest Practicable Date”	26 May 2014, being the latest practicable date prior to the printing of this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Longteng Packaging Materials and Chemicals Purchase Agreement”	the agreement entered into between the Company and Dongguan Longteng on 8 May 2014 in relation to the purchase of packaging materials and chemicals by the Group for its production of paperboard products;
“Longteng Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Dongguan Longteng on 8 May 2014 in relation to the sale of paperboard products by the Group to Dongguan Longteng;

DEFINITIONS

"Nantong Tenglong"	Nantong Tenglong Chemical Technology Co., Ltd. (南通騰龍化工科技有限公司), a company established in the PRC which is wholly-owned by Mr. Zhang Cheng Guo, a brother of Ms. Cheung Yan and Mr. Zhang Cheng Fei, both being Directors and substantial shareholders of the Company;
"Nantong Tenglong Chemicals Purchase Agreement"	the agreement entered into between the Company and Nantong Tenglong on 8 May 2014 in relation to the purchase of chemicals by the Group for its production of paperboard products;
"Non-exempt Continuing Connected Transactions"	the continuing connected transactions contemplated under the Longteng Packaging Materials and Chemicals Purchase Agreement, the Nantong Tenglong Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement, the Honglong Packaging Paperboard Supply Agreement, the ACN Recovered Paper Purchase Agreement, and the Tianjin ACN Wastepaper Purchase Agreement;
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
"Share(s)"	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;
"Shareholder(s)"	Holder(s) of the Share(s);
"Special General Meeting"	the special general meeting of the Company to be held at the Auditorium, 4/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 23 June 2014 at 3:00 p.m., convened to approve, ratify and confirm the Non-exempt Continuing Connected Transactions and their respective annual caps;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Taicang Packaging"	Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司), a wholly foreign-owned enterprise established in the PRC, which is wholly-owned by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, all being Directors and substantial shareholders of the Company;

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“Taicang Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Taicang Packaging on 8 May 2014 in relation to the sale of packaging paperboard products by the Group to Taicang Packaging;
“Tianjin ACN”	ACN (Tianjin) Resources Co., Ltd. (中南(天津)再生資源有限公司), a company established in the PRC and is beneficially owned as to 70% by Ms. Cheung Yan and Mr. Liu Ming Chung;
“Tianjin ACN Wastepaper Purchase Agreement”	the agreement entered into between the Company and Tianjin ACN on 8 May 2014 in relation to the purchase of wastepaper by the Group from Tianjin ACN; and
“%”	per cent.

LETTER FROM THE BOARD



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

Executive Directors:

Ms. Cheung Yan (*Chairlady*)

Mr. Liu Ming Chung

(Deputy Chairman and Chief Executive Officer)

Mr. Zhang Cheng Fei

(Deputy Chief Executive Officer)

Mr. Lau Chun Shun

Mr. Zhang Yuanfu (*Chief Financial Officer*)

Independent non-executive Directors:

Ms. Tam Wai Chu, Maria

Mr. Ng Leung Sing

Dr. Cheng Chi Pang

Mr. Fok Kwong Man

Mr. Wang Hong Bo

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

Room 3129, 31/F

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

29 May 2014

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 8 May 2014.

The purposes of this circular are:

- (i) to provide the Shareholders with details of the Non-exempt Continuing Connected Transactions and their respective annual caps;
- (ii) to set out the opinion of the Gram Capital in respect of the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps; and

* For identification purposes only

LETTER FROM THE BOARD

(iv) to give the Shareholders notice of the Special General Meeting.

II. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Purchase of chemicals and packaging materials

(A) *Longteng Packaging Materials and Chemicals Purchase Agreement*

Date: 8 May 2014

Parties: the Company; and
Dongguan Longteng.

Dongguan Longteng is a limited liability company established in the PRC which is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. Dongguan Longteng is owned as to 80% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan, who are Directors and substantial shareholders of the Company. Dongguan Longteng is therefore an associate of a connected person of the Company and the transactions between the Group and Dongguan Longteng constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: Dongguan Longteng will supply packaging materials and chemicals to the Group for the Group's production requirements from time to time.

Term: The Longteng Packaging Materials and Chemicals Purchase Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The purchase prices of the products supplied by Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Longteng Packaging Materials and Chemicals Purchase Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

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Cap Amount: The transaction amount under the Longteng Packaging Materials and Chemicals Purchase Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015 RMB' million	Financial year ending 30 June 2016 RMB' million	Financial year ending 30 June 2017 RMB' million
Annual cap	600	600	600

The annual caps under the Longteng Packaging Materials and Chemicals Purchase Agreement were determined based on the historical transactional amounts between the Group and Dongguan Longteng, the increased proportion of purchase of chemicals from Dongguan Longteng to satisfy the production requirements of the Group, and the expected increases in demand for packaging materials and chemicals by the Group as a result of the new production lines of the Group with annual capacities of 1 million tonnes at Quanzhou and Shenyang beginning commercial production. The historical amount of purchases by the Group from Dongguan Longteng for the three financial years ended 30 June 2013 and the nine months ended 31 March 2014 are as follows:

	For the year ended 30 June 2011 RMB' million	For the year ended 30 June 2012 RMB' million	For the year ended 30 June 2013 RMB' million	For the nine months ended 31 March 2014 RMB' million
Annual cap	271	500	1,500	2,200 ^(Note 1)
Actual purchases	241	264	278	166 ^(Note 2)

Notes:

1. The annual cap is for the entire financial year ended 30 June 2014
2. un-audited figures

LETTER FROM THE BOARD

The above annual caps set in 2011 have taken into consideration the anticipated purchase of a new chemical from Dongguan Longteng for the production of the Group's coated linerboard and coated duplex board. As Dongguan Longteng did not produce the new chemical in the end, the actual volume of purchase was lower by such non-purchase of the new chemical from Dongguan Longteng.

Reasons for the Longteng Packaging Materials and Chemicals Purchase Agreement

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the supply of packaging materials and chemical products to the Group. Such agreement was renewed on 26 June 2008 and 16 May 2011 respectively, and the current term of the agreement is due to expire on 30 June 2014. As the Group requires packaging materials and chemicals for the production of paperboard products in its ordinary course of business, the Longteng Packaging Materials and Chemicals Purchase Agreement is entered into to facilitate the continuous supply of such packaging materials and chemical products to the Group.

As the Longteng Packaging Materials and Chemicals Purchase Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Dongguan Longteng and the proposed annual caps for the transactions under the Longteng Packaging Materials and Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(B) *Nantong Tenglong Chemicals Purchase Agreement*

Date: 8 May 2014

Parties: the Company; and

Nantong Tenglong.

Nantong Tenglong is a limited liability company established in the PRC which is principally engaged in the production of chemicals. Nantong Tenglong is wholly-owned by Mr. Zhang Cheng Guo, a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan, who are Directors and substantial shareholders of the Company. Nantong Tenglong is therefore deemed to be a connected person of the Company and the transactions between the Group and Nantong Tenglong constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

- Subject:** Nantong Tenglong will supply chemicals to the Group for the Group's production requirements from time to time.
- Term:** The Nantong Tenglong Chemicals Purchase Agreement has a fixed term of three financial years ending on 30 June 2017.
- Price:** The purchase prices of the products supplied by Nantong Tenglong will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Nantong Tenglong Chemicals Purchase Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.
- Cap Amount:** The transaction amount under the Nantong Tenglong Chemicals Purchase Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015 RMB' million	Financial year ending 30 June 2016 RMB' million	Financial year ending 30 June 2017 RMB' million
Annual cap	1,150	1,150	1,150

Nantong Tenglong has commenced trial production in April 2014 and there have not been any previous transactions between the Group and Nantong Tenglong.

The chemical products produced by Nantong Tenglong will be used in the Group's production of paperboard products and the Group could calculate from its production capacity its expected demand for such products and the expected level of products that it may have to purchase from Nantong Tenglong. The annual caps under the Nantong Tenglong Chemicals Purchase Agreement were determined based on the historical and expected demand for chemical products by the Group for its production requirements.

LETTER FROM THE BOARD

Reasons for the Nantong Tenglong Chemicals Purchase Agreement

The Group requires chemical products for its production of paperboard products. The Nantong Tenglong Chemicals Purchase Agreement is entered into to facilitate the supply of chemical products to the Group to satisfy the Group's production requirements.

As the Nantong Tenglong Chemicals Purchase Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Nantong Tenglong and the proposed annual caps for the transactions under the Nantong Tenglong Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

The Longteng Packaging Materials and Chemicals Purchase Agreement and the Nantong Tenglong Chemicals Purchase Agreement are of similar nature and related to the purchase of chemicals for the Group's production requirements from companies controlled by Mr. Zhang Cheng Ming and Mr. Zhang Cheng Guo, who are respectively the brothers of Ms. Cheung Yan and Mr. Zhang Cheng Fei, both being Directors and substantial shareholders of the Company. Accordingly, the Longteng Packaging Materials and Chemicals Purchase Agreement and the Nantong Tenglong Chemicals Purchase Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregate annual transaction amount of the Longteng Packaging Materials and Chemicals Purchase Agreement and the Nantong Tenglong Chemicals Purchase Agreement are over 5%, the Longteng Packaging Materials and Chemicals Purchase Agreement and the Nantong Tenglong Chemicals Purchase Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Supply of paperboard products

(C) Longteng Packaging Paperboard Supply Agreement

Date: 8 May 2014

Parties: the Company; and
Dongguan Longteng.

Subject: The Group will supply packaging paperboard products to Dongguan Longteng.

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Term: The Longteng Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The selling prices of the products of the Group will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, and will be no less favourable to the Group than those offered to independent purchasers of the Group’s products. The terms of the Longteng Packaging Paperboard Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

Cap Amount: The transaction amount under the Longteng Packaging Paperboard Supply Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
	<i>RMB’ million</i>	<i>RMB’ million</i>	<i>RMB’ million</i>
Annual cap	610	800	1,000

The annual caps under the Longteng Packaging Paperboard Supply Agreement were determined based on historical transaction amount, the expected business growth of Dongguan Longteng and its increased demand for packaging paperboard products from the Group as a result of such growth, and the expected increases in the prices of raw materials and finished products during the period due to inflation. The historical transaction amount of purchases by Dongguan Longteng for the three financial years ended 30 June 2013 and the nine months ended 31 March 2014 are as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2012	For the year ended 30 June 2013	For the nine months ended 31 March 2014
	<i>RMB’ million</i>	<i>RMB’ million</i>	<i>RMB’ million</i>	<i>RMB’ million</i>
Annual cap	316	600	900	1,100 <i>(Note 1)</i>
Actual sales	310	364	421	344 <i>(Note 2)</i>

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Notes:

1. The annual cap is for the entire financial year ended 30 June 2014
2. un-audited figures

As the paperboard prices have not risen to the level expected, the actual amount of purchases by Dongguan Longteng from the Group for paperboard products for the two years ended 30 June 2013 and the nine months ended 31 March 2014 were significant lower than the annual caps set for the relevant periods.

Reasons for the Longteng Packaging Paperboard Supply Agreement

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the supply of packaging paperboard products manufactured by the Group to Dongguan Longteng. Such agreement was renewed on 26 June 2008 and 16 May 2011 respectively, and the current term of the agreement is due to expire on 30 June 2014. As the Group has been selling packaging paperboard products to Dongguan Longteng in the ordinary course of business of the Group for a long period of time, the Longteng Packaging Paperboard Supply Agreement is entered into to facilitate the continuous sale of the packaging paperboard products to Dongguan Longteng.

As the Longteng Packaging Paperboard Supply Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Dongguan Longteng and the proposed annual caps for the transactions under the Longteng Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(D) *Taicang Packaging Paperboard Supply Agreement*

Date: 8 May 2014

Parties: the Company; and
Taicang Packaging.

Taicang Packaging, which is a limited liability company established in the PRC and is principally engaged in the production of paper packaging containers and processed containerboard products. It is held as to 100% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, Directors and controlling shareholders of the

LETTER FROM THE BOARD

Company. Taicang Packaging is therefore an associate of a connected person of the Company and the transactions between the Group and Taicang Packaging constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: The Group will supply packaging paperboard products manufactured by the Group to Taicang Packaging from time to time.

Term: The Taicang Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The selling prices of the packaging paperboard products sold by the Group to Taicang Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and will be no less favourable to the Group than those offered to independent purchasers of the Group's products. The terms of the Taicang Packaging Paperboard Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

Cap Amount: The transaction amount under the Taicang Packaging Paperboard Supply Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	330	350	380

The annual caps under the Taicang Packaging Paperboard Supply Agreement were determined by reference to the historical transaction amount and the expected business growth of Taicang Packaging and the increases in the price of the products as a result of inflation. During the second half of 2013, Taicang Packaging has reduced the scale of the operation of one production line for technical improvements, which resulted in the lower volume of purchase from the Group for the nine months ended 31 March

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2014. With the technical improvements to the production line completed in early 2014 and the increased capacity as a result of such technical improvements, the volume of purchase from the Group is expected to significantly increase during the financial year ending 30 June 2015. The historical amount of sales to Taicang Packaging for the three financial years ended 30 June 2013 and the nine months ended 31 March 2014 are as follows:

	For the year ended 30 June 2011 <i>RMB' million</i>	For the year ended 30 June 2012 <i>RMB' million</i>	For the year ended 30 June 2013 <i>RMB' million</i>	For the nine months ended 31 March 2014 <i>RMB' million</i>
Annual cap	390	300	600	700 ^(Note 1)
Actual sales	92	131	162	59 ^(Note 2)

Notes:

1. Annual cap is for the entire financial year ended 30 June 2014
2. un-audited figures

As the paperboard prices have not risen to the level expected and one production line of Taicang Packaging has reduced its scale of operation for technical improvements during the second half of 2013, the actual amount of purchases by Taicang Packaging from the Group for paperboard products for the two years ended 30 June 2013 and the nine months ended 31 March 2014 were significant lower than the annual caps set for the relevant periods.

Reasons for the Taicang Packaging Paperboard Supply Agreement

The Group and Taicang Packaging entered into an agreement on 12 February 2006 to regulate the supply of packaging products manufactured by the Group to Taicang Packaging. Such agreement was renewed on 26 June 2008 and 16 May 2011 respectively, and the current term of the agreement is due to expire on 30 June 2014. As the Group has been selling such products to Taicang Packaging in the ordinary course of business of the Group for a long period of time, the Taicang Packaging Paperboard Supply Agreement is entered into to facilitate the continuous sale of such products to Taicang Packaging.

As the Taicang Packaging Paperboard Supply Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Taicang Packaging and the

LETTER FROM THE BOARD

proposed annual caps for the transactions under the Taicang Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(E) *Honglong Packaging Paperboard Supply Agreement*

Date: 8 May 2014

Parties: the Company; and

Honglong Packaging.

Honglong Packaging is a limited liability company established in the PRC which is principally engaged in the production of paper packaging containers. Honglong Packaging is beneficially held as to 60% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, who are Directors and substantial shareholders of the Company. Honglong Packaging is therefore a connected person of the Company and the transactions between the Group and Honglong Packaging constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: The Group will from time to time supply packaging paperboard products manufactured by the Group to Honglong Packaging.

Term: Honglong Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The selling prices of the packaging paperboard products sold by the Group to Honglong Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, and will be no less favourable to the Group than those offered to independent purchasers of the Group’s product. The terms of the Honglong Packaging Paperboard Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

LETTER FROM THE BOARD

Cap Amount: The transaction amount under the Honglong Packaging Paperboard Supply Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	110	150	210

Honglong Packaging was established in June 2013 and there were no previous transactions between Honglong Packaging and the Group. The annual caps under the Honglong Packaging Paperboard Supply Agreement were determined by reference to its production capacity and its expected business volume for the three financial years ending 30 June 2017.

Reasons for the Honglong Packaging Paperboard Supply Agreement

The Honglong Packaging Paperboard Supply Agreement is entered into to facilitate the sale of paperboard products by the Group to Honglong Packaging in the ordinary course of business of the Group.

As the Honglong Packaging Paperboard Supply Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Honglong Packaging and the proposed annual caps for the transactions under the Honglong Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement are of similar nature and related to the supply of the Group's paperboard products to companies controlled by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, as the case may be, all being Directors and substantial shareholders of the Company, and their associates. Accordingly, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregate annual transaction amount of the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement are over 5%, the Longteng Packaging

LETTER FROM THE BOARD

Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Purchase of wastepaper products

(F) ACN Recovered Paper Purchase Agreement

Date: 8 May 2014

Parties: the Company; and

ACN

ACN, which is a leading exporter of recovered paper in the United States, Europe and Asia, is indirectly wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, both being Directors and substantial shareholders of the Company. ACN is therefore a connected person of the Company and the transactions under the ACN Recovered Paper Purchase Agreement will constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: Pursuant to the terms of the ACN Recovered Paper Purchase Agreement, the Group will purchase recovered paper from ACN from time to time.

Term: The ACN Recovered Paper Purchase Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The purchase prices of the products under the ACN Recovered Paper Purchase Agreement will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the ACN Recovered Paper Purchase Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

LETTER FROM THE BOARD

Cap Amount: The transaction amount under the ACN Supply Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015 <i>RMB' million</i>	Financial year ending 30 June 2016 <i>RMB' million</i>	Financial year ending 30 June 2017 <i>RMB' million</i>
Annual cap	15,000	17,000	19,000

The annual caps under the ACN Supply Agreement were determined by reference to the historical transaction amount and the expected demand of recovered paper by the Group. The historical amount of purchases from ACN for the three financial years ended 30 June 2013 and the nine months ended 31 March 2014 are as follows:

	For the year ended 30 June 2011 <i>RMB' million</i>	For the year ended 30 June 2012 <i>RMB' million</i>	For the year ended 30 June 2013 <i>RMB' million</i>	For the nine months ended 31 March 2014 <i>RMB' million</i>
Annual cap	16,000	16,600	19,500	23,500 ^(Note 1)
Actual sales	8,278	10,816	10,305	9,734 ^(Note 2)

Notes:

1. The annual cap is for the entire financial year ended 30 June 2014
2. un-audited figures

Reasons for the ACN Recovered Paper Purchase Agreement

ACN is a major supplier of the imported recovered paper of the Group. ACN and the Company entered into an agreement on 12 February 2006 to regulate the supply of recovered paper to the Group. Such agreement was renewed on 26 June 2008, 30 June 2008 and 16 May 2011 respectively, and the current term of the agreement is due to expire on 30 June 2014. As the Group has been purchasing recovered paper from ACN for the production of paperboard products for a long period of time, the ACN Recovered Paper Purchase Agreement is entered into to facilitate the continuous supply of such products to the Group.

As the ACN Recovered Paper Purchase Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the

LETTER FROM THE BOARD

transactions between the Company and ACN and the proposed annual caps for the transactions under the ACN Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(G) *Tianjin ACN Wastepaper Purchase Agreement*

Date: 8 May 2014

Parties: the Company; and

Tianjin ACN

Tianjin ACN, which is a company established in the PRC and is principally engaged in the business of the trading of wastepaper in PRC. Tianjin ACN is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan and Mr. Liu Ming Chung, both are Directors and substantial shareholders of the Company. Accordingly, Tianjin ACN is a connected person of the Company and the transactions under the Tianjin ACN Wastepaper Purchase Agreement will constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: Pursuant to the terms of the Tianjin ACN Wastepaper Purchase Agreement, the Group will purchase recovered paper from Tianjin ACN from time to time.

Term: The Tianjin ACN Wastepaper Purchase Agreement has a fixed term of three financial years ending on 30 June 2017.

Price: The purchase prices of the products under the Tianjin ACN Wastepaper Purchase Agreement will be determined with reference to the prevailing market prices in the PRC of wastepaper and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Tianjin ACN Wastepaper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

LETTER FROM THE BOARD

Cap Amount: The transaction amount under the Tianjin ACN Wastepaper Purchase Agreement for each of the three financial years ending 30 June 2017 will not exceed the following annual cap:

	Financial year ending 30 June 2015 RMB' million	Financial year ending 30 June 2016 RMB' million	Financial year ending 30 June 2017 RMB' million
Annual cap	7,600	8,900	10,000

Tianjin ACN was only established in 2013 and there were no direct transaction previously between Tianjin ACN and the Group. The annual caps under the Tianjin ACN Wastepaper Purchase Agreement were determined by reference to the historical and the expected demand of recovered paper by the Group. The recovered paper is used in the Group's production of paperboard products and the Group could calculate from its production capacity its expected demand for recovered paper and thereby determine the expected level of products that it may have to purchase from Tianjin ACN.

Reasons for the Tianjin ACN Wastepaper Purchase Agreement

The Tianjin ACN Wastepaper Purchase Agreement is entered into to facilitate the purchase by the Group of wastepaper in the PRC.

As the Tianjin ACN Wastepaper Purchase Agreement is entered into in the usual and ordinary course of business of the Company and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Directors consider that the transactions between the Company and Tianjin ACN and the proposed annual caps for the transactions under the Tianjin ACN Wastepaper Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

The ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement are of similar nature and related to the purchase of wastepaper for the Group's production requirements from companies controlled by Ms. Cheung Yan and Mr. Liu Ming Chung, both being Directors and substantial shareholders of the Company. Accordingly, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregated annual transaction amount of the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement are over

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5%, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. PRICING PRINCIPLES FOR CONTINUING CONNECTED TRANSACTIONS

The basis of determining the prices of the products to be supplied or purchased by the Group under the respective agreement of the continuing connected transactions of the Group will be in accordance with the prevailing market prices of similar products and on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality offered by other suppliers/purchasers;
- (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supplied or purchased by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

Given that none of the products under the Non-exempt Continuing Connected Transactions has a fixed unit price or has a published reference price, in determining the prevailing market price for the products for a particular contract, the Group will:

- (a) in respect of procurement of products from a connected person or his/her associates, invite quotations from at least three independent suppliers to get a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by qualified personnel of the Group and compared against the quote from the connected person to ensure that the products to be procured from a connected person or his/her associates are comparable to the prices for such products being offered by independent third parties. The Company will, based on the initial quotations from the connected person and the independent suppliers, invite the suppliers to submit a revised offer. The revised offers will again be compared with the offer of the connected person and purchases will only be made from the connected person if the price and terms offered are competitive and comparable to those offered by independent suppliers; and
- (b) in respect of sale of products to a connected person or his/her associates, evaluate and assess the scope of the relevant order and prepare a detailed cost calculation by reference to the cost of materials, products and labors, quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available) to ensure that the prices of the products of the Group are competitive and comparable to those being offered to independent third party customers of the Group. The Group has a standard pricing policy for its sales which is applicable to all customers. In setting or revising the pricing for the products, market prices are obtained through, among other

LETTER FROM THE BOARD

things, recent transaction prices of the Group, enquiry with other industry players and researches on industry websites. The prices for the products to be sold to a connected person will be governed by such pricing policy and will not be less favourable than the price of similar products sold by the Group to independent customers.

To ensure that the actual prices for the continuing connected transactions of the Group are on normal commercial terms and on terms no less favourable to the Group than that available from independent third party suppliers/customers, the Group will conduct regular checks to review and assess whether the products have been supplied/purchased in accordance with the terms of the relevant agreement. In addition, the Company has engaged the auditors of the Company to conduct an annual review of the continuing connected transactions of the Group. Given that the purchases of the Group from connected persons are based on prevailing market prices after comparison with offers from independent suppliers, and that sales to connected persons have to strictly adhere to the pricing policy of the Group, the Directors, including the independent non-executive Directors, are of the view that the procedures adopted by the Group to govern connected transactions could ensure that the continuing connected transactions of the Group could be conducted under normal commercial terms and not prejudicial to the interest of the Company and the minority shareholders of the Company.

IV. OTHER TERMS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Each of the agreements for the Non-Exempt Continuing Connected Transactions is a framework agreement that set out the general principles for the supply or purchase of products. Terms of payments under the Non-Exempt Continuing Connected Transactions are on normal commercial terms and terms customary offered by the Group to customers or suppliers with similar order size or conditions of purchase or supply and are no less favourable to the Company than those available to/from independent third parties.

Each of the agreements for the Non-Exempt Continuing Connected Transactions may be terminated by mutual agreement between the parties.

V. SPECIAL GENERAL MEETING

Set out on pages 57 and 61 of this circular is a notice convening the Special General Meeting to consider the resolutions relating to the matters as detailed in the above paragraphs.

A form of proxy for the Special General Meeting is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposit with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney at the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding the Special General Meeting or adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Special General Meeting if you so wish.

Pursuant to the Rule 13.39(4) of the Listing Rules, the vote of the shareholders at a general meeting would be taken by poll. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun and their associates are considered to be interested in the Longteng Packaging Paperboard Supply Agreement, the Longteng Packaging Materials and Chemicals Purchase Agreement, the ACN Recovered

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Paper Purchase Agreement, the Taicang Packaging Paperboard Supply Agreement, the Nantong Tenglong Chemicals Purchase Agreement, the Honglong Packaging Paperboard Supply Agreement, and the Tianjin ACN Wastepaper Purchase Agreement, and will abstain from voting for the resolutions proposed at the Special General Meeting to approve the Non-exempt Continuing Connected Transactions.

As at the Latest Practicable Date, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun, through Best Results Holdings Limited, held in aggregate hold 2,992,120,000 Shares, representing approximately 64.12% of the issued share capital of the Company. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun also personally hold 83,495,758 Shares, 27,094,184 Shares, 29,899,821 Shares, and 1,830,000 Shares, representing 1.79%, 0.58%, 0.64% and 0.04% of the issued share capital of the Company, respectively. Each of Mr. Zhang Cheng Ming, Mr. Zhang Cheng Guo, Dongguan Longteng, Nantong Tenglong, Taicang Packaging, Honglong Packaging, ACN and Tianjin ACN does not have any interest in any Shares.

VI. GENERAL

The Group is engaged in the manufacture linerboard, high performance corrugating medium and certain types of coated duplex board and printing and writing paper.

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun are considered to be interested in the Longteng Packaging Paperboard Supply Agreement, the Longteng Packaging Materials and Chemicals Purchase Agreement, the ACN Recovered Paper Purchase Agreement, the Taicang Packaging Paperboard Supply Agreement, the Nantong Tenglong Chemicals Purchase Agreement, the Honglong Packaging Paperboard Supply Agreement and the Tianjin ACN Wastepaper Purchase Agreement and have abstained from voting for the approval of these agreements at the Board meeting held to approve these agreements.

The Company will comply with the relevant provisions under Chapter 14A of the Listing Rules governing connected transactions in the event that the annual caps in any of the above agreements are exceeded or that there is any material amendment to their terms.

The Independent Board Committee has been established to consider and, if appropriate, make recommendations to the Independent Shareholders on whether the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has appointed Gram Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps.

LETTER FROM THE BOARD

VII. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 25 to 26 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Non-exempt Continuing Connected Transactions. Your attention is also drawn to the letter of advice from Gram Capital which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Nine Dragons Paper (Holdings) Limited
Cheung Yan
Chairlady

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

Independent non-executive Directors:

Ms. Tam Wai Chu, Maria

Mr. Ng Leung Sing

Dr. Cheng Chi Pang

Mr. Fok Kwong Man

Mr. Wang Hong Bo

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of
business in Hong Kong:*

Room 3129, 31/F

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

29 May 2014

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 29 May 2014 issued by the Company (the “**Circular**”) to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to consider the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps, and to advise the Independent Shareholders as to the fairness and reasonableness of the same and to recommend how the Independent Shareholders should vote at the Special General Meeting. None of the members of the Independent Board Committee has any direct or indirect interest in the Non-exempt Continuing Connected Transactions. In addition, Gram Capital Limited (“**Gram Capital**”) has been appointed the independent financial adviser to advise us, the Independent Board Committee and the Independent Shareholders in relation to Non-exempt Continuing Connected Transactions and their respective annual caps.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 24 of the Circular, and the letter from Gram Capital to us and the Independent Shareholders containing its advice in respect of the terms of Non-exempt Continuing Connected Transactions and their respective annual caps, as set out on pages 27 to 49 of this Circular.

Having taken into account of the principal factors and reasons considered by Gram Capital and its conclusion and advice, we concur with the views of Gram Capital and consider that the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps, are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve Non-exempt Continuing Connected Transactions and their respective annual caps.

Yours faithfully,

The Independent Board Committee of

Nine Dragons Paper (Holdings) Limited

Ms. Tam Wai Chu, Maria	Mr. Ng Leung Sing	Dr. Cheng Chi Pang	Mr. Fok Kwong Man	Mr. Wang Hong Bo
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

29 May 2014

*To: The independent board committee and the independent shareholders
of Nine Dragons Paper (Holdings) Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 May 2014 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As the current term of each of the agreements under the 2011 Continuing Connected Transactions will expire on 30 June 2014, the Company has on 8 May 2014 entered into, amongst others, the Longteng Packaging Materials and Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the ACN Recovered Paper Purchase Agreement to renew the terms and conditions of such continuing connected transactions.

On 8 May 2014, the Company also entered into, amongst others, the Nantong Tenglong Chemicals Purchase Agreement, the Honglong Packaging Paperboard Supply Agreement and the Tianjin ACN Wastepaper Purchase Agreement in relation to certain new continuing connected transactions of the Group.

With reference to the Board Letter, the transactions contemplated under each of the aforesaid agreements constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As such, the Non-exempt Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising Ms. Tam Wai Chu, Maria, Dr. Cheng Chi Pang, Mr. Fok Kwong Man, Mr. Ng Leung Sing and Mr. Wang Hong Bo (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the agreements governing the Non-exempt Continuing Connected Transactions (altogether, the “**CCT**”

LETTER FROM GRAM CAPITAL

Agreements”) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the CCT Agreements and the Non-exempt Continuing Connected Transactions at the Special General Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors’ representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Non-exempt Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Dongguan Longteng, Nantong Tenglong, Taicang Packaging, Honglong Packaging, ACN, Tianjin ACN or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

LETTER FROM GRAM CAPITAL

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Gram Capital is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Non-exempt Continuing Connected Transactions

Business overview of the Group

As referred to in the Board Letter, the Group is engaged in the manufacture of linerboard, high performance corrugating medium and certain types of coated duplex board and printing and writing paper.

Set out below is the consolidated financial information of the Group for the six months ended 31 December 2013 and two financial years ended 30 June 2013 as extracted from the interim report of the Company for the six months ended 31 December 2013 (the “**2013/14 Interim Report**”) and its annual report for the financial year ended 30 June 2013 (the “**2012/13 Annual Report**”) respectively:

	For the six months ended 31 December 2013 (unaudited) <i>RMB'000</i>	For the financial year ended 30 June 2013 (audited) <i>RMB'000</i>	For the financial year ended 30 June 2012 (audited) <i>RMB'000</i>	Change from FY2011/12 to FY2012/13 %
Sales	14,713,844	28,739,142	27,169,737	5.78
Profit for the period/year	982,678	1,590,711	1,458,558	9.06

As depicted by the above table, the Group recorded sales of approximately RMB28.7 billion for the financial year ended 30 June 2013, representing a modest growth of approximately 5.78% as compared to the prior financial year. The Group's profitability also increased by approximately 9.06% during the same said financial year under review. As advised by the Directors, the major contributor of the Group's revenue was its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which altogether accounted for over 90% of the revenue. The Group generated the remaining of its revenue from the recycled printing and writing paper, pulp and high value specialty paper products business. As also presented in the 2012/13 Annual Report, the total sales of the Group has been enlarging continuously from the financial year ended 30 June 2009 up to the financial year ended 30 June 2013.

LETTER FROM GRAM CAPITAL

Based on our discussion with the Directors, we understand that at present, the Group has 37 paper machines for packaging paperboard and printing and writing paper in nine production bases located in the PRC and Vietnam, with aggregate design production capacity of 13.50 million tonnes per annum (“**tpa**”). In addition, with reference to the 2013/14 Interim Report, the Group has adopted a stage-by-stage expansion plan which shall be substantially completed by 2016. According to such plan, the Group is in the process of constructing three new paper machines in Shenyang, the PRC and Vietnam. The new paper machines in Shenyang, the PRC include PM37 for kraftlinerboard with a production capacity of 0.35 million tpa as well as PM39 for testlinerboard with a production capacity of 0.35 million tpa. It is expected that these two paper machines will commence production by the end of June 2014 and December 2016 respectively. The new paper machine in Vietnam, PM2(VN), is a kraftlinerboard machine with a production capacity of 0.35 million tpa and it will commence production by the end of June 2015. Upon commencement of production of all new paper machines as just mentioned, the Directors estimate that the Group’s aggregate design production capacity will exceed 14 million tpa.

(Note: PM – a prefix referring to the Group’s paper machines. For example, PM1 refers to the Group’s first paper machine)

Information on Dongguan Longteng

As extracted from the Board Letter, Dongguan Longteng is a limited liability company established in the PRC which is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals.

Information on Nantong Tenglong

As extracted from the Board Letter, Nantong Tenglong is a limited liability company established in the PRC which is principally engaged in the production of chemicals.

Information on Taicang Packaging

As extracted from the Board Letter, Taicang Packaging is a limited liability company established in the PRC and is principally engaged in the production of paper packaging containers and processed containerboard products.

Information on Honglong Packaging

As extracted from the Board Letter, Honglong Packaging is a limited liability company established in the PRC which is principally engaged in the production of paper packaging containers.

Information on ACN

As extracted from the Board Letter, ACN is a corporation established with limited liability under the laws of the State of California in the United States and is a leading exporter of recovered paper in the United States, Europe and Asia.

LETTER FROM GRAM CAPITAL

Information on Tianjin ACN

As extracted from the Board Letter, Tianjin ACN is a company established in the PRC and is principally engaged in the business of the trading of wastepaper in the PRC.

Shareholders may refer to the Board Letter for the shareholding structure of the aforesaid companies and each of their connected relationship with the Group.

Reasons for and possible benefits of the Non-exempt Continuing Connected Transactions

The Company has set forth the respective reasons for and possible benefits of the Non-exempt Continuing Connected Transactions in the paragraph headed “Non-exempt Continuing Connected Transactions” in the Board Letter. To sum up, while most of the Non-exempt Continuing Connected Transactions are recurrent, the entering into of the CCT Agreements are for the purposes of facilitating (i) the purchase of chemicals and packaging materials and wastepaper products (all being the necessary inputs for the Group’s production of paperboard products); and (ii) the supply of paperboard products, by the Group. The Directors consider that the CCT Agreements are entered into in the ordinary and usual course of business of the Group and the terms have been negotiated on an arm’s length basis and on normal commercial terms. The Directors also consider that the transactions contemplated under each of the CCT Agreements and the proposed annual caps under the CCT Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As illustrated in the paragraph headed “Business overview of the Group” in this letter, the Group specialises in the production of various types of paperboard products and has been recording stable massive sales from its business. As stated in the 2013/14 Interim Report, the Group continued to maintain a balance between production and sales with reasonable inventory at low levels. All paper machines were in sound operation state at nearly full capacity. The increase of 0.65 million tpa in design production capacity during the six months ended 31 December 2013 was derived from PM35 (kraftlinerboard) and PM36 (testlinerboard) at the production base of the Group in Quanzhou, the PRC. PM38 (high performance corrugating medium) at the production base in Leshan, the PRC has also commenced production in January 2014, with a design production capacity of 0.30 million tpa, thus bringing the Group’s total design production capacity to 13.50 million tpa. As also referred to in the 2013/14 Interim Report, these new paper machines allow the said two production bases of the Group to directly supply packaging paperboard products to the local markets, further improving the Group’s nationwide production base network and realising its regional strengths for market share expansion.

Having considered the respective reasons for and possible benefits of the Non-exempt Continuing Connected Transactions to facilitate the existing business and operation, and the future expansion of the Group, we concur with the Directors that the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

LETTER FROM GRAM CAPITAL

(2) Principal terms of the CCT Agreements

The tables below summarise the major terms of each of the CCT Agreements dated 8 May 2014 as extracted from the Board Letter:

(A) *Longteng Packaging Materials and Chemicals Purchase Agreement (“CCT 1”)*

Term:	A fixed term of three financial years ending on 30 June 2017.
Parties:	(i) The Company (ii) Dongguan Longteng
Subject:	Dongguan Longteng will supply packaging materials and chemicals to the Group for the Group’s production requirements from time to time.
Price:	The purchase prices of the products supplied by Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Longteng Packaging Materials and Chemicals Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Longteng Packaging Materials and Chemicals Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed the agreements entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the supply of products similar as those under CCT 1 and we noted that the major terms (including the pricing mechanism, payment terms, termination, etc.) offered by the independent third parties to the Group were similar to those offered by Dongguan Longteng to the Group previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2011 Continuing Connected Transactions (which are comparable to the Longteng Packaging Materials and Chemicals Purchase Agreement) are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the Longteng Packaging Materials and Chemicals Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Longteng Packaging Materials and Chemicals Purchase Agreement, we concur

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with the Directors that the terms of the Longteng Packaging Materials and Chemicals Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(B) Nantong Tenglong Chemicals Purchase Agreement (“CCT 2”)

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
- (ii) Nantong Tenglong
- Subject: Nantong Tenglong will supply chemicals to the Group for the Group’s production requirements from time to time.
- Price: The purchase prices of the products supplied by Nantong Tenglong will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Nantong Tenglong Chemicals Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Nantong Tenglong Chemicals Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Nantong Tenglong has commenced trial production in April 2014 and there have not been any previous transactions between the Group and Nantong Tenglong. As such, we are unable to compare the terms of the previous agreements entered into by Nantong Tenglong and the Group with those of the agreements entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the supply of products similar as those under CCT 2.

In light of that (i) it is stipulated under the Nantong Tenglong Chemicals Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (ii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Nantong Tenglong Chemicals Purchase Agreement, we concur with the Directors that the terms of the Nantong Tenglong Chemicals Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(C) *Longteng Packaging Paperboard Supply Agreement (“CCT 3”)*

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
(ii) Dongguan Longteng
- Subject: The Group will supply packaging paperboard products to Dongguan Longteng.
- Price: The selling prices of the products sold by the Group to Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered to independent purchasers of the Group’s products. The terms of the Longteng Packaging Paperboard Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Longteng Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Therefore, for our due diligence purpose, we have reviewed the agreements entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 3 and we noted that the major terms (including the pricing mechanism, payment terms, default, etc.) offered by the Group to the independent third parties are similar to those offered by the Group to Dongguan Longteng previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2011 Continuing Connected Transactions (which are comparable to the Longteng Packaging Paperboard Supply Agreement) are similar to those offered by the Group to the independent third parties; (ii) it is stipulated under the Longteng Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Longteng Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Longteng Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(D) Taicang Packaging Paperboard Supply Agreement (“CCT 4”)

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
(ii) Taicang Packaging
- Subject: The Group will supply packaging paperboard products manufactured by the Group to Taicang Packaging from time to time.
- Price: The selling prices of the products sold by the Group to Taicang Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered to independent purchasers of the Group’s products. The terms of the Taicang Packaging Paperboard Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Taicang Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Therefore, for our due diligence purpose, we have reviewed the agreements entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 4 and we noted that the major terms (including the pricing mechanism, delivery, default, etc.) offered by the Group to the independent third parties are similar to those offered by the Group to Taicang Packaging previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Taicang Packaging under the relevant framework agreement for the 2011 Continuing Connected Transactions (which are comparable to the Taicang Packaging Paperboard Supply Agreement) are similar to those offered by the Group to the independent third parties; (ii) it is stipulated under the Taicang Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Taicang Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Taicang Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(E) *Honglong Packaging Paperboard Supply Agreement (“CCT 5”)*

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
- (ii) Honglong Packaging
- Subject: The Group will supply packaging paperboard products manufactured by the Group to Honglong Packaging from time to time.
- Price: The selling prices of the products sold by the Group to Honglong Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered to independent purchasers of the Group’s products. The terms of the Honglong Packaging Paperboard Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Honglong Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Honglong Packaging was established in June 2013 and there were no previous transactions between Honglong Packaging and the Group. As such, we are unable to compare the terms of the previous agreements entered into by Honglong Packaging and the Group with those of the agreements entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 5.

In light of that (i) it is stipulated under the Honglong Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (ii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Honglong Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Honglong Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(F) ACN Recovered Paper Purchase Agreement (“CCT 6”)

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
- (ii) ACN
- Subject: The Group will purchase recovered paper from ACN from time to time.
- Price: The purchase prices of the products supplied by ACN will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the ACN Recovered Paper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The ACN Recovered Paper Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed the agreements entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the purchase of products similar as those under CCT 6 and we noted that the major terms (including the pricing mechanism, payment terms, packaging, etc.) offered by the independent third parties to the Group are similar to those offered by ACN to the Group previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and ACN under the relevant framework agreement for the 2011 Continuing Connected Transactions (which are comparable to the ACN Recovered Paper Purchase Agreement) are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the ACN Recovered Paper Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the ACN Recovered Paper Purchase Agreement, we concur with the Directors that the terms of the ACN Recovered Paper Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(G) *Tianjin ACN Wastepaper Purchase Agreement (“CCT 7”)*

- Term: A fixed term of three financial years ending on 30 June 2017.
- Parties: (i) The Company
- (ii) Tianjin ACN
- Subject: The Group will purchase recovered paper from Tianjin ACN from time to time.
- Price: The purchase prices of the products supplied by Tianjin ACN will be determined with reference to the prevailing market prices in the PRC of wastepaper and in accordance with the pricing policies for continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Tianjin ACN Wastepaper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

The Tianjin ACN Wastepaper Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Tianjin ACN was established in 2013 and there were no direct transactions previously between Tianjin ACN and the Group. As such, we are unable to compare the terms of the previous agreements entered into by Tianjin ACN and the Group with those of the agreements entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the purchase of products similar as those under CCT 7.

In light of that (i) it is stipulated under the Tianjin ACN Wastepaper Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies for continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (ii) the Company will adopt thorough internal control measures as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Board Letter to monitor the future transactions under the Tianjin ACN Wastepaper Purchase Agreement, we concur with the Directors that the terms of the Tianjin ACN Wastepaper Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(3) Annual caps under each of the CCT Agreements

Set out below are the proposed annual caps under each of the CCT Agreements for the three financial years ending 30 June 2017. For reference purpose, we also set out below the actual transaction amounts of the recurrent Non-exempt Continuing Connected Transactions for the three years ended 30 June 2013 and the nine months ended 31 March 2014:

	Actual transaction amounts			Increment from FY2010/11 to FY2012/13 %	Actual	Annualised	Proposed annual caps		
	For the financial year ended 30 June 2011 RMB' million	For the financial year ended 30 June 2012 RMB' million	For the financial year ended 30 June 2013 RMB' million		transaction amounts for the nine months ended 31 March 2014 RMB' million	actual transaction amounts for the financial year ending 30 June 2014 RMB' million	For the financial year ending 30 June 2015 RMB' million	For the financial year ending 30 June 2016 RMB' million	For the financial year ending 30 June 2017 RMB' million
CCT 1	241	264	278	15.4	166	221	600	600	600
CCT 2	N/A	N/A	N/A	N/A	N/A	N/A	1,150	1,150	1,150
CCT 3	310	364	421	35.8	344	459	610	800	1,000
CCT 4	92	131	162	76.1	59	79	330	350	380
CCT 5	N/A	N/A	N/A	N/A	N/A	N/A	110	150	210
CCT 6	8,278	10,816	10,305	24.5	9,734	12,979	15,000	17,000	19,000
CCT 7	N/A	N/A	N/A	N/A	N/A	N/A	7,600	8,900	10,000

To assess the fairness and reasonableness of the proposed annual caps under each of the CCT Agreements, we have discussed with the Directors regarding the basis and assumptions underlying the projections of each of the proposed annual caps and requested for the relevant supporting documents. Details of our due diligence work done are as follows:

Purchase of chemicals and packaging materials

CCT 1

According to the Board Letter, the proposed annual caps for CCT 1 were estimated based on (i) the historical transaction amounts between the Group and Dongguan Longteng; (ii) the increased proportion of purchase of chemicals from Dongguan Longteng to satisfy the production requirements of the Group; and (iii) the expected increase in demand for packaging materials and chemicals by the Group as a result of the new production lines of the Group with annual capacities of 1 million tonnes at Quanzhou and Shenyang beginning commercial production. To substantiate the proposed annual caps for CCT 1, we have obtained the Group's expected demand for packaging materials and chemicals for the three financial years ending 30 June 2017 from Dongguan Longteng, with comprehensive breakdown by (i) the types of packaging materials and chemicals and their respective expected prices throughout the three financial years ending 30 June 2017; and (ii) the expected usage

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of those packaging materials and chemicals by different paper machines and production bases of the Group. In particular, we have discussed with the Directors regarding the aforesaid new production lines of the Group together with the additional packaging materials and chemicals which are expected to be triggered by them.

Summarises below are the key data for calculation of the proposed annual caps for CCT 1:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Expected total demand for packaging materials by the Group (A)	5,796 tonnes and 4,368,000 pieces	5,796 tonnes and 4,368,000 pieces	5,796 tonnes and 4,368,000 pieces
Expected average price of packaging materials per tonne/piece (RMB) (B)	5,569 per tonne and 2.96 per piece	5,569 per tonne and 2.96 per piece	5,577 per tonne and 2.96 per piece
Expected total demand for chemicals by the Group (tonnes) (C)	88,860	88,860	88,860
Expected average price of chemicals per tonne (RMB) (D)	5,163	5,163	5,163
Expected purchase from Dongguan Longteng for packaging materials (RMB' million) (E) = (A)*(B)	45	45	45
Expected purchase from Dongguan Longteng for chemicals (RMB' million) (Note) (F) = (C)*(D)	446	446	453
Expected total purchase from Dongguan Longteng (RMB' million) (G) = (E) + (F)	491	491	498
Buffers (%) (H) = (Annual cap – (G))*100%/(G)	22	22	20
Annual caps for CCT 1 (RMB' million)	600	600	600

Note: The expected total purchases of chemicals by the Group from Dongguan Longteng have been slightly adjusted from RMB459 million to RMB446 million for FY2014/15 and FY2015/16 and to RMB453 million for FY2016/17 based on the future production plan of the Group's production base in Shenyang.

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CCT 2

According to the Board Letter, the proposed annual caps for CCT 2 were estimated based on the historical and expected demand for chemical products by the Group for its production requirements. To substantiate the proposed annual caps for CCT 2, we have obtained the Group's expected demand for chemical products for the three financial years ending 30 June 2017 from Nantong Tenglong, with comprehensive breakdown by (i) the types of chemical products and their respective prices; and (ii) the expected usage of those chemical products by different paper machines and production bases of the Group.

Summarises below are the key data for calculation of the proposed annual caps for CCT 2:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Expected total demand for chemical products by the Group (<i>tonnes</i>) (A)	136,656	136,656	136,656
Expected average price of chemical products per tonne (<i>RMB</i>) (B)	7,006	7,006	7,006
Expected total purchase from Nantong Tenglong (<i>RMB' million</i>) (C) = (A)*(B)	957	957	957
Buffers (%) (D) = (Annual cap – (C))*100%/(C)	20	20	20
Annual caps for CCT 2 (<i>RMB' million</i>)	1,150	1,150	1,150

Supply of paperboard products

CCT 3

According to the Board Letter, the proposed annual caps for CCT 3 were estimated based on (i) the historical transaction amount; (ii) the expected business growth of Dongguan Longteng and its increased demand for packaging paperboard products from the Group as a result of such growth; and (iii) the expected increase in the prices of raw materials and finished products during the period due to inflation. To substantiate the proposed annual caps for CCT 3, we have obtained (i) the purchase indication received by the Group from Dongguan Longteng for packaging paperboard products for the three financial years ending 30 June 2017, with the expected quantity for FY2014/15 being supported by the historical transaction amount, and the expected quantities for FY2015/16 and FY2016/17

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demonstrating an increasing trend of 25% and 20% respectively as compared to the prior financial year; and (ii) information with regard to the price movement of raw materials and finished products in recent years which may substantiate the expected inflation of 5%.

Summarises below are the key data for calculation of the proposed annual caps for CCT 3:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Purchase indication for packaging paperboard products received by the Group from Dongguan Longteng (<i>tonnes</i>) (A)	200,000	250,000	300,000
Expected average price of packaging paperboard products per tonne (<i>RMB</i>) (B)	2,550	2,677	2,805
Expected total sales to Dongguan Longteng taking into account the expected inflation (<i>RMB' million</i>) (C)	510	669	842
Buffers (%) (D) = (Annual cap – (C))*100%/(C)	20	20	19
Annual caps for CCT 3 (<i>RMB' million</i>)	610	800	1,000

CCT 4

According to the Board Letter, the proposed annual caps for CCT 4 were estimated based on (i) the historical transaction amount; (ii) the expected business growth of Taicang Packaging; and (iii) the increase in the price of the products as a result of inflation. During the second half of 2013, Taicang Packaging has reduced the scale of the operation of one production line for technical improvements, which resulted in the lower volume of purchase from the Group for the nine months ended 31 March 2014. With the technical improvements of the production line completed in early 2014 and the increased capacity as a result of such technical improvements, the volume of purchase from the Group is expected to significantly increase during the financial year ending 30 June 2015. To substantiate the proposed annual caps for CCT 4, we have obtained (i) the purchase indication received by the Group from Taicang Packaging for packaging paperboard products for the three financial years ending 30 June 2017 as supported by the expected increase of its production scale and hence the quantity of paperboard products it would require from the Company; and (ii) information with regard to the price movement of the products in recent years.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 4:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Purchase indication for packaging paperboard products received by the Group from Taicang Packaging (<i>tonnes</i>) (A)	100,000	100,000	100,000
Expected average price of packaging paperboard products per tonne (<i>RMB</i>) (B)	2,710	2,910	3,110
Expected total sales to Taicang Packaging (<i>RMB' million</i>) (C) = (A)*(B)	271	291	311
Buffers (%) (D) = (Annual cap – (C))*100%/(C)	22	20	22
Annual caps for CCT 4 (<i>RMB' million</i>)	330	350	380

CCT 5

According to the Board Letter, the proposed annual caps for CCT 5 were estimated based on Honglong Packaging's production capacity and its business volume for the three financial years ending 30 June 2017. To substantiate the proposed annual caps for CCT 5, we have obtained the purchase indication received by the Group from Honglong Packaging for packaging paperboard products for the three financial years ending 30 June 2017, with breakdown by types of paperboard products and their respective prices.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 5:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Purchase indication for packaging paperboard products received by the Group from Honglong Packaging (<i>tonnes</i>) (A)	36,000	48,000	60,000
Expected average price of packaging paperboard products per tonne (<i>RMB</i>) (B)	2,675	2,875	3,075
Expected total sales to Honglong Packaging (<i>RMB' million</i>) (C) = (A)*(B)	96	138	185
Buffers (%) (D) = (Annual cap – (C))*100%/(C)	15	9	14
Annual caps for CCT 5 (<i>RMB' million</i>)	110	150	210

Purchase of wastepaper products

CCT 6

According to the Board Letter, the proposed annual caps for CCT 6 were estimated based on (i) the historical transaction amount; and (ii) the expected demand of recovered paper by the Group. To substantiate the annual caps for CCT 6, we have obtained (i) the Group's expected demand for recovered paper for the three financial years ending 30 June 2017 from ACN based on the expected production capacities of the production bases of the Group, taking into account the stage-by-stage expansion plan of the Group; and (ii) information with regard to the price movement of recovered paper in recent years.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 6:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Expected annual production of the Group (tonnes) (A)	12,200,000	12,630,000	12,837,500
Expected demand for recovered paper by the Group from ACN based on the Group's total production (tonnes) (Note) (B) = (A)*1.15*0.65	9,119,500	9,440,925	9,596,031
Expected price of recovered paper per tonne (RMB) (C)	1,350	1,500	1,650
Expected total purchase from ACN (RMB' million) (D) = (B)*(C)	12,311	14,161	15,833
Buffers (%) (E) = (Annual cap – (D))*100%/(D)	22	20	20
Annual caps for CCT 6 (RMB' million)	15,000	17,000	19,000

Note: The consumption rate of recovered paper is 1:1.15, i.e. for each tonne of paperboard products manufactured by the Group, approximately 1.15 tonnes of recovered paper is consumed, and it is expected that the Group shall purchase 65% of the total recovered paper it requires for production from overseas sources.

CCT 7

According to the Board Letter, the proposed annual caps for CCT 7 were estimated based on the historical and the expected demand of recovered paper by the Group. To substantiate the annual caps for CCT 7, we have obtained (i) the Group's expected demand for recovered paper for the three financial years ending 30 June 2017 from Tianjin ACN based on the expected production capacities of the production bases of the Group, taking into account the stage-by-stage expansion plan of the Group; and (ii) information with regard to the price movement of recovered paper in recent years.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 7:

	Financial year ending 30 June 2015	Financial year ending 30 June 2016	Financial year ending 30 June 2017
Expected annual production of the Group (tonnes) (A)	12,200,000	12,630,000	12,837,500
Expected demand for recovered paper by the Group from Tianjin ACN based on the Group's total production (tonnes) (Note) (B) = (A)*1.15*0.35	4,910,500	5,083,575	5,167,094
Expected price of recovered paper per tonne (RMB) (C)	1,300	1,450	1,600
Expected total purchase from Tianjin ACN (RMB' million) (D) = (B)*(C)	6,384	7,371	8,267
Buffers (%) (E) = (Annual cap – (D))*100%/(D)	19	21	21
Annual caps for CCT 7 (RMB' million)	7,600	8,900	10,000

Note: The consumption rate of recovered paper is 1:1.15, i.e. for each tonne of paperboard products manufactured by the Group, approximately 1.15 tonnes of recovered paper is consumed, and it is expected that the Group shall purchase 35% of the total recovered paper it requires for production locally.

Furthermore, for our due diligence purpose, we have further researched independently over the internet and we noted that according to the annual report of the paper industry for the year ended 31 December 2012 published by China Paper Association (the “**Report**”) in May 2013, the output of paper and paperboard in the PRC in 2012 increased by approximately 3.22% as compared to 2011 and reached approximately 102.5 million tonnes. Consumption of paper and paperboard in the PRC in 2012 also increased by approximately 3.04% as compared to 2011 and reached approximately 100.5 million tonnes. From 2003 to 2012, the output of paper and paperboard increased by approximately 10.13% on average per year and consumption of the same increased by approximately 8.54% on average per year. In addition, we noted from the Report that the Company was one of the top 30 paper manufacturers in the PRC and the output of the Company ranked the first among the top 30 enterprises. On the other hand, as set out in the 2012/13 Annual Report, during the financial year under review, the Group's sales volume achieved a record high, reaching approximately 10.50 million tonnes.

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With reference also to the 2013/14 Interim Report, the paper manufacturing industry began to show a gradual recovery during the six months ended 31 December 2013, with the global macroeconomic environment gradually stabilising and market sentiment improving. Although the industry was impacted by a cyclical high in new capacities, which has led to significant pressure on selling prices and industry profitability in recent years, the supply and demand dynamics are to gradually improve as a result of the closures of small and inefficient paper plants under the government's stringent implementation of phasing out the outdated production facilities as well as an expected slowdown in new capacity expansion. Stringent environmental approval requirements and enforcement are raising business costs and entry barriers for the industry while fast growing online shopping activities have effectively expanded the packaging paper market, making it favourable for the Group which has already built an enormous production platform and sales network.

We noted that most of the Non-exempt Continuing Connected Transactions are recurrent and the Group has been conducting transactions with those relevant connected parties in its ordinary and usual course of business for a relatively long period of time. As depicted in the table in the sub-section headed "Annual caps under each of the CCT Agreements" in this letter, the actual transaction amounts of those recurrent Non-exempt Continuing Connected Transactions have been growing stably in the range of approximately 15.4% to 76.1% from FY2010/11 to FY2012/13. Moreover, with the exception of CCT 1 and CCT 4, the proposed annual caps determined by the Company for the three financial years ending 30 June 2017 do not deviate materially from their respective annualised actual transaction amounts for the financial year ending 30 June 2014. In this regard, we understand that as a result of the new production lines of the Group with annual capacities of 1 million tonnes at Quanzhou and Shenyang beginning commercial production, the Group's demand for packaging materials and chemicals under CCT 1 is expected to increase. Besides that, during the second half of 2013, Taicang Packaging has reduced the scale of the operation of one production line for technical improvements, which resulted in the lower volume of purchase from the Group for the nine months ended 31 March 2014. With the technical improvements of the production line completed in early 2014 and the increased capacity as a result of such technical improvements, the volume of purchase from the Group under CCT 4 is expected to significantly increase during the financial year ending 30 June 2015.

In addition, taking into account (i) the stage-by-stage expansion plan of the Group which shall be substantially completed by 2016 upon which the Group's aggregate design production capacity will exceed 14 million tpa; and (ii) the optimistic outlook of the paper industry of the PRC and the Group's competitive strength within the industry as aforementioned, we are of the view that the setting of buffers of around 20% at maximum on top of the expected future transaction amounts to determine the proposed annual caps for each of the Non-exempt Continuing Connected Transactions for the three financial years ending 30 June 2017 is fair and reasonable.

In view of all of the foregoing, we consider that the proposed annual caps under each of the CCT Agreements for the three financial years ending 30 June 2017 are fair and reasonable so far as the Independent Shareholders are concerned.

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Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 30 June 2017, and they do not represent forecasts of revenues/costs or purchases/sales to be recorded/incurred from the Non-exempt Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenues/costs or purchases/sales to be recorded/incurred under the Non-exempt Continuing Connected Transactions will correspond with the proposed annual caps.

(4) Listing Rules implication and internal control of the Group

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the Non-exempt Continuing Connected Transactions must be restricted by the proposed annual caps for the three financial years ending 30 June 2017; (ii) the terms of the CCT Agreements (together with the proposed annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the CCT Agreements (together with the proposed annual caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and the proposed annual caps are not being exceeded. In the event that the total amounts of the Non-exempt Continuing Connected Transactions exceed the proposed annual caps, or that there is any material amendment to the terms of the CCT Agreements, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

In relation to the above, we noted from the annual reports of the Company for the prior financial years that the Company has been complying with the stipulated requirements under the Listing Rules for those Non-exempt Continuing Connected Transactions which are recurrent.

Shareholders may also refer to the paragraph headed "Pricing principles for continuing connected transactions" in the Board Letter with regard to the internal control procedures which the Company will adopt when determining the prevailing market price of the products under the Non-exempt Continuing Connected Transactions. In particular, in order to ensure that the actual prices for the Non-exempt Continuing Connected Transactions are on normal commercial terms and on terms no less favourable to the Group than those available from independent third party suppliers/customers, the Group will conduct regular checks to review and assess whether the products have been supplied/purchased in accordance with the terms of the relevant agreements.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules and the internal control measures to be adopted by the Company, we are of the view that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions (together with the proposed annual caps) and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the Special General Meeting to approve the CCT Agreements and the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the following Directors and the chief executive of the Company had or were deemed to have the following interests and short positions in Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) in the Listing Rules to be notified to the Company and the Stock Exchange.

(A) Interests and long positions in the Shares and underlying shares of the Company

Name of Directors	Long Position/ Short Position	Number of Shares			Number of underlying shares (in respect of share options)		Total	Approximate percentage of shareholdings*
		Personal Interests	Family Interests	Corporate Interests (Note 1)	Personal Interests	Family Interests (Note 5)		
Ms. Cheung Yan (“ Ms. Cheung ”)	Long Position	83,495,758	27,094,184	2,992,120,000	-	-	3,102,709,942	66.49%
Mr. Liu Ming Chung (“ Mr. Liu ”)	Long Position	27,094,184	83,495,758	2,992,120,000	-	-	3,102,709,942	66.49%
Mr. Zhang Cheng Fei (“ Mr. Zhang ”)	Long Position	29,899,821	-	-	-	-	29,899,821	0.64%
Mr. Lau Chun Shun	Long Position	1,830,000	-	2,992,120,000	450,000	-	2,994,400,000	64.17%
Mr. Zhang Yuanfu	Long Position	741,000	-	-	-	-	741,000	0.02%
Ms. Tam Wai Chu, Maria	Long Position	1,216,670	-	-	-	-	1,216,670	0.03%

* The percentage has been compiled based on the total number of Shares of the Company issued as at the Latest Practicable Date (i.e. 4,666,220,811 ordinary Shares)

Notes:

- (1) Best Result Holdings Limited directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust, (iii) as to approximately 10.000% by Acorn Crest

Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

- (2) The Zhang Family Trust is irrevocable trust. The Liu Family Trust and The Golden Nest Trust are revocable trusts.
- (3) Ms. Cheung is the spouse of Mr. Liu. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (4) Mr. Lau Chun Shun is a beneficiary of each of The Liu Family Trust and The Golden Nest Trust. He is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

(B) the Underlying shares of the Company

Details of the outstanding options granted to the Directors under the share option scheme of the Company adopted on 12 February 2006 (“**2006 Share Option Scheme**”) as at the Latest Practicable Date were as follows:–

Name of Director	Date of grant (“Grant Date”)	Exercise price per share (HK\$)	Exercise period	Number of outstanding options
Mr. Lau Chun Shun(<i>Note</i>)	1 June 2010	11.052	1 June 2011 to 30 May 2015	450,000

Note: Each of the grantees has been conditionally granted under the 2006 Share Option Scheme will be entitled to exercise:

- (i) up to 20% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the first anniversary of the date on which the relevant option was so granted to him on Grant Date and ending on the second anniversary of the Grant Date;
- (ii) up to 40% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the second anniversary of the Grant Date and ending on the third anniversary of the Grant Date;
- (iii) up to 60% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the third anniversary of the Grant Date and ending on the 54th month from the Grant Date; and
- (iv) such number of Shares subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised at any time commencing from the expiry of the 54th month from the Grant Date and ending on the expiration of 60 months from the date upon which such option is deemed to be granted and accepted in accordance with the rules of the 2006 Share Option Scheme.

(C) Interests in Associated Corporation – Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficial Owner	37,073	37.073%
	Long Position	Interest of spouse	37,053	37.053%
Mr. Liu	Long Position	Founder of The Liu Family Trust	37,053	37.053%
	Long Position	Interest of spouse	37,073	37.073%
Mr. Zhang	Long Position	Founder and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of trusts (Note 4)	52,927	52.927%

Notes:

- (1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.
- (2) The Zhang Family Trust is irrevocable trust. The Liu Family Trust and The Golden Nest Trust are revocable trusts.
- (3) Ms. Cheung is the spouse of Mr. Liu. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (4) Mr. Lau Chun Shun is a beneficiary of each of The Liu Family Trust and The Golden Nest Trust. He is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section

352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital:

Name of Shareholder	Long Position/ Short Position	Capacity	No. of Shares held	Approximate percentage of total issued Shares*
Best Result	Long Position	Beneficial Owner	2,992,120,000	64.12%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	64.12%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Liu Family Trust	2,992,120,000	64.12%

* The percentage has been compiled based on the total number of Shares of the Company issued as at the Latest Practicable Date (i.e. 4,666,220,811 ordinary Shares)

Note: Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust, (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at the Latest Practicable Date, as far as the Company is aware of, there was no other person (other than the above-mentioned Director and the chief executive of the Company) who had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2013, the date to which the latest audited financial statements of the Group were made up.

5. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation/arbitration or claim of material importance was pending or threatened against the any member of the Group.

6. SERVICE CONTRACT

As at the Latest Practicable Date, no Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

7. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

8. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

9. CONSENT OF EXPERT

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 29 May 2014 and reference to its names in the form and context in which they respectively appear:

Name	Qualification
Gram Capital	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

To the best knowledge of the Directors, as at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best knowledge of the Directors, as at the Latest Practicable Date, Gram Capital was not interested, directly or indirectly, in any assets which had since 30 June 2013, being the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at Room 3129, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Cheng Wai Chu, Judy, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (d) The Company's Hong Kong Branch Share Registrar is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the Hong Kong office of the Company, at Room 3129, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 23 June 2014 and at the Special General Meeting:

- (a) the Longteng Packaging Materials and Chemicals Purchase Agreement;
- (b) the Nantong Tenglong Chemicals Purchase Agreement;
- (c) the Longteng Packaging Paperboard Supply Agreement;
- (d) the Taicang Packaging Paperboard Supply Agreement;
- (e) the Honglong Packaging Paperboard Supply Agreement;
- (f) the ACN Recovered Paper Purchase Agreement;
- (g) the Tianjin ACN Wastepaper Purchase Agreement;

- (h) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (i) the letter of advice from Gram Capital as set out in this circular; and
- (j) the written consent from Gram Capital referred to in the paragraph headed “Consent of Expert” of this appendix.

NOTICE OF SPECIAL GENERAL MEETING



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

NOTICE IS HEREBY GIVEN that a special general meeting of Nine Dragons Paper (Holdings) Limited (the “**Company**”) will be held at 3:00 p.m. on Monday, 23 June 2014 at the Auditorium, 4/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Longteng Packaging Materials and Chemicals Purchase Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the Longteng Packaging Materials and Chemicals Purchase Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Longteng Packaging Materials and Chemicals Purchase Agreement and the transactions contemplated thereunder.”

2. “**THAT**

- (a) the Nantong Tenglong Chemicals Purchase Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the Nantong Tenglong Chemicals Purchase Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and

* *For identification purposes only*

NOTICE OF SPECIAL GENERAL MEETING

- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Nantong Tenglong Chemicals Purchase Agreement and the transactions contemplated thereunder.”

3. **“THAT**

- (a) the Longteng Packaging Paperboard Supply Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the Longteng Packaging Paperboard Supply Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Longteng Packaging Paperboard Supply Agreement and the transactions contemplated thereunder.”

4. **“THAT**

- (a) the Taicang Packaging Paperboard Supply Agreement dated 8 May 2014 (copy of which are tabled at the meeting and marked “D” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the Taicang Packaging Paperboard Supply Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Taicang Packaging Paperboard Supply Agreement and the transactions contemplated thereunder.”

5. **“THAT**

- (a) the Honglong Packaging Paperboard Supply Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “E” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;

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- (b) the proposed annual caps as set out in the Circular in relation the Honglong Packaging Paperboard Supply Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Honglong Packaging Paperboard Supply Agreement and the transactions contemplated thereunder.”

6. **“THAT**

- (a) the ACN Recovered Paper Purchase Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “F” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the ACN Recovered Paper Purchase Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the ACN Recovered Paper Purchase Agreement and the transactions contemplated thereunder.”

7. **“THAT**

- (a) the Tianjin ACN Wastepaper Purchase Agreement dated 8 May 2014 (copy of which is tabled at the meeting and marked “G” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation the Tianjin ACN Wastepaper Purchase Agreement for the three financial years ending 30 June 2017 be and are hereby approved; and

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- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Tianjin ACN Wastepaper Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board
Cheng Wai Chu, Judy
Company Secretary

Hong Kong, 29 May 2014

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business
in Hong Kong:*
Room 3129, 31/F
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority shall be deposited at the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument proposes to vote.
3. The register of members of the Company will be closed from Thursday, 19 June 2014 to Monday, 23 June 2014, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the above mentioned meeting, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 18 June 2014.
4. The votes at the above mentioned meeting will be taken by poll.

As at the date of this notice, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Yuanfu are executive Directors, and Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Dr. Cheng Chi Pang, Mr. Fok Kwong Man and Mr. Wang Hong Bo are independent non-executive Directors.

This circular (“Circular”) (in both English and Chinese versions) has been posted on the Company's website at <http://www.ndpaper.com> and on the website of HKExnews at www.hkexnews.hk. Shareholders who have chosen to receive the Company's Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where

NOTICE OF SPECIAL GENERAL MEETING

applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to the Circular posted on the Company's website will promptly upon request be sent by post the Circular in printed form free of charge. Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.

Shareholders may request for printed copy of the Circular or change their choice of means of receipt and language of the Corporate Communications by sending reasonable notice in writing to the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an email to ndpaper-ecom@hk.tricorglobal.com.

Shareholders who have chosen to receive the Company's Corporate Communications in either English or Chinese version will receive both English and Chinese versions of this Circular since both languages are bound together into one booklet.