
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, 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 to the purchaser, the transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for onward 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)

DISCLOSEABLE TRANSACTION

10 October 2007

* *For identification purposes only*

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DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	a day (excluding Saturday or Sunday) where banks in the PRC are generally open for business
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“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
“Latest Practicable Date”	8 October 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the agreement between ND Worldwide and the Ninghe Government in respect of the establishment of the Production Base
“ND Worldwide”	Nine Dragons Worldwide Investment Limited, an indirect wholly-owned subsidiary of the Company
“Ninghe Economic Development Zone”	the Ninghe Economic Development Zone located at Ninghe County, Tianjin, the PRC
“PRC”	the People’s Republic of China
“Production Base”	means the new production base to be established at the Ninghe Economic Development Zone
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“tpa”	tones per annum

Unless otherwise stated, amounts in RMB have been translated into HK\$ at exchange rate of HK\$1.00 to RMB0.96835 on 8 October 2007 for illustration purposes only. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rate or any other rate at all.



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 (*Chairman*)

Mr. Liu Ming Chung

(*Deputy Chairman and Chief Executive Officer*)

Mr. Zhang Cheng Fei

(*Deputy Chief Executive Officer*)

Ms. Gao Jing

Non-executive Director:

Mr. Lau Chun Shun

Independent non-executive Directors:

Ms. Tam Wai Chu, Maria

Mr. Chung Shui Ming, Timpson

Dr. Cheng Chi Pang

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:*

3129-3140, 31st Floor

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

10 October 2007

*To the Shareholders and, for information only,
holders of the share options:*

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

The Board announced that on 18 September 2007, ND Worldwide, a wholly-owned subsidiary of the Company, entered into the Master Agreement with the Ninghe Government for the establishment of the Production Base at the Ninghe Economic Development Zone.

The establishment of the Production Base constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information relating to the Master Agreement.

THE MASTER AGREEMENT

(a) **Date**

18 September 2007

* For identification purposes only

LETTER FROM THE BOARD

(b) Parties

- (i) ND Worldwide; and
- (ii) The People's Government of Ninghe County.

The Ninghe Government is the county government authority of Ninghe County, Tianjin, the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Ninghe Government is an independent third party and is not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive and substantial shareholders or any associates of any of them.

(c) Terms of the Agreement

Pursuant to the Master Agreement, the Group has agreed to establish the Production Base at the Ninghe Economic Development Zone. It is envisaged that the Group will establish up to 4 wholly-owned subsidiaries in the zone to engage in the production of paper and the provision of related services. The initial production capacity is expected to be around 800,000 tpa of paper products and to commence operations by June 2009. The exact scope of business and capital commitments of each of the companies to be established are still subject to finalisation.

The Group has also preliminary agreed with the Ninghe Government to establish a joint venture to engage in water treatment works in the Ninghe Economic Development Zone ("**Joint Venture**"). The Group's manufacturing operation requires a significant amount of water, which in the Group's other production bases, the Group would pre-treat as an auxiliary production process. In the case of the Joint Venture, the Ninghe Government would use the Joint Venture to process the water to be supplied to the zone. The exact shareholding of the Joint Venture and capital commitments are still subject to finalisation and as at the Latest Practicable Date, no detailed terms in relation to the Joint Venture have been discussed.

(d) Capital commitment

It is estimated that the funding commitment of the Group for the establishment of the Production Base with annual production capacity of 800,000 tpa (including land cost) is approximately RMB2,300.0 million, (approximately HK\$2,375.2 million). The funding commitment was determined by reference to the projected land and equipment costs, construction cost and general working capital required for the establishment of the Production Base and will be satisfied by the internal resources of the Group and external bank borrowings.

The Group may further invest into the Production Base in stages in accordance with the production requirements of the Group. As at the Latest Practicable Date, no concrete plan has been formulated in respect of further investments in the Production Base has been made.

(e) Land

The Ninghe Government has agreed to provide land at the Ninghe Economic Development Zone of approximately 2.4 million square meters for the Production Base of the Company. The land will be located at the Ninghe Economic Development Zone. No land use contract has been entered into and the Company has not acquired the land use right to the land as at the Latest Practicable Date. The purchase price for the land will be subject to finalisation between the Company and the Ninghe Government. The land use rights of the land will be for a term of 50 years.

LETTER FROM THE BOARD

REASONS FOR THE ESTABLISHMENT OF THE PRODUCTION BASE

As disclosed in the Company's 2006 annual report, in addition to the Group's existing production bases in Dongguan, Taicang and Chongqing, the Group will continue its efforts in expanding geographical reach for a more comprehensive market coverage in northern China. This will enable the Group to fully cover the major economic regions and provide services to customers throughout the PRC.

The Production Base is situated next to the Binhai New Area and enjoys investment incentives that are the same as those available from the Binhai New Area. The Ninghe Economic Development Zone is located only 30 km from the Tianjin port, one of the major ports in China that serve ocean bound vessels directly, thus allowing direct access to ocean transportation at lower transportation costs as trans-shipment is not required. The base is also served by a rail spur for direct movement of coal, raw materials and finished products, and is conveniently accessible by the state-wide highway network linking the north-eastern and southern provinces in China. There is an abundant supply of good quality water for paper production in the zone.

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

The Company expects that the first phase of development of the Production Base will consist of one linerboard paper machine of 450,000 tpa and one high performance corrugating medium paper machine of 350,000 tpa. Production is expected to commence by June 2009. As at the Latest Practicable Date, the Company has not commenced detailed design for the Production Base and no definite agreement has been entered into for the construction of Production Base or for the supply of equipment.

The Group expects that the annual production capacity will gradually be increased to approximately 4 million tpa of paper products by stages depending on market demand and availability of financial resources of the Group.

FINANCIAL EFFECTS OF THE ESTABLISHMENT OF THE PRODUCTION BASE

The Directors expect that there will be a positive impact to the earnings of the Group. However, as the production is expected to commence by June 2009, the actual earnings impact will depend on the future performance of the production base.

It is envisaged that the Group will establish up to 4 wholly-owned subsidiaries to engage in the production of paper and the provision of related services, and a joint venture to engage in water treatment works in the Ninghe Economic Development Zone. The Directors expects that the net asset value of the Group will be increased upon the commencement of operation of the production base.

The Directors do not expect that there will be any effect on the liabilities of the Group as a result of the establishment of the production base.

LETTER FROM THE BOARD

GENERAL

The Group is engaged in the production of packaging paperboard products, which include linerboard, high performance corrugating medium and coated duplex board, as well as unbleached kraft pulp.

The estimated funding commitment of the Group in the Production Base will be approximately RMB2,300.0 million (equivalent to HK\$2,375.2 million) and constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Your attention is drawn to the general information set out in the appendix to this circular.

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

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, no Directors or chief executive of the Company, save as disclosed below, had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (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 deemed or taken 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange:

(i) Interest in the shares and underlying shares of the directors of the Company

Name of directors	Number of ordinary shares			Number of underlying shares (in respect of share options)			Approximate percentage of shareholding
	Personal Interests	Family Interests	Corporate Interests	Personal Interests	Family Interests	Total	
Ms. Cheung Yan	3,384,663	3,382,836	2,990,520,000	55,038,652	55,031,348	3,107,357,499	72.36%
Mr. Liu Ming Chung	3,382,836	3,384,663	2,990,520,000	55,031,348	55,038,652	3,107,357,499	72.36%
Mr. Zhang Cheng Fei	2,362,964	—	—	50,951,857	—	53,314,821	1.24%
Ms. Gao Jing	100,000	67,000	—	400,000	1,600,000	2,167,000	0.05%
Ms. Tam Wai Chu, Maria	233,334	—	—	933,336	—	1,166,670	0.03%
Mr. Chung Shui Ming, Timpson	20,334	—	—	933,336	—	953,670	0.02%
Dr. Cheng Chi Pang	—	—	—	1,166,670	—	1,166,670	0.03%

Note: Best Result Holdings Limited (“Best Result”) directly held 2,990,520,000 shares in the Company. The issued share capital of Best Result is held as to approximately 34.516% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 2.557% by Ms. Cheung Yan and as to approximately 37.053% by Ms. Cheung Yan and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung Yan and Mr. Liu Ming Chung is therefore deemed to be interested in the shares held by Best Result by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

(ii) Interests in the Associated Corporation — Best Result

Name of directors	Capacity	Number of ordinary shares held in Best Result	Approximate percentage of total number shareholding
Ms. Cheung Yan	Beneficiary of a trust	374,516	34.516%
	Beneficiary owner	2,557	2.557%
Mr. Liu Ming Chung	Beneficiary of a trust	37,053	37.053%
Mr. Zhang Cheng Fei	Beneficiary of a trust	25,874	25.874%

All the interests disclosed in sections (i) and (ii) above represent long positions in the shares of the Company or the associated corporation.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as is known to the Directors, the following person and companies (other than the Directors or chief executive of the Company) had, or were deemed or taken to have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, 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 option in respect of such capital:

Name	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of total number shareholding
Best Result (<i>Note 2</i>)	Beneficial owner	2,990,520,000	69.64%
HSBC Bank USA, National Association (<i>Note 2</i>)	Trustee of YC 2006 QuickGRAT	2,990,520,000	69.64%
Bank of the West (<i>Note 2</i>)	Trustee of MCL Living Trust	2,990,520,000	69.64%

Notes:

- (1) All of the above interests are long positions.
- (2) Best Result directly held 2,990,520,000 shares in the Company. The issued share capital of Best Result is held as to approximately 34.516% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 2.557% by Ms. Cheung Yan and as to approximately 37.053% by Ms. Cheung Yan and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living 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 any Director or 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.

Save as disclosed in this circular, none of the Directors or proposed directors is a director or employee of a company which has an interest in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, each of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei had entered into a service contract with the Company for a period of three years commencing on 3 March 2006, which may be terminated by either party upon six months' notice.

Each of Mr. Lau Chun Shun and Ms. Gao Jing had entered into a service contract with the Company for a period of one year commencing on 3 March 2007 and 6 July 2007 respectively, which may be terminated by either party upon three months' notice.

Each of Independent non-executive directors, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr.Cheng Chi Pang and Mr. Wang Hong Bo, had entered into a letter of agreement with the Company for a period of one year commencing on 3 March 2007, which may be terminated according to the Bye-Laws of the Company.

5. LITIGATION

No member of the Group was engaged in any litigation or arbitration proceedings of material importance as at the Latest Practicable Date and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or likely to compete with the business of the Group.

7. MISCELLANEOUS

- (a) The qualified accountant of the Company is Mr. Law Wang Chak, Waltery who is a fellow member of both the Association of Chartered Certified Accountants and of Hong Kong Institute of Certified Public Accountants and an associated member of the Institute of Chartered Accountants in England and Wales.
- (b) 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.
- (c) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business in Hong Kong is at 3129-3140, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (d) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.