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If you are in any doubt as to any aspect of this circular, 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 and the enclosed proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or 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)

SUPPLEMENTAL AGREEMENT TO CONTINUING CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders**



**建泉融資有限公司
VBG Capital Limited**

A letter from the Board is set out on pages 4 to 15 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 25 of this circular.

A notice convening the Special General Meeting to be held at Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on 25 May 2021 at 11:00 a.m. is set out on pages 31 to 32 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, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time for holding the Special General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you subsequently so wish.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

To safeguard the health and safety of Shareholders, staffs and stakeholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the Company will implement the following precautionary measures at the Special General Meeting:

1. Compulsory body temperature checks
2. Health declarations
3. Wearing of surgical face mask
4. No provision of corporate gift, refreshment or drink

Attendees who do not comply with the precautionary measures may be denied entry to the Special General Meeting venue at the absolute discretion of the Company as permitted by law.

Shareholders are encouraged to exercise their right to vote at the Special General Meeting by appointing the Chairman of the Special General Meeting as their proxy and to return their completed proxy forms by the time specified above, instead of attending the Special General Meeting in person.

* For identification purpose only

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PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the COVID-19 pandemic and recent requirements for prevention and control of its spread, to safeguard the health and safety of Shareholders who may attend the Special General Meeting in person, the Company will implement the following precautionary measures at the Special General Meeting:

- 1) Compulsory body temperature checks will be carried out on every attendee at the entrance of Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on 25 May 2021 at 11:00 a.m. (“**Special General Meeting venue**”). Any person with a body temperature above the reference range quoted by the Department of Health or who has any flu-like symptoms may be denied entry to the Special General Meeting venue at the absolute discretion of the Company as permitted by law.
- 2) Every attendee will be required to complete and submit a Health Declaration Form prior to entry into the Special General Meeting venue. Attendee who is subject to any Hong Kong Government prescribed quarantine may be denied entry to the Special General Meeting venue at the absolute discretion of the Company as permitted by law.
- 3) Every attendee will be required to wear a surgical face mask throughout the Special General Meeting and sit at a distance from other attendees. Please note that no masks will be provided at the Special General Meeting venue and attendees should wear their own masks.
- 4) No corporate gift, refreshment or drink will be provided to attendees at the Special General Meeting.

For the health and safety of all Shareholders, the Company would like to encourage Shareholders to exercise their rights to vote at the Special General Meeting by appointing the Chairman of the Special General Meeting as their proxy instead of attending the Special General Meeting in person. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the Special General Meeting or any adjournment thereof should they subsequently so wish.

Completed proxy forms must be returned to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time for holding the Special General Meeting or any adjournment thereof.

DEFINITIONS

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

“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;
“associate”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the main board of the Stock Exchange;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	directors of the Company;
“Group”	the Company and its subsidiaries;
“Hainan ACN”	Hainan ACN Resources Co., Ltd. (海南中南再生資源有限公司), a company established in the PRC and is indirectly owned as to 70% by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng and as to 30% by the Company;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors;
“Independent Financial Adviser”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committees and the Independent Shareholders on the terms of the Supplemental Agreement;
“Independent Shareholders”	Shareholders who are not interested in the transactions contemplated under the Supplemental Agreement;
“Latest Practicable Date”	26 April 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“Recovered Paper and Recycled Pulp Agreement”	the agreement dated 2 June 2020 among the Company, ACN and Tianjin ACN in relation to the supply of recovered paper and recycled pulp to the Group;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholders”	shareholders of the Company;
“Special General Meeting”	the special general meeting of the Company to be convened and held at Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on 25 May 2021 at 11:00 a.m. for the Independent Shareholders to approve the Supplemental Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement”	the supplemental agreement to the Recovered Paper and Recycled Pulp Agreement dated 26 March 2021 entered into among the Company, ACN, Tianjin ACN and Hainan ACN;
“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 indirectly owned as to 70% by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng and as to 30% by a subsidiary of the Company;
“tpa”	tonnes per annum;
“U.S.”	the United States of America; and
“%”	per cent.



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, *JP (Chairlady)*

Mr. Liu Ming Chung

(Deputy Chairman and Chief Executive Officer)

Mr. Zhang Cheng Fei

(Deputy Chairman and Deputy Chief Executive Officer)

Mr. Ken Liu *(Deputy Chairman and Vice President)*

Mr. Lau Chun Shun *(Vice President)*

Mr. Zhang Lianpeng *(Vice President)*

Mr. Zhang Yuanfu *(Chief Financial Officer)*

Independent Non-executive Directors:

Ms. Tam Wai Chu, Maria *GBM, JP*

Mr. Ng Leung Sing *SBS, JP*

Mr. Lam Yiu Kin

Mr. Chen Kefu

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

Unit 1, 22/F

One Harbour Square

181 Hoi Bun Road

Kwun Tong, Kowloon

Hong Kong

4 May 2021

To the Shareholders

Dear Sir or Madam,

**SUPPLEMENTAL AGREEMENT TO
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 26 March 2021 in relation to the Supplemental Agreement entered into among the Company, ACN, Tianjin ACN and Hainan ACN.

The purpose of this circular is:

- (i) to provide the Shareholders with further details on the Supplemental Agreement;
- (ii) to set out the opinion of the Independent Financial Adviser on the Supplemental Agreement;

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- (iii) to set out the recommendation of the Independent Board Committee on the Supplemental Agreement; and
- (iv) to give the Shareholders notice of the Special General Meeting to consider and, if thought fit, to approve the Supplemental Agreement.

THE RECOVERED PAPER AND RECYCLED PULP AGREEMENT

On 2 June 2020, the Company, ACN and Tianjin ACN entered into the Recovered Paper and Recycled Pulp Agreement under which the Group agreed to purchase recovered paper and recycled pulp from ACN and/or Tianjin ACN or their respective subsidiaries for a term of three financial years ending 30 June 2023.

THE SUPPLEMENTAL AGREEMENT

On 26 March 2021, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Supplemental Agreement pursuant to which Hainan ACN was added as a party to the Recovered Paper and Recycled Pulp Agreement.

Save for the addition of Hainan ACN as a party to the Recovered Paper and Recycled Pulp Agreement, all other terms of the Recovered Paper and Recycled Pulp Agreement remain unchanged.

The salient terms of the Recovered Paper and Recycled Pulp Agreement (as amended by the Supplemental Agreement) are summarized below:

- Subject: the Group agreed to purchase recovered paper and recycled pulp from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries;
- Term: a period of three years ending 30 June 2023;

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Price: The purchase prices of the products under the Recovered Paper and Recycled Pulp Agreement will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies of continuing connected transactions of the Group, subject to the additional principles of determining the pricing terms for individual orders of recovered paper and recycled pulp by reference to:

- (a) the prevailing market price of similar recovered paper and recycled pulp as publicly announced on the public website of www.umpaper.com (the “**Reference Site**”). The Reference Site is widely used by paper manufacturers in the world and provides reliable price assessments in the pulp and paper products markets. The Reference Site has been in operation since 1985 and is currently operated by Fastmarkets RISI. Fastmarkets RISI is the world’s leading reporting and market analysis provider for the forest products sector with offices located around the world (including London, Brussels, Shanghai, New York and other major cities). Based on the information available to the Board, Fastmarkets RISI’s clients comprise more than 97% of the world’s forest products sector, including industry end-users, suppliers, investors and financial-service providers. The Reference Site contains pricing information in relation to the current and historical market price of recovered paper and recycled pulp, and collects data from market participants and updates the pricing of recovered paper and recycled pulp. Given the well-established reliable track record, the global reach of the Reference Site, the scale of operations of the Reference Site and the scale of market data coverage used in price assessment, the Board considers that the reliance on the Reference Site as its only source of data is in-line with market practice of the pulp, paper and packaging industry, sufficient, fair and representative; or
- (b) the pricing terms of recovered paper and recycled pulp of comparable quality, specifications, quantities and required time of delivery offered by independent suppliers (the “**Independent Raw Material Pricing Terms**”) to the Group based on the quotations obtained from at least three independent suppliers on the Group’s approved list of suppliers. The procurement department of the Group will compare the prices quoted and ensure that the pricing terms of the recovered paper and recycled pulp are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.

The terms of the Recovered Paper and Recycled Pulp 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 Recovered Paper and Recycled Pulp Agreement for three financial years ending 30 June 2023 will not exceed the following annual cap:

	Financial year ending 30 June 2021 RMB' million	Financial year ending 30 June 2022 RMB' million	Financial year ending 30 June 2023 RMB' million
Annual cap	63,000	74,000	78,000

The annual caps under the Recovered Paper and Recycled Pulp Agreement were determined by reference to the (1) historical transaction amount; and (2) the expected demand of recovered paper and recycled pulp by the Group.

(1) Historical transaction amount

The historical amount of purchases from ACN and Tianjin ACN for the three financial years ended 30 June 2020 and the six months ended 31 December 2020 are as follows:

	For the year ended 30 June 2018 RMB' million	For the year ended 30 June 2019 RMB' million	For the year ended 30 June 2020 RMB' million	For the six months ended 31 December 2020 RMB' million
Annual cap ^(Note 1)	31,000	51,000	68,000	68,000 ^(Note 2)
Actual purchases	21,242	22,865	21,334	15,052 ^(Note 3)

Notes:

1. The annual cap is the combined annual caps for purchases from ACN and Tianjin ACN, as amended.
2. The annual cap of RMB68,000 million is for the entire financial year ended 30 June 2020.
3. The unaudited figures for the six months ended 31 December 2020 is RMB15,052 million.

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The Company noted the actual purchases of recovered paper were lower than the annual caps set for the three years ended 30 June 2020. The Company attributes the low utilization rate of the purchase to the following reasons:

(i) A series of unforeseeable restrictive policies promulgated by the PRC government

The annual caps for the three financial years ended 30 June 2020 were determined in 2017.

Since late 2017, a series of restrictive policies promulgated by the PRC government have substantially curbed the supply of imported recovered paper, the Group reduced its purchase of imported recovered paper from ACN.

On 14 December 2017, the Environmental Protection Management Regulation on Importing Recovered Paper was released by the Ministry of Ecology and Environment of the PRC to limit foreign import of recovered paper. Subsequently on 2 May 2018, the General Administration of Customs of the PRC issued an urgent notice pursuant to which full unpacking and inspection and quarantine of waste materials from the U.S. has been carried out with effect from 4 May 2018.

On 8 August 2018, the Ministry of Commerce of the PRC further announced the Notice of the Customs Tariff Commission of the State Council on Adding Tariffs to Imported Goods of About US\$16 Billion from the U.S. (Announcement of the Taxation Committee [2018] No. 7) to implement a 25% tariff on imported recovered paper from the U.S. starting from 23 August 2018.

The importation of wastepaper by each China's paper manufacturer is subject to quota pre-approved by the relevant government authority from time to time and the prevailing quality standards set by the government. From 2018 onwards, the import quota granted to the paper industry has been reduced, and quality standards have been significantly tightened. The aforesaid restrictive policies have substantially curbed the supply of recovered paper (especially the low quality recovered paper) from overseas.

According to the data released by the General Administration of Customs of the PRC, from January 2018 to December 2018, China's cumulative import volume of recovered paper was approximately 17.0 million tonnes, representing a year-on-year decrease of around 34% as compared to 2017. From January 2019 to December 2019, China's cumulative import volume of recovered paper continued to shrink by around 36% as compared to the prior year to approximately 10.8 million tonnes.

(ii) A decreasing trend in the market price of imported recovered paper between 2018 and 2019

The market price of imported recovered paper fluctuated between RMB1,500 to RMB2,000 per tonne from June 2017 to 2018. It then fell sharply since the beginning of 2019 and levelled off at around RMB1,000 per tonne in late 2019. From 2017 to 2019, the average annual price movement of imported recovered paper was around 25%.

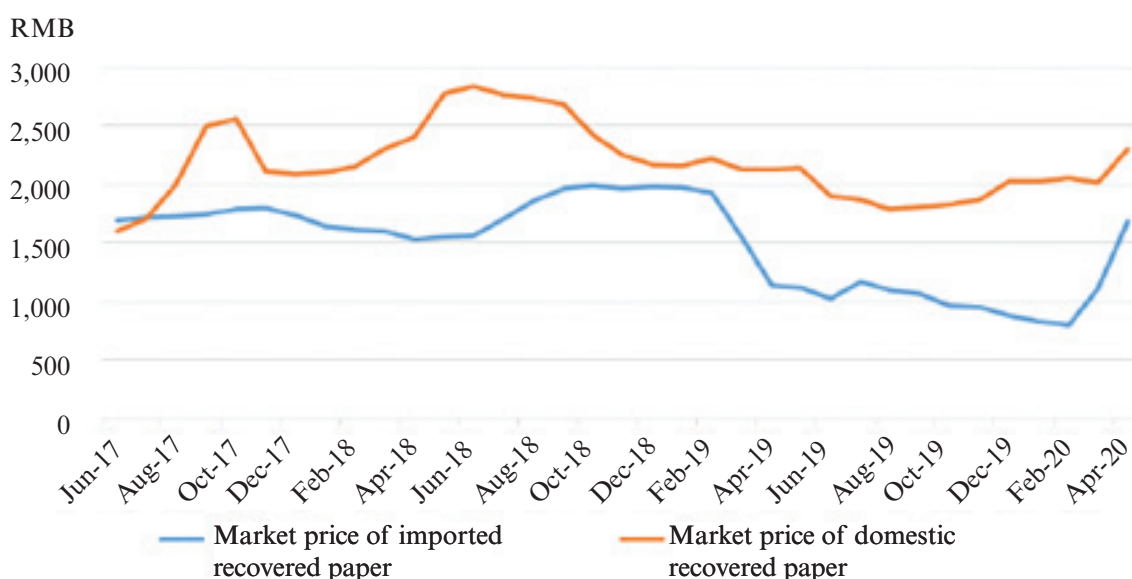
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(2) *The expected demand of recovered paper and recycled pulp by the Group*

(i) *Abrupt and expected continued rebound in the market price of imported recovered paper*

Despite the drop in market price of imported recovered paper as explained in (i) above, due to the global shutdown of factories and economies to contain COVID-19, the market price of imported recovered paper has rebounded abruptly to around RMB1,680 per tonne in 2020. The Company expects that the market price of imported recovered paper may further grow by around 30% to around RMB2,184 per tonne for the financial year ending 30 June 2021; and thereafter the year-on-year growth at a rate of around 10%.

The chart below shows the market price movement of imported recovered paper and domestic recovered paper in the PRC from June 2017 to April 2020:



(ii) *Expected continued rising trend of the market price of domestic recovered paper*

As a result of the uncertainty to the macro policies towards imported recovered paper, the Group, in line with other paper manufacturers, is expected to shift towards increased purchases of domestic recovered paper.

The market price of domestic recovered paper rose from around RMB1,600 to above RMB2,000 per tonne from August 2017 onwards. In June 2018, the market price of domestic recovered paper attained the historical peak of around RMB2,800 per tonne, representing a robust year-on-year growth of around 75% as compared to June 2017. It was then stable at around RMB2,000 per tonne until recently, when the price went up again to around RMB2,300 per tonne.

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(iii) Expected growth and development of the Group

As of 31 December 2020, the Group's total annual design production capacity for pulp (recycled pulp and wood pulp) and paper amounted to 0.85 million tpa and 17.57 million tpa, respectively, while the total annual design production capacity for downstream packaging plants amounted to 1.0 billion sq.m.

The Group's comprehensive capacity expansion plan for the vertical integration of production chain has been in place. In the coming years, the Group plans to increase 3.72 million tpa, 1.10 million tpa and 6.25 million tpa of production capacity for pulp (wood pulp and recycled pulp), wood fibre and paper respectively. The details are as follow:

Capacity expansion project — wood pulp and recycled pulp	New production capacity (million tpa)	Expected completion time
Hubei, PRC	0.60 (Chemical pulp)	Q3 of 2022
Shenyang, PRC	0.62 (Chemical pulp)	Q3 of 2022
Beihai, PRC	0.50 (Chemical pulp) 1.40 (Chemi-mechanical pulp)	Q4 of 2022 Q4 of 2023
Malaysia	<u>0.60</u> (Recycled pulp)	Q2 of 2023
Sub-total	3.72	
Capacity expansion project — wood fibre	New production capacity (million tpa)	Expected completion time
Dongguan, PRC	0.60	Q2 of 2022
Chongqing, PRC	<u>0.50</u>	Q4 of 2022
Sub-total	1.10	

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Capacity expansion project — paper	New production capacity (million tpa)	Expected completion time
Hubei, PRC	0.60 (Virgin kraftliner)	Q3 of 2022
	0.60 (Testliner)	Q3 of 2022
Beihai, PRC	1.10 (Virgin kraftliner)	Q4 of 2022
	0.45 (White top linerboard)	Q4 of 2022
	1.20 (Bleached folding boxboard)	Q4 of 2023
	0.55 (Printing & writing paper)	Q4 of 2023
	0.20 (Sack kraft paper, bag paper)	Q4 of 2023
Shenyang, PRC	0.65 (Virgin kraftliner)	Q2 of 2023
Malaysia	0.60 (Kraftliner)	Q2 of 2023
	0.30 (Corrugating medium)	Q2 of 2023
Sub-total	<u>6.25</u>	
Total	11.07	

Upon completion of these capacity expansion projects, the Group's total annual design capacity for pulp (wood pulp and recycled pulp), wood fibre and paper is expected to reach 29.49 million tpa. In addition, the Group will increase the production capacity for the downstream packaging plants by a total of 1.21 billion sq.m. by the end of 2021.

(iv) Other factors that may lead to increase in the price of recovered paper

The Directors are of the view that the trade war between the PRC and USA as well as the COVID-19 would add to the uncertainty of the paper market and the recovered paper and recycled pulp market in the short to medium term. Besides, the increasing global concern on environment protection may cause further increase in the future market price of recovered paper products together with other possible unforeseeable factors such as inflation.

REASON FOR THE SUPPLEMENTAL AGREEMENT

On 23 June 2020, the Ministry of Finance and State Taxation Administration of the PRC issued guidance (Circular 31) implementing several tax measures to support the development of the Hainan Free Trade Port (“HFTP”). The measures are effective retroactively as from 1 January 2020 and will expire on 31 December 2024, and include a special 15% enterprise income tax rate (reduced from the statutory 25% rate in other provinces in PRC) for taxpayers engaged in business activities in the HFTP. It is anticipated that Hainan ACN could benefit from the special tax rate and this policy can benefit Hainan ACN undoubtedly.

The Group will also enjoy certain benefits indirectly from the aforementioned special tax rate and policy by purchasing recovered paper and recycled pulp from Hainan ACN under the Supplemental Agreement. As Hainan ACN is owned as to 30% by the Company, the Group will gain more investment profits if the income tax rate on the profit of Hainan ACN is reduced from the statutory rate of 25% to the special rate of 15%. In addition, due to a series of restrictive

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policies promulgated by the PRC government, which have substantially curbed the supply of imported recovered paper, the Group is encouraged to increase its future purchases of recovered paper domestically. By sourcing from Hainan ACN and Tianjin ACN, the Group will be able to expand the pool of its domestic suppliers and this will enhance the Group's flexibility in sourcing recovered paper and recycled pulp. It will also enable the Group to benefit indirectly from the special tax rate enjoyed by Hainan ACN and Tianjin ACN. In light of the above, it is the Board's view that the signing of the Supplemental Agreement would be beneficial to the Group and is in the interests of the Company and the Shareholders as a whole.

As the Supplemental Agreement was 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, excepted the Interested Directors (as defined below) who have abstained from voting for the resolution to approve the Supplemental Agreement and the independent non-executive Directors, consider that the terms of the Supplemental Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The view of the independent non-executive Directors will be set out in the circular of the Company after taking advice from the independent financial adviser.

LISTING RULE IMPLICATIONS

Hainan ACN is indirectly owned as to 70% by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng and indirectly owned as to 30% by the Company.

As the addition of Hainan ACN as a party to the Recovered Paper and Recycled Pulp Agreement constitutes a material change to the terms of the Recovered Paper and Recycled Pulp Agreement, the Company would need to comply with the announcement and shareholders' approval requirements under Rule 14A.54 of the Listing Rules.

INFORMATION ON THE PARTIES

The Company

The Group is engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard, white top linerboard and coated duplex board), high performance corrugating medium, recycled printing & writing paper, specialty paper, high performance corrugated sheet, high performance corrugated box and pulp, providing one-stop packaging services for customers.

ACN

ACN is a company established in California, the United States, and is the largest exporter of recovered paper and recycled pulp in the United States and a leading exporter of recovered paper and recycled pulp in Europe and Asia. ACN has a strong and long term relationship and connection with OCC pulp major exporter worldwide.

Tianjin ACN

Tianjin ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper and recycled pulp in the PRC.

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Hainan ACN

Hainan ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper and recycled pulp in the PRC.

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 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.

When determining the prevailing market price described under paragraph (i) above,

- (a) in respect of procurement of recovered paper and recycled pulp under the Supplemental Agreement, the Company will strictly apply the pricing policy set out under the section headed “The Supplemental Agreement”;
- (b) in respect of procurement of other products from a connected person or his/her associates, invite quotations from independent suppliers to give 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 Company 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; and
- (c) in respect of provision of products to be sold 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 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.

INTERNAL CONTROL POLICIES FOR CONTINUING CONNECTED TRANSACTIONS

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 relevant personnel from the finance department of the Group and the management of the Group will conduct regular checks on a

LETTER FROM THE BOARD

monthly basis to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

The independent non-executive Directors will review the transactions under the relevant continuing connected transaction and the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement and pricing policies of the Company.

SPECIAL GENERAL MEETING

A notice of the Special General Meeting is set out on pages 31 to 32 of this circular.

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, Mr. Ken Liu, Mr. Lau Chun Shun, and Mr. Zhang Lianpeng and their associates are considered to be interested in the Supplemental Agreement. As at the Latest Practicable Date, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng, through Best Result Holdings Limited, held in aggregate 2,992,120,000 Shares, representing approximately 63.77% of the issued share capital of the Company. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu and Mr. Lau Chun Shun also personally hold 90,097,758 Shares, 31,594,184 Shares, 34,399,821 Shares, 1,382,000 Shares and 14,149,000 Shares, representing 1.92%, 0.67%, 0.73%, 0.03% and 0.30% of the issued share capital of the Company, respectively. Accordingly, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng and their associates will abstain from voting for the resolution proposed at the Special General Meeting to approve the Supplemental Agreement.

A form of proxy for the Special General Meeting is enclosed herewith. Whether or not you intend to attend and vote at the Special General Meeting in person, you are requested to complete the form of proxy and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjournment thereof should you subsequently so wish.

GENERAL

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng (the "**Interested Directors**") are considered to be interested in the Supplemental Agreement and have abstained from voting for the approval of the Supplemental Agreement at the Board meeting convened for such purposes.

The Interested Directors and their respective Associates will abstain from voting on the resolution to be proposed at the Special General Meeting to approve the Supplemental Agreement.

LETTER FROM THE BOARD

An Independent Board Committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Supplemental Agreement and VBG Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Supplemental Agreement.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 16 to 17 of this circular which contains its recommendations to the Independent Shareholders in respect of the terms of the Supplemental Agreement. Your attention is also drawn to the letter of advice from the Independent Financial Adviser which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders. The letter from the Independent Financial Adviser is set out on pages 18 to 25 of this circular.

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

By Order of the Board
Nine Dragons Paper (Holdings) Limited
Cheung Yan
Chairlady

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the Supplemental Agreement and the transactions contemplated thereunder.



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

4 May 2021

To the Independent Shareholders

Dear Sir or Madam,

**SUPPLEMENTAL AGREEMENT TO
CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular of the Company to the Shareholders dated 4 May 2021 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from VBG Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Supplemental Agreement as set out on pages 18 to 25 of the Circular and the letter from the Board as set out on pages 4 to 15 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms of the Supplemental Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Supplemental Agreement and the transactions contemplated thereunder to be proposed at the Special General Meeting.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Nine Dragons Paper (Holdings) Limited
Tam Wai Chu, Maria
Ng Leung Sing
Lam Yiu Kin
Chen Kefu
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

4 May 2021

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

Dear Sirs,

SUPPLEMENTAL AGREEMENT TO CONTINUING CONNECTED TRANSACTION

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 Supplemental Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 4 May 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company entered into the Recovered Paper and Recycled Pulp Agreement on 2 June 2020, pursuant to which the Group will purchase recovered paper and recycled pulp from ACN and/or Tianjin ACN for a term of three financial years ending on 30 June 2023. On 26 March 2021, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Supplemental Agreement, pursuant to which Hainan ACN was added as a party (supplier) to the Recovered Paper and Recycled Pulp Agreement. Save for the said addition, all other terms of the Recovered Paper and Recycled Pulp Agreement shall remain unchanged.

With reference to the Letter from the Board, given that the addition of Hainan ACN as a party to the Recovered Paper and Recycled Pulp Agreement constitutes a material change to the terms of the Recovered Paper and Recycled Pulp Agreement, the Company would need to re-comply with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole and is 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 to approve the Supplemental Agreement at

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Special General Meeting. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from having acted as the independent financial adviser of the Company relating to (i) the renewal of continuing connected transaction of which a circular dated 8 July 2020 was issued; and (ii) the existing engagement in relation to the Supplemental Agreement, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Supplemental Agreement.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Supplemental Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Special General Meeting. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any 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 management and/or advisers, which have been provided to us.

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 or future prospects of the Group, ACN, Tianjin ACN, Hainan 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 Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement). Our opinion is necessarily based on the market, financial, economic 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 change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

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 2023, and they do not represent forecasts of revenues/costs or purchases/sales to be recorded/incurred from the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement). Consequently, we express no opinion as to how closely the actual revenues, costs, purchases or sales to be incurred under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) will correspond with the proposed annual caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Supplemental Agreement, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Supplemental Agreement

Overview of the Group's business and operation

The Group is engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard, high performance corrugating medium, recycled printing & writing paper, specialty paper, high performance corrugated sheet, high performance corrugated box and pulp, providing one-stop packaging services for customers. For the financial year ended 30 June 2020, the Group achieved a revenue of approximately RMB51,341 million, representing a slight decrease of approximately 6.0% as compared to the prior financial year. As referred to in the annual report of the Company for the financial year ended 30 June 2020, the major contributor of the Group's revenue was its packaging paper business, which accounted for approximately 86.7% of the revenue, with the remaining revenue of approximately 13.3% generated from its printing and writing paper and high value specialty paper and pulp products. During the six months ended 31 December 2020, the Group achieved a revenue of approximately RMB30,887 million, increasing slightly by approximately 7.1% as compared to the corresponding period of the prior year. As referred to in the interim report of the Company for the six months ended 31 December 2020, the major contributor of the Group's revenue was likewise its packaging paper business, which accounted for approximately 90.3% of the revenue, with the remaining revenue of approximately 9.7% generated from its printing and writing paper and high value specialty paper and pulp products.

As at 31 December 2020, the Group's total design production capacity for packaging paperboard, printing and writing paper, high value specialty paper and pulp products was approximately 18.42 million tpa. As advised by the Directors, the Group plans to further increase its production capacity for paper, pulp (wood pulp and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

recycled pulp) and wood fibre by approximately 6.25 million tpa, 3.72 million tpa and 1.10 million tpa, respectively, in the coming years to cope with its ongoing business expansion and production requirement.

Information on ACN, Tianjin ACN and Hainan ACN

As extracted from the Letter from the Board, ACN is a company established in California, the United States and is the largest exporter of recovered paper and recycled pulp in the United States and a leading exporter of recovered paper in Europe and Asia. ACN has a strong and long term relationship and connection with old corrugated container pulp major exporter worldwide.

As also extracted from the Letter from the Board, each of Tianjin ACN and Hainan ACN is a company established in the PRC and is principally engaged in the business of the sourcing of recovered paper and recycled pulp in the PRC.

Background of the Recovered Paper and Recycled Pulp Agreement and reasons for the Supplemental Agreement

References are made to the announcement of the Company dated 2 June 2020 and its circular dated 8 July 2020 (the “**Previous Circular**”) in relation to the continuing connected transactions for the Group contemplated under the Recovered Paper and Recycled Pulp Agreement. The Group has been purchasing recovered paper from ACN (overseas wastepaper) and Tianjin ACN (domestic wastepaper) to ensure a stable supply of quality recovered paper for its manufacturing operations. However, the PRC government has promulgated a series of restrictive policies since late 2017 in respect of the importation of overseas waste products (including but not limited to recovered paper). Such restrictive policies have substantially curbed the supply of imported recovered paper, leading the Group to gradually shifting its demand for overseas recovered paper to domestic recovered paper, and started the purchase of recycled pulp as raw material for its manufacturing operations. At the special general meeting of the Company held on 27 July 2020, the Recovered Paper and Recycled Pulp Agreement governing the aforementioned continuing connected transactions between the Group and ACN and/or Tianjin ACN for the three financial years ending 30 June 2023 (including the proposed annual caps) were duly approved by the then independent Shareholders.

As advised by the Directors, on 23 June 2020, the Ministry of Finance and the State Taxation Administration issued guidance (Circular 31) implementing several tax measures to support the development of the Hainan Free Trade Port (HFTP). Those measures are effective retroactively as from 1 January 2020 and will expire on 31 December 2024, and include a 15% enterprise income tax (EIT) rate (reduced from the statutory 25% rate in other provinces in the PRC) for taxpayers engaged in business activities in HFTP. It is anticipated that Hainan ACN could benefit from the special tax rate and this policy could benefit Hainan ACN undoubtedly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As further advised by the Directors, the Group will also enjoy certain benefits indirectly from the aforementioned special tax rate and policy by purchasing recovered paper and recycled pulp from Hainan ACN under the Supplemental Agreement. As Hainan ACN is owned as to 30% by the Company, the Group will gain more investment profits if the income tax rate on the profit of Hainan ACN is reduced from the statutory rate of 25% to the special rate of 15%. In addition, due to a series of restrictive policies promulgated by the PRC government, which have substantially curbed the supply of imported recovered paper, the Group is encouraged to increase its future purchases of recovered paper domestically. By sourcing from Hainan ACN and Tianjin ACN, the Group will be able to expand the pool of its domestic suppliers and this will enhance the Group's flexibility in sourcing recovered paper and recycled pulp. It will also enable the Group to benefit indirectly from the special tax rate enjoyed by Hainan ACN.

Having considered the above background of the Recovered Paper and Recycled Pulp Agreement and the reasons for the Supplemental Agreement, we are of the view that the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

(2) Principal terms of the Supplemental Agreement

On 26 March 2021, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Supplemental Agreement pursuant to which Hainan ACN was added as a party (supplier) to the Recovered Paper and Recycled Pulp Agreement. Under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement), the Group agreed to purchase recovered paper and recycled pulp from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries for a term of three financial years ending 30 June 2023. The proposed annual caps for the transactions contemplated thereunder were RMB63,000 million, RMB74,000 million and RMB78,000 million for each of the three financial years ending 30 June 2021, 2022 and 2023, respectively.

Save for the addition of Hainan ACN as a party to the Recovered Paper and Recycled Pulp Agreement, all other terms of the Recovered Paper and Recycled Pulp Agreement shall remain unchanged. Shareholders may refer to the section headed "The Supplemental Agreement" of the Letter from the Board for details of other salient terms of the Recovered Paper and Recycled Pulp Agreement. Based on our review and comparison of (i) around ten individual agreements governing the historical transactions under the Recovered Paper and Recycled Pulp Agreement between the Group (as purchaser) and ACN and/or Tianjin ACN (as supplier); and (ii) around ten agreements governing the historical transactions from 2020 to February 2021 between the Group (as purchaser) and other independent suppliers of recovered paper, we noted that the major terms offered by the independent suppliers to the Group were similar to those offered to the Group by ACN and Tianjin ACN. In view of that the only amendment to the Recovered Paper and Recycled Pulp Agreement is the addition of Hainan ACN as a party and based on our review and comparison, the major terms offered by the independent suppliers to the Group were similar to those offered to the Group by ACN and Tianjin ACN, we are of the view that the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) Proposed annual caps under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement)

As aforementioned, the Company has already obtained the independent Shareholders' approval for the continuing connected transactions between the Group and ACN and/or Tianjin ACN for the three financial years ending 30 June 2023 (including the proposed annual caps which shall remain unchanged) contemplated under the Recovered Paper and Recycled Pulp Agreement. In this relation, we understand that the proposed annual caps were also determined against the backdrop of the restrictive policies promulgated by the PRC government since late 2017 in respect of the importation of overseas waste products (including but not limited to recovered paper). Such restrictive policies have substantially curbed the supply of imported recovered paper, leading the Group to gradually shifting its demand for overseas recovered paper to domestic recovered paper, and started the purchase of recycled pulp as raw material for its manufacturing operations.

Based on our independent research regarding the latest development of the paper industry of the PRC, we noted that the regulatory restriction on importation of recovered paper from overseas had continued throughout 2020. Commencing from 1 January 2021, overseas recovered paper has been completely prohibited from importation into the PRC. Under such circumstances, market demand for domestic wastepaper and recycled pulp (as substitutes for overseas recovered paper in the production of paper products) soars, and their market prices have therefore demonstrated an overall upward moving trend. According to many market analysts and commentaries, the market prices of domestic recovered paper and recycled pulp are expected to jump further as a result of the complete ban on importation of overseas recovered paper since 1 January 2021.

In light of (i) the scheduled growth of the Group's production capacity in the coming years that would trigger a corresponding increase in the Group's demand for recovered paper and recycled pulp as raw materials to meet its production requirement; (ii) the proposed annual caps were determined against the backdrop of the restrictive policies promulgated by the PRC government in respect of the importation of overseas recovered paper and the paper industry of the PRC remains vulnerable to those policies change; and (iii) the increasing global concern on environmental protection as well as other possible unforeseeable factors, such as inflation, the trade war between the PRC and U.S. as well as the outbreak of COVID-19 pandemic, which may pose higher uncertainty to the paper industry of the PRC in the short to medium term, we are of the view that the proposed annual caps under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) for the three financial years ending 30 June 2023 had been fairly and reasonably determined.

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

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) must be restricted by the annual caps for the financial years concerned under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement); (ii) the terms of the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) 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 Recovered Paper and Recycled Pulp Agreement

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(as supplemented by the Supplemental Agreement) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) 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 transactions contemplated under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) exceed the proposed annual caps, or that there is any material amendment to the terms of the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

In addition, Shareholders may refer to the section headed "Internal control policies for continuing connected transactions" in the Letter from the Board with regard to the internal control procedures that the Company has adopted to supervise the transactions contemplated under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement). We have obtained the relevant internal control manuals from the Company and discussed with the Directors regarding how those internal control procedures have actually been carried out. Moreover, we have obtained and reviewed the procurement reports of the Group which described (i) the recovered paper/recycled pulp procurement process; (ii) the individual recovered paper/recycled pulp agreement and relevant price comparison; and (iii) the proposed amount of recovered paper/recycled pulp to be purchased from different suppliers of the Group. As mentioned under the section "Principal terms of the Supplemental Agreement" of this letter of advice, we have also reviewed and compared (i) around ten individual agreements governing the historical transactions under the Recovered Paper and Recycled Pulp Agreement between the Group (as purchaser) and ACN and/or Tianjin ACN (as supplier); and (ii) around ten agreements governing the historical transactions from 2020 to February 2021 between the Group (as purchaser) and other independent suppliers of recovered paper, and noted that the major terms offered by the independent suppliers to the Group were similar to those offered to the Group by ACN and Tianjin ACN. The aforesaid procurement reports and historical agreements could further substantiate that the Group has been following its internal control procedures in practice to ensure that the terms of the continuing connected transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Taking into account the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules and the internal control measures adopted by the Company, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Recovered Paper and Recycled Pulp Agreement (as supplemented by the Supplemental Agreement) and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole and is 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 to be proposed at the Special General Meeting to approve the Supplemental Agreement and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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 herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the Company

Long position in the Shares

Name of Directors	Number of Shares held			Total	Approximate percentage of shareholding
	Personal interest	Family interest	Corporate interest (Note 1)		
Cheung Yan	90,097,758	31,594,184	2,992,120,000	3,113,811,942	66.36%
Liu Ming Chung	31,594,184	90,097,758	2,992,120,000	3,113,811,942	66.36%
Zhang Cheng Fei	34,399,821	—	—	34,399,821	0.73%
Ken Liu	1,382,000	—	2,992,120,000	2,993,502,000	63.80%
Lau Chun Shun	14,149,000	—	2,992,120,000	3,006,269,000	64.07%
Tam Wai Chu, Maria	1,216,670	—	—	1,216,670	0.03%

*(ii) Interests in associated corporation of the Company**Long position in the Shares*

Name of Directors	Name of associated corporation	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Cheung Yan	Best Result Holdings Limited (“Best Result”)	Settlor of The Cheung Family Trust	37,073	37.073%
Liu Ming Chung	Best Result	Interest of spouse Settlor of The Liu Family Trust	37,053	37.053%
Zhang Cheng Fei	Best Result	Interest of spouse Settlor and beneficiary of The Zhang Family Trust and The Golden Nest Trust	37,073	37.073%
Ken Liu	Best Result	Beneficiary of trusts (<i>Note 4</i>)	25,874	25.874%
Lau Chun Shun	Best Result	Beneficiary of trusts (<i>Note 4</i>)	90,000	90.000%
Zhang Lianpeng	Best Result	Beneficiary of trusts (<i>Note 5</i>)	90,000	90.000%
			25,874	25.874%

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 YC 2013 Company Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust; (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 an irrevocable trust. The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust are revocable discretionary trusts.
- (3) Ms. Cheung Yan and Mr. Liu Ming Chung is the settlor of The Cheung Family Trust and The Liu Family Trust respectively. Ms. Cheung Yan is the spouse of Mr. Liu Ming Chung. Each of Ms. Cheung Yan and Mr. Liu Ming Chung 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 and Mr. Ken Liu are two of the beneficiaries of each of The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust. They are therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (5) Mr. Zhang Lianpeng is a beneficiary of each of The Zhang Family Trust and The Golden Nest Trust.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which they were 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name of Shareholders	Capacity in which interests were held	Number of Shares	Interests as to % of the total number of Shares in issue as at the Latest Practicable Date
Best Result	Beneficial owner	2,992,120,000	63.77%
YC 2013 Company Limited	Interest of controlled corporation	2,992,120,000	63.77%
Goldnew Limited	Interest of controlled corporation	2,992,120,000	63.77%
BNP Paribas Jersey Trust Corporation Limited	Trustee of The Cheung Family Trust and The Liu Family Trust	2,992,120,000	63.77%

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 YC 2013 Company Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust; (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, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, each of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei is a director of Best Result, which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in a business that competed or was likely to compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 30 June 2020, being the date to which the latest audited financial statements of the Company were made up.

6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. EXPERT'S QUALIFICATION AND CONSENT

As at the date of this circular, VBG Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears. The following expert's statements were issued on the date of this circular and were made for incorporation or reference (as the case may be) in this circular.

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
VBG Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, VBG Capital Limited did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 30 June 2020, being the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not 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.

8. GENERAL

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 30 June 2020, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) Save as disclosed in the annual report of the Company under the paragraph headed “Directors’ Interests in Contracts”, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.
- (c) The company secretary of the Company is Ms. Cheng Wai Chu, Judy, an associate member of each of The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business office of the Company in Hong Kong at Unit 1, 22/F, One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including the date of the Special General Meeting:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (c) the letter from VBG Capital Limited as set out in this circular;
- (d) the written consent referred to in the paragraph headed “Expert’s Qualification and Consent” in this Appendix;
- (e) the Supplemental Agreement; and
- (f) this circular.

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 Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on 25 May 2021 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the Supplemental Agreement to the Recovered Paper and Recycled Pulp Agreement dated 26 March 2021 (the “**Supplemental Agreement**”) entered into among the Company, America Chung Nam, Inc., ACN (Tianjin) Resources Co., Ltd. (中南(天津)再生資源有限公司) and Hainan ACN Resources Co. Ltd. (海南中南再生資源有限公司), a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purpose, the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Supplemental Agreement.”

By order of the Board
Nine Dragons Paper (Holdings) Limited
Cheung Yan
Chairlady

Hong Kong, 4 May 2021

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

Principal place of business in Hong Kong:
Unit 1, 22/F
One Harbour Square
181 Hoi Bun Road
Kwun Tong, Kowloon
Hong Kong

As at the date of this notice, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun, Mr. Zhang Lianpeng and Mr. Zhang Yuanfu are executive Directors and Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu are independent non-executive Directors.

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time for holding the meeting, or any adjourned meeting thereof (as the case may be).
4. The register of members of the Company will be closed from Wednesday, 19 May 2021 to Tuesday, 25 May 2021, 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 and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 18 May 2021.
5. Completion and return of the form of proxy shall not preclude members of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they subsequently so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
7. The votes at the above mentioned meeting will be taken by poll.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 3 hours before the time of the meeting, the meeting will be postponed. The Company will publish an announcement on the websites of the Company (www.ndpaper.com) and the Stock Exchange to notify shareholders of the Company of the date, time and venue of the rescheduled meeting.
9. The meeting is being held at the W Hong Kong. The hotel may refuse entry to the hotel by persons who fail temperature checks. Persons so refused entry to the hotel will not be able to attend the meeting. Persons attending the meeting will be required to wear surgical face masks on entry to and throughout the meeting. Additional precautionary safety measures may also be adopted. Shareholders are in any event asked (i) to consider carefully the risk of attending the meeting, which will be held in an enclosed environment, (ii) to follow any guidelines or requirements of the Hong Kong government relating to COVID-19 in deciding whether or not to attend the meeting and (iii) not to attend the meeting if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19. No refreshments will be served at the meeting. As a precautionary safety measure, seating at the meeting will be arranged so as to reduce interaction between participants. As a result, there will be limited capacity for Shareholders to attend the meeting. Shareholders are reminded that attendance at the meeting in person is not necessary for the purpose of exercising voting rights. They may (as indicated in note 1 above) appoint proxies to vote on their behalf.
10. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

* *For identification purpose only.*