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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)**

## **REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

This announcement is made pursuant to Rule 14A.36 of the Listing Rules.

Reference is made to the waiver granted by the Stock Exchange on 16 February 2006 from, among others, (i) strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules for the transactions under the Longteng Purchase Agreement, the Longteng Supply Agreement and the Forestry Supply Agreement, and (ii) strict compliance with the announcement and independent shareholders' approval requirements under Rule 14A.48 for the transactions under the Taicang Purchase Agreement.

Due to better-than-expected sales of the Group's products and the anticipated strong growth in demand for the Group's products, the Directors expect that the respective annual caps for each of the Longteng Purchase Agreement, the Longteng Supply Agreement, the Forestry Supply Agreement and the Taicang Purchase Agreement will be exceeded for the year ending 30 June 2007 and the year ending 30 June 2008.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the revised annual caps under each of the Longteng Supply Agreement and the Forestry Supply Agreement, and the Longteng Purchase Agreement and the Taicang Purchase Agreement on an aggregated basis, exceed 0.1% but are below 2.5% on an annual basis for the two years ending 30 June 2008, the revision of the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules and exempt from the requirement of independent shareholders' approval.

Reference is made to the waiver granted by the Stock Exchange on 16 February 2006 from, among others, (i) strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules for the transactions under the Longteng Purchase Agreement, the Longteng Supply Agreement and the Forestry Supply Agreement, and (ii) strict compliance with the announcement and independent shareholders' approval requirements under Rule 14A.48 for the transactions under the Taicang Purchase Agreement.

Due to better-than-expected sales of the Group's products and the anticipated strong growth in demand for the Group's products, the Directors expect that the respective annual caps for each of the Longteng Purchase Agreement, the Longteng Supply Agreement, the Forestry Supply Agreement and the Taicang Purchase Agreement will be exceeded for the year ending 30 June 2007 and the year ending 30 June 2008.

## **(1) LONGTENG PURCHASE AGREEMENT**

On 12 February 2006, Zhang's Enterprises and Dongguan Longteng entered into the Longteng Purchase Agreement pursuant to which Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from time to time. Dongguan Longteng is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung, who are Directors and substantial shareholders of the Company, transactions between the Group and Dongguan Longteng constitute connected transactions for the Company.

The Longteng Purchase Agreement has a term commencing on the Listing Date until 30 June 2008. On 16 February 2006, the Stock Exchange granted a waiver to the Company pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules in respect of, among others, the transactions under the Longteng Purchase Agreement. The waiver is subject to, among other things, the aggregate annual amount of purchases under the Longteng Purchase Agreement not exceeding RMB65.4 million, RMB77.1 million and RMB88.7 million for the three years ending 30 June 2006, 2007 and 2008, respectively.

Dongguan Longteng is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. The total purchases by Dongguan Longteng for the year ended 30 June 2006 amounted to approximately RMB64.8 million and is within the annual cap for the year ended 30 June 2006 under the Longteng Purchase Agreement. Purchases by Dongguan Longteng for the period from 1 July 2006 to 31 January 2007 amounted to RMB54.32 million and is within the annual cap for the year ending 30 June 2007. Owing to market development by Dongguan Longteng and strong demand in its products, the Directors expect that purchases by Dongguan Longteng from the Group will exceed the annual caps of RMB77.1 million and RMB88.7 million permitted under the Longteng Purchase Agreement for the two years ending 30 June 2007 and 2008, respectively. Accordingly, Zhang's Enterprises and Dongguan Longteng has on 27 February 2007 entered into a supplemental agreement to increase the annual caps for the purchases under the Longteng Purchase Agreement to RMB120 million and RMB144 million for the two years ending 30 June 2007 and 2008, respectively. The increases were determined by reference to the anticipated future requirements of the Group's products by Dongguan Longteng.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the aggregate revised annual caps under the Longteng Purchase Agreement and the Taicang Purchase Agreement exceed 0.1% but are below 2.5% on an annual basis for the two years ending 30 June 2008, the revision to the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the transactions under the Longteng Purchase Agreement are entered into in the usual and ordinary course of businesses of the Group and the transactions under the Longteng Purchase Agreement are conducted on an arm's length basis and on normal commercial terms between the Company and Dongguan Longteng, the increases of the annual caps for the Longteng Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## **(2) LONGTENG SUPPLY AGREEMENT**

On 12 February 2006, Zhang's Enterprises and Dongguan Longteng entered into the Longteng Supply Agreement pursuant to which Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group from time to time.

The Longteng Supply Agreement has a term commencing on the Listing Date until 30 June 2008. On 16 February 2006, the Stock Exchange granted a waiver to the Company pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.47 of

the Listing Rules in respect of, among others, the transactions under the Longteng Supply Agreement. The waiver is subject to, among other things, the aggregate annual amount of purchases by the Group from Dongguan Longteng not exceeding RMB29.6 million, RMB21.7 million and RMB25.3 million for the three years ending 30 June 2006, 2007 and 2008, respectively.

The total purchases from Dongguan Longteng for the year ended 30 June 2006 amounted to approximately RMB22 million and is within the annual cap for the year ended 30 June 2006 under the Longteng Supply Agreement. Purchases from Dongguan Longteng for the period from 1 July 2006 to 31 January 2007 amounted to RMB16.31 million and is within the annual cap for the year ending 30 June 2007. Owing to the commencement of production of 3 new production lines in January 2007, which will raise the total production capacity of the Group by over 30%, the Group expects a corresponding increase in demand for packaging materials and chemicals for the production of paperboard products. Accordingly, the Directors expect that purchases by the Group from Dongguan Longteng will exceed the annual caps of RMB21.7 million and RMB25.3 million permitted under the Longteng Supply Agreement for the two years ending 30 June 2007 and 2008, respectively. In this connection, Zhang's Enterprises and Dongguan Longteng has on 27 February 2007 entered into a supplemental agreement to increase the annual caps for the supplies under the Longteng Supply Agreement to RMB50 million and RMB60 million for the two years ending 30 June 2007 and 2008, respectively. The increases were determined by reference to the anticipated future requirements of packaging materials and chemicals by the Group.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the revised annual caps under the Longteng Supply Agreement exceed 0.1% but are below 2.5% on an annual basis for the two years ending 30 June 2008, the revision to the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the transactions under the Longteng Supply Agreement are entered into in the usual and ordinary course of businesses of the Group and the transactions under the Longteng Supply Agreement are conducted on an arm's length basis and on normal commercial terms between the Company and Dongguan Longteng, the increases of the annual caps for the Longteng Supply Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **(3) FORESTRY SUPPLY AGREEMENT**

On 12 February 2006, ND Xing An, a 55% owned subsidiary of the Company and China Inner Mongolia Forestry entered into the Forestry Supply Agreement pursuant to which China Inner Mongolia Forestry agreed to procure its wholly-owned subsidiaries to supply wood logs and wood chips to members of the Group from time to time. China Inner Mongolia Forestry is a substantial shareholder of ND Xing An, which is a non wholly-owned subsidiary of the Group. Therefore the transactions under the Forestry Supply Agreement constitute connected transactions for the Company.

The Forestry Supply Agreement has a term commencing on the Listing Date until 30 June 2008. On 16 February 2006, the Stock Exchange granted a waiver to the Company pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules in respect of, among others, the transactions under the Forestry Supply Agreement. The waiver is subject to, among other things, the aggregate annual amount of purchases by the Group under the Forestry Supply Agreement not exceeding RMB98.8 million for each of the three years ending 30 June 2006, 2007 and 2008, respectively.

China Inner Mongolia Forestry owns and manages an extensive softwood forest in Inner Mongolia and the Group has been purchasing wood logs and wood chips from China Inner Mongolia Forestry as raw materials for the production of unbleached kraft pulp. The total purchases by the Group under the Forestry Supply Agreement for the year ended 30 June 2006 amounted to approximately RMB86.7

million and is within the annual cap for the year ended 30 June 2006 under the Forestry Supply Agreement. Purchases by the Group under the Forestry Supply Agreement for the period from 1 July 2006 to 31 January 2007 amounted to RMB56.79 million and is within the annual cap for the year ending 30 June 2007. Owing to the development of the paper manufacturing industry in the PRC and overseas, which resulted in an increase in demand for kraft pulp, the Group would need to purchase more products from China Inner Mongolia Forestry to satisfy demand. The Directors therefore expect that purchases of the Group for wood logs and wood chips will exceed the annual caps of RMB98.8 million for the two years ending 30 June 2007 and 2008, respectively. Accordingly, ND Xing An and China Inner Mongolia Forestry has on 27 February 2007 entered into a supplemental agreement to increase the annual caps for the purchases under the Forestry Supply Agreement to RMB130 million and RMB156 million for the two years ending 30 June 2007 and 2008, respectively. The increases were determined by reference to the anticipated future requirements of the Group for wood logs and wood chips for the production of unbleached kraft pulp.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the revised annual caps under the Forestry Supply Agreement exceed 0.1% but are below 2.5% on an annual basis for the two years ending 30 June 2008, the revision of the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the transactions under the Forestry Supply Agreement are entered into in the usual and ordinary course of businesses of the Group and the transactions under the Forestry Supply Agreement are conducted on an arm's length basis and on normal commercial terms between the Group and China Inner Mongolia Forestry, the increases of the annual caps for the Forestry Supply Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

#### **(4) TAICANG PURCHASE AGREEMENT**

On 12 February 2006, Zhang's Enterprises and Taicang Packaging entered into the Taicang Purchase Agreement pursuant to which Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time. Taicang Packaging is held as to 100% by Mr. Zhang, a Director and substantial shareholder of the Company, transactions between the Group and Taicang Packaging constitute connected transactions for the Company.

The Taicang Purchase Agreement has a term commencing on the Listing Date until 30 June 2008. On 16 February 2006, the Stock Exchange granted a waiver to the Company pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and Independent Shareholders' approval requirements under Rules 14A.47 and 14A.48 of the Listing Rules in respect of the transactions under the Taicang Purchase Agreement. The waiver is subject to, among other things, the aggregate annual amount of purchases under the Taicang Purchase Agreement not exceeding RMB88.2 million, RMB114.3 million and RMB133.3 million for the three years ending 30 June 2006, 2007 and 2008, respectively.

Taicang Packaging is principally engaged in the trading of packaging paperboard and production of packaging containers and processed containerboard products. The total purchases by Taicang Packaging for the year ended 30 June 2006 amounted to approximately RMB79.4 million and is within the annual cap for the year ended 30 June 2006 under the Taicang Purchase Agreement. Purchases by Taicang Packaging for the period from 1 July 2006 to 31 January 2007 amounted to RMB96.94 million and is within the annual cap for the year ending 30 June 2007. Owing to strong demand in Taicang Packaging's products, the Directors expect that purchases by Taicang Packaging from the Group will exceed the annual caps of RMB114.3 million and RMB133.3 million permitted under the Taicang Purchase Agreement for the two years ending 30 June 2007 and 2008, respectively. Accordingly, Zhang's Enterprises and Taicang Packaging has on 27 February 2007 entered into a

supplemental agreement to increase the annual caps for the purchases under the Taicang Purchase Agreement to RMB200 million and RMB220 million for the two years ending 30 June 2007 and 2008, respectively. The increases were determined by reference to the anticipated future requirements of the Group's products by Taicang Packaging.

The Directors (including the independent non-executive Directors) consider that the transactions under the Taicang Purchase Agreement are entered into in the usual and ordinary course of businesses of the Group and the transactions under the Taicang Purchase Agreement are conducted on an arm's length basis and on normal commercial terms between the Company and Taicang Packaging, the increases to the annual caps for the Taicang Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the aggregate revised annual caps under the Taicang Purchase Agreement and the Longteng Purchase Agreement exceed 0.1% but are below 2.5% on an annual basis for the two years ending 30 June 2008, the revision of the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

## **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 Company will comply with the relevant provisions under Chapter 14A of the Listing Rules governing connected transactions in the event that the total amount of any of the transactions under the Longteng Supply Agreement, the Forestry Supply Agreement, or the Longteng Purchase Agreement and the Taicang Purchase Agreement on an aggregated basis, exceed 2.5% for each of the percentage ratios (other than the profit ratio), or that there is any material amendment to their terms.

## **DEFINITIONS**

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

“associate”	has the same meaning as given to it under the Listing Rules
“Board”	the board of Directors
“China Inner Mongolia Forestry”	China Inner Mongolia Forestry Industry Co., Ltd., a state-owned enterprise
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the same meaning as given to it under the Listing Rules
“Director(s)”	The director(s) of the Company
“Dongguan Longteng”	Dongguan Longteng Paper Company Limited, a company held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung, who are Directors and substantial shareholders of the Company
“Forestry Supply Agreement”	the agreement dated 12 February 2006 between ND Xing An and China Inner Mongolia Forestry
“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 People's Republic of China

“Listing Date”	3 March 2006, the date on which the shares of the Company are listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longteng Purchase Agreement”	the agreement dated 12 February 2006 between Zhang’s Enterprises and Dongguan Longteng in relation to the purchase by Dongguan Longteng of packaging paperboard products from the Group
“Longteng Supply Agreement”	the agreement dated 12 February 2006 between Zhang’s Enterprises and Dongguan Longteng in relation to the purchase by the Group of packaging materials and chemicals from Dongguan Longteng
“Mr. Zhang”	Mr. Zhang Cheng Fei, a Director and substantial shareholder of the Company
“Ms. Cheung”	Ms. Cheung Yan, a Director and substantial shareholder of the Company
“ND Xing An”	Nine Dragons Xing An Paper Industries (Inner Mongolia) Co., Ltd., an equity joint venture established in the PRC and is a 55% indirectly owned subsidiary of the Group
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“Taicang Packaging”	Nine Dragons Packaging (Taicang) Company Limited, a company wholly-owned by Mr. Zhang, a Director and substantial shareholder of the Group
“Taicang Purchase Agreement”	the agreement dated 12 February 2006 between Zhang’s Enterprises and Taicang Packaging
“Zhang’s Enterprises”	Zhang’s Enterprises Company Limited, a wholly owned subsidiary of the Company
“%”	per cent.

By order of the Board  
**NINE DRAGONS PAPER (HOLDINGS) LIMITED**  
**Cheung Yan**  
*Chairman*

27 February 2007

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

\* *For identification purpose only*