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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)

SECOND SUPPLEMENTAL AGREEMENT TO CONTINUING CONNECTED TRANSACTIONS

This announcement is made pursuant to Rule 14A.54 of the Listing Rules.

Reference is made to the announcements of the Company dated 2 June 2020 and 26 March 2021, respectively and the circulars of the Company dated 8 July 2020 and 4 May 2021, respectively in relation to (among others) the continuing connected transactions under the Recovered Paper and Recycled Pulp Agreement and the Supplemental Agreement.

On 29 August 2022, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Second Supplemental Agreement pursuant to which the Group agreed to, in addition to recovered paper and recycled pulp, also purchase woodchips from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries.

As the addition of woodchips as a subject matter 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 and shareholders' approval requirements under Rule 14A.54 of the Listing Rules.

An Independent Board Committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Second Supplemental Agreement and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Second Supplemental Agreement.

A circular containing, among other things, (i) further details of the Second Supplemental Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the Special General Meeting, is expected to be despatched to the Shareholders on or before 30 September 2022 in order to allow sufficient time for the Company to prepare the necessary information to be included in the circular.

BACKGROUND

Reference is made to the announcements of the Company dated 2 June 2020 and 26 March 2021, respectively and the circulars of the Company dated 8 July 2020 and 4 May 2021, respectively in relation to (among others) the continuing connected transactions under the Recovered Paper and Recycled Pulp Agreement and the Supplemental 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 for a term of three financial years ending 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 to the Recovered Paper and Recycled Pulp Agreement.

THE SECOND SUPPLEMENTAL AGREEMENT

On 29 August 2022, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Second Supplemental Agreement pursuant to which the Group agreed to, in addition to recovered paper and recycled pulp, also purchase woodchips from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries.

Save for the addition of woodchips as a subject matter 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 and the Second Supplemental Agreement) are summarized below:

Subject: The Group agreed to purchase recovered paper, recycled pulp and woodchips from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries

- Term:** A period of three financial years ending 30 June 2023
- 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 or woodchips (as the case may be) 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 or woodchips (as the case may be) 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 or woodchips (as the case may be) 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.

Cap amount:

The transaction amounts under the Recovered Paper and Recycled Pulp Agreement for the three financial years ending 30 June 2023 will not exceed the following annual caps:

	Financial year ended 30 June 2021 RMB’ million	Financial year ended 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 of recovered paper and recycled pulp; (2) the expected demand of recovered paper and recycled pulp by the Group; and (3) the expected demand of woodchips by the Group.

The historical amount of purchases of recovered paper and recycled pulp from ACN and Tianjin ACN for the three financial years ended 30 June 2020 were 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
Annual cap ^(Note 1)	31,000	51,000	68,000
Actual purchases	21,242	22,865	21,334

Notes:

1. The annual cap is the combined annual caps for purchases from ACN and Tianjin ACN, as amended.

The actual amount of purchases of recovered paper and recycled pulp under the Recovered Paper and Recycled Pulp Agreement for the financial year ended 30 June 2021 and the six months ended 31 December 2021 were as follows:

	For the year ended 30 June 2021 RMB' million	For the six months ended 31 December 2021 RMB' million
Annual cap ^(Note 1)	63,000	74,000 ^(Note 2)
Actual purchases	30,862	17,812 ^(Note 3)

Notes:

1. The annual cap is the combined annual caps for purchases from ACN, Tianjin ACN and Hainan ACN, as amended.
2. The annual cap of RMB74,000 million is for the entire financial year ended 30 June 2022.
3. The unaudited figures for the six months ended 31 December 2021 is RMB17,812 million.

Prior to the date of this announcement, there are no previous transactions in respect of the purchase of woodchips by the Group from ACN and/or Tianjin ACN and/or Hainan ACN or their respective subsidiaries.

REASONS FOR THE SECOND SUPPLEMENTAL AGREEMENT

In order to seize the opportunities arising from the national plastic ban in the PRC and changes in raw materials of packaging paper, expanding the production of high-end products is the future development direction of the Group. To this end, the Group has implemented several pulp and paper integration projects in the PRC which would lead to the addition of 3.12 million tpa of production capacity for the production lines of wood pulp in the next two years to ensure the supply of raw materials for high-end products.

In addition, the PRC government has banned the import of wastepaper since 2021, tightening the overall supply of high-quality fiber raw materials. In order to improve the product quality and production efficiency of packaging paper, the Group actively adjusted its raw material mix and looked for alternative raw materials, such as wood chips (the main raw material for pulp to produce high-quality fiber), to solve the bottleneck of the supply of high-quality fiber raw materials.

Therefore, the Group needs to purchase wood chips in the PRC and from overseas.

The Board believes that by entering into the Second Supplemental Agreement, the Group could make use of the advantageous procurement platforms and supply chain of woodchips of ACN, Tianjin ACN and Hainan ACN. It is expected that the cooperation with ACN, Tianjin ACN and Hainan ACN can lower the procurement costs of woodchips of the Group.

As the Second 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 (except the Interested Directors (defined below) who have abstained from voting for the resolution to approve the Second Supplemental Agreement and the independent non-executive Directors) consider that the terms of the Second 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 RULES IMPLICATIONS

ACN is indirectly wholly-owned by Ms. Cheung Yan and Mr. Liu Ming Chung, and both Tianjin ACN and Hainan ACN are indirectly owned as to 27%, 43% and 30% by the Cheung Family, Mr. Liu Bocun and the Company, respectively. To the best knowledge, information and belief of the Directors, and having made all reasonable enquiry, Mr. Liu Bocun is a third party independent of the Company and its subsidiaries, and their respective connected persons.

As the addition of woodchips as a subject matter 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 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 a leading exporter of recovered paper, recycled pulp and woodchips in the United States, 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, recycled pulp and woodchips in the PRC.

Hainan ACN

Hainan ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper, recycled pulp and woodchips 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 or woodchips (as the case may be) under the Recovered Paper and Recycled Pulp Agreement, the Company will strictly apply the pricing policy set out above;
- (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 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.

GENERAL

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu and Mr. Zhang Lianpeng (the “**Interested Directors**”) are considered to be interested in the Second Supplemental Agreement and have abstained from voting for the approval of the Second 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 Second Supplemental Agreement.

An Independent Board Committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Second Supplemental Agreement and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Second Supplemental Agreement.

A circular containing, among other things, (i) further details of the Second Supplemental Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the Special General Meeting, is expected to be despatched to the Shareholders on or before 30 September 2022 in order to allow sufficient time for the Company to prepare the necessary information to be included in the circular.

DEFINITIONS

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

“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, both of whom are Directors and substantial shareholders of the Company;
“associate”	has the same meaning as given to it under the Listing Rules;
“Board”	the board of Directors;

“Cheung Family”	Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Zhang Lianpeng and Ms. Zhang Lianru;
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“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 27%, 43% and 30% by the Cheung Family, Mr. Liu Bocun (an independent third party) and the Company, respectively;
“Independent Board Committee”	the independent board committee of the Board;
“Independent Shareholders”	Shareholders of the Company who have no material interest in the Second Supplemental Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Recovered Paper and Recycled Pulp Agreement”	the agreement dated 2 June 2020 entered into among the Company, ACN and Tianjin ACN in relation to the supply of recovered paper and recycled pulp to the Group (as amended by the Supplemental Agreement);
“RMB”	Renminbi, the lawful currency of the People’s Republic of China;
“Second Supplemental Agreement”	the second supplemental agreement to the Recovered Paper and Recycled Pulp Agreement dated 29 August 2022 entered into between the Company, ACN, Tianjin ACN and Hainan ACN;
“Special General Meeting”	the special general meeting to be convened to approve the Second Supplemental Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules;

“Supplemental Agreement”	the supplemental agreement to the Recovered Paper and Recycled Pulp Agreement dated 26 March 2021 entered into between 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 27%, 43% and 30% by the Cheung Family, Mr. Liu Bocun (an independent third party) and the Company, respectively;
“tpa”	tonnes per annum; and
“%”	per cent.

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

Hong Kong, 29 August 2022

As at the date of this announcement, the Board of the Company comprises seven Executive Directors, being 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; and four Independent Non-Executive Directors, being Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu.

* *For identification purposes only*