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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**玖龍紙業(控股)有限公司\***

**NINE DRAGONS PAPER (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 2689)**

**CONTINUING CONNECTED TRANSACTIONS  
AND  
PROPOSED AMENDMENT TO BYE-LAWS**

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

 **SOMERLEY LIMITED**

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A letter from the Board is set out on pages 3 to 12 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advices to the Independent Board Committee and the Independent Shareholders on the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps is set out on pages 15 to 30 of this circular.

A notice convening the Special General Meeting to be held at 3:00 p.m. on Monday, 27 June 2011, at Atrium Room, Level 39, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong is set out on pages 37 to 40 of this circular. A form of proxy for the Special General Meeting for use by the Shareholders is enclosed with this circular.

Whether or not you are able to attend the Special General Meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

1 June 2011

\* For identification purposes only

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## DEFINITIONS

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

|  |   |
|--|---|
| “2006 Share Option Scheme”             | the share options scheme adopted by the Company on 12 February 2006;  |
| “ACN”                                  | America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States. As at the Latest Practicable Date, ACN is indirectly wholly owned by Ms. Cheung Yan;  |
| “ACN Recovered Paper Supply Agreement” | the agreement entered into between the Company and ACN on 16 May 2011 which sets out the terms for the supply of recovered paper from ACN to the Group for the three financial years ending 30 June 2014;   |
| “associate(s)”                         | has the same meaning as given to it under the Listing Rules;  |
| “Board”                                | the board of Directors;   |
| “Bye-laws”                             | the bye-laws of the Company;  |
| “Company”                              | Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda on 17 August 2005 with limited liability, the Shares of which are listed on the main board of the Stock Exchange;  |
| “Director(s)”                          | the director(s) of the Company;   |
| “Dongguan Longteng”                    | Dongguan Longteng Paper Co., Ltd. (東莞市龍騰紙業有限公司) a limited liability company established in the PRC in May 2003;   |
| “Group”                                | the Company and its subsidiaries;   |
| “HK\$”                                 | Hong Kong dollar, the lawful currency of Hong Kong;   |
| “Hong Kong”                            | the Hong Kong Special Administrative Region of the PRC;   |
| “Independent Board Committee”          | the committee of the Directors comprising the independent non-executive Directors formed to advise the Independent Shareholders in respect of the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps; |
| “Independent Shareholders”             | Shareholders who are not interested in the transactions described in this circular;   |
| “Latest Practicable Date”              | 27 May 2011, being the latest practicable date prior to the printing of this circular;  |
| “Listing Rules”                        | the Rules Governing the Listing of Securities on the Stock Exchange;  |

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## DEFINITIONS

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|---|---|
| “Longteng Packaging Materials and Chemicals Supply Agreement” | the agreement entered into between the Company and Dongguan Longteng on 16 May 2011, which sets out the terms of the supply of packaging materials and chemicals for the production of paperboard products from Dongguan Longteng to the Group for the three financial years ending 30 June 2014;   |
| “Longteng Packaging Paperboard Purchase Agreement”            | the agreement entered into between the Company and Dongguan Longteng on 16 May 2011, which sets out the terms of the purchase of packaging paperboard products by Dongguan Longteng from the Group for the three financial years ending 30 June 2014;   |
| “PRC”   | the People’s Republic of China;   |
| “RMB”   | Renminbi, the lawful currency of PRC;   |
| “SFO”   | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;   |
| “Share(s)”  | ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;  |
| “Shareholder(s)”  | Holder(s) of the Share(s);  |
| “Somerley”  | Somerley Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders;   |
| “Special General Meeting”                                     | the special general meeting of the Company to be convened to approve, ratify and confirm the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps and the proposed amendments to the Bye-laws; |
| “Stock Exchange”  | The Stock Exchange of Hong Kong Limited;  |
| “Taicang Packaging”   | Nine Dragons Packaging (Taicang) Company Limited, a wholly foreign-owned enterprise established in the PRC on 9 April 2002. As at the Latest Practicable Date, Taicang Packaging is owned by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, Directors and controlling shareholders of the Company;   |
| “Taicang Packaging Paperboard Purchase Agreements”            | the agreement entered into between the Company and Taicang Packaging on 16 May 2011 and a supplemental agreement entered into between the Company and Taicang Packaging on 23 May 2011, which sets out the terms for the purchase of packaging paperboard products by Taicang Packaging from the Group for the three financial years ending 30 June 2014; and                                   |
| “%”   | per cent.   |

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Ms. Cheung Yan (*Chairlady*)  
Mr. Liu Ming Chung  
*(Deputy Chairman and Chief Executive Officer)*  
Mr. Zhang Cheng Fei  
*(Deputy Chief Executive Officer)*  
Mr. Zhang Yuanfu (*Chief Financial Officer*)  
Mr. Lau Chun Shun  
Ms. Gao Jing

*Independent non-executive Directors:*

Ms. Tam Wai Chu, Maria  
Mr. Chung Shui Ming, Timpson  
Dr. Cheng Chi Pang  
Mr. Wang Hong Bo

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business*

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

1 June 2011

*To the Shareholders*

Dear Sir/Madam,

## **CONTINUING CONNECTED TRANSACTIONS AND PROPOSED AMENDMENT TO BYE-LAWS**

### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 16 May 2011 in relation to the renewal of certain continuing connected transactions of the Company and the proposed amendments to the Bye-laws. The purposes of this circular are:

- (i) to provide the Shareholders with details of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps;

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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- (iii) to set out the recommendation of the Independent Board Committee in respect of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps;
- (iv) to provide to the Shareholders with details on the proposed amendments to the Bye-laws; and
- (v) to give the Shareholders notice of the Special General Meeting.

### 2. CONTINUING CONNECTED TRANSACTIONS

#### (A) Longteng Packaging Paperboard Purchase Agreement

**Date:** 16 May 2011

**Parties:** the Company; and

Dongguan Longteng, a limited liability company established in the PRC and is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. Dongguan Longteng is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan, who are Directors and substantial shareholders of the Company. Dongguan Longteng is therefore an associate of a connected person of the Company and transactions between the Group and Dongguan Longteng constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

**Subject:** Pursuant to the terms of the Longteng Packaging Paperboard Purchase Agreement, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from time to time.

**Term:** The Longteng Packaging Paperboard Purchase Agreement has a fixed term of three financial years ending on 30 June 2014.

**Price:** The selling prices of the products of the Group will be determined with reference to the prevailing market prices and will be no less favourable to the Group than those offered to independent third party purchasers of the Group's products. The terms of the Longteng Packaging Paperboard Purchase Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business.

**Cap Amount:**

The transaction amount under the Longteng Packaging Paperboard Purchase Agreement for each of three financial years ending 30 June 2014 will not exceed the following annual cap:

|            | <b>Financial<br/>year ending<br/>30 June 2012<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2013<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2014<br/>RMB' million</b> |
|------------|--|--|--|
| Annual cap | 600  | 900  | 1,100  |

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## LETTER FROM THE BOARD

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The increases in the annual caps are based on (i) the expected business growth of Dongguan Longteng and its increased demand for packaging paperboard products from the Group as a result of such growth, and (ii) the expected increases in the prices of raw materials and finished products during the period due to the increase in demand and inflation.

The historical transaction amount of purchases by Dongguan Longteng for the three financial years ended 30 June 2010 and the nine months ended 31 March 2011 are as follows:

|              | <b>For the<br/>year ended<br/>30 June 2008</b> | <b>For the<br/>year ended<br/>30 June 2009</b> | <b>For the<br/>year ended<br/>30 June 2010</b> | <b>For the<br/>nine month<br/>ended 31<br/>March 2011</b> |
|--------------|--|--|--|---|
|              | <i>RMB' million</i>                            | <i>RMB' million</i>                            | <i>RMB' million</i>                            | <i>RMB' million</i>                                       |
| Annual cap   | 144  | 173  | 207  | 241 <sup>#</sup>  |
| Actual sales | 119.8  | 52.5   | 119  | 215*  |

<sup>#</sup> The annual cap was revised to RMB316 million on 9 May 2011.

\* un-audited figure

### ***Reasons for the Longteng Packaging Paperboard Purchase Agreement***

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the purchase of packaging paperboard products manufactured by the Group. Such agreement was renewed on 26 June 2008 and 9 May 2011 and its current term is due to expire on 30 June 2011. As Dongguan Longteng has been purchasing packaging paperboard products for trading purpose for a long period of time, the Longteng Packaging Paperboard Purchase Agreement is to facilitate the continuous sale of the packaging paperboard products to Dongguan Longteng.

The Directors (including the independent non-executive Directors) are of the opinion that the transaction is in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Longteng Packaging Paperboard Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### ***Listing Rule Implications***

As one of the applicable percentage ratios for the transactions under the Longteng Packaging Paperboard Purchase Agreement on an annual basis is over 5%, the Longteng Packaging Paperboard Purchase Agreement will be subject to approval of the Independent Shareholders in accordance with the requirements of Chapter 14A of the Listing Rules.

### **(B) Longteng Packaging Materials and Chemicals Supply Agreement**

**Date:** 16 May 2011

**Parties:** the Company; and  
Dongguan Longteng

**Subject:** Pursuant to the terms of the Longteng Packaging Materials and Chemicals Supply Agreement, Dongguan Longteng agreed to supply packaging materials and chemicals for the production of paperboard products to members of the Group as requested from time to time.

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## LETTER FROM THE BOARD

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**Term:** The Longteng Packaging Materials and Chemicals Supply Agreement has a fixed term of three financial years ending on 30 June 2014.

**Price:** The purchase prices by the Group of the products supplied by Dongguan Longteng will be determined with reference to the prevailing market prices and will be no less favourable to the Group than those offered by independent third party suppliers of the Group. The terms of the Longteng Packaging Materials and Chemicals Supply Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business.

**Cap Amount:**

The transaction amount under the Longteng Packaging Materials and Chemicals Supply Agreement for each of three financial years ending 30 June 2014 will not exceed the following annual cap:

|            | Financial<br>year ending<br>30 June 2012<br><i>RMB' million</i> | Financial<br>year ending<br>30 June 2013<br><i>RMB' million</i> | Financial<br>year ending<br>30 June 2014<br><i>RMB' million</i> |
|------------|---|---|---|
| Annual cap | 500   | 1,500   | 2,200   |

The sharp increases in the annual caps are based on the expected increases in demand for packaging materials and chemicals as a result of the Group's two new major production bases in Quanzhou and Shenyang that will successively commence production in 2012 and 2013, and the increase in the annual design production capacity of the Group from 8.82 million tones at 30 June 2010 to 13.90 million tones at 30 June 2013.

The historical transaction amount of purchases from Dongguan Longteng for the three financial years ended 30 June 2010 and the nine months ended 31 March 2011 are as follows:

|                  | For the<br>year ended<br>30 June 2008<br><i>RMB' million</i> | For the<br>year ended<br>30 June 2009<br><i>RMB' million</i> | For the<br>year ended<br>30 June 2010<br><i>RMB' million</i> | For the<br>nine months<br>ended 31<br>March 2011<br><i>RMB' million</i> |
|------------------|--|--|--|---|
| Annual cap       | 105  | 126  | 151  | 181 <sup>#</sup>  |
| Actual purchases | 83.6   | 74.6   | 134  | 170*  |

<sup>#</sup> The annual cap was revised to RMB271 million on 9 May 2011.

\* un-audited figure

***Reasons for the Longteng Packaging Materials and Chemicals Supply Agreement***

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the supply of products to the Group. Such agreement was renewed on 26 June 2008 and 9 May 2011 and its current term is due to expire on 30 June 2011. As the Group has been purchasing packaging materials and chemicals from Dongguan Longteng for the production of paperboard products for a long period of time, the Longteng Packaging Materials and Chemicals Supply Agreement is to facilitate the continuous supply of such products to the Group.



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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) are of the opinion that the transaction is in the ordinary and usual course of business of the Group and on normal commercial terms, and the Longteng Packaging Materials and Chemicals Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Listing Rule Implications*

As the applicable percentage ratios for the transactions under the Longteng Packaging Materials and Chemicals Supply Agreement on an annual basis are over 5%, the Longteng Packaging Materials and Chemicals Supply Agreement will be subject to approval of the Independent Shareholders in accordance with the requirements of Chapter 14A of the Listing Rules.

### (C) ACN Recovered Paper Supply Agreement

**Date:** 16 May 2011

**Parties:** the Company; and

ACN is the largest exporter of recovered paper in U.S.A and Europe and is a leading exporter of recovered paper in Asia. ACN is indirectly wholly owned by Ms. Cheung Yan, a Director and a substantial shareholder of the Company. ACN is therefore an associate of a connected person of the Company and the transactions under the ACN Recovered Paper Supply Agreement will constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

**Subject:** Pursuant to the terms of the ACN Recovered Paper Supply Agreement, ACN agreed to supply recovered paper to members of the Group as requested from time to time.

**Term:** The ACN Recovered Paper Supply Agreement has a fixed term of three financial years ending on 30 June 2014.

**Price:** The purchase prices by the Group of the products supplied by ACN will be determined with reference to the prevailing market prices in the PRC and overseas markets and will be no less favourable to the Group than those offered to independent customers of ACN and those offered by independent third party suppliers of the Group. The terms of the ACN Recovered Paper Supply Agreement were negotiated on an arm's length basis and on normal commercial terms in the ordinary course of business.

### **Cap Amount:**

The transaction amount under the ACN Supply Agreement for each of three financial years ending 30 June 2014 will not exceed the following annual cap:

|            | <b>Financial<br/>year ending<br/>30 June 2012<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2013<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2014<br/>RMB' million</b> |
|------------|--|--|--|
| Annual cap | 16,600   | 19,500   | 23,500   |

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## LETTER FROM THE BOARD

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The sharp increases in the annual caps are based on the expected increases in demand for recovered paper as a result of the Group's two new production bases in Quanzhou and Shenyang and six new paper machines in its existing production bases that will successively commence production from 2011 to 2013. It is anticipated that the annual design capacity of Quanzhou and Shenyang will reach 650,000 tpa and 700,000 tpa in 2012 and 2013 respectively. As a result, it is anticipated that the total annual design production capacity of the Group will be increased from 8.82 million tonnes at 30 June 2010 to 13.90 million tonnes at 30 June 2013, represents an increase of approximately 57.6% during the period.

The historical transaction amount of supplies from ACN for the three financial years ended 30 June 2010 and the nine months ended 31 March 2011 are as follows:

|                  | For the<br>year ended<br>30 June 2008<br><i>RMB' million</i> | For the<br>year ended<br>30 June 2009<br><i>RMB' million</i> | For the<br>year ended<br>30 June 2010<br><i>RMB' million</i> | For the<br>nine months<br>ended 31<br>March 2011<br><i>RMB' million</i> |
|------------------|--|--|--|---|
| Annual cap       | 5,092  | 11,241   | 13,000   | 16,000  |
| Actual purchases | 4,916  | 3,574  | 6,693  | 6,200*  |

\* un-audited figure

### ***Reasons for the ACN Recovered Paper Supply Agreement***

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

The Directors (including the independent non-executive Directors) are of the opinion that the transaction is in the ordinary and usual course of business of the Group and on normal commercial terms and the terms of the ACN Recovered Paper Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### ***Listing Rule Implications***

As the applicable percentage ratios for the transactions under the ACN Recovered Paper Supply Agreement on an annual basis are over 5%, the ACN Recovered Paper Supply Agreement will be subject to approval of the Independent Shareholders in accordance with the requirements of Chapter 14A of the Listing Rules.

### **(D) Taicang Packaging Paperboard Purchase Agreements**

**Date:** 16 May 2011 and 23 May 2011

**Parties:** the Company; and

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

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## LETTER FROM THE BOARD

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Zhang Cheng Fei, Directors and controlling shareholders of the Company. Taicang Packaging is therefore an associate of a connected person of the Company and the transactions contemplated under the Taicang Packaging Paperboard Purchase Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

- Subject:** Pursuant to the terms of the Taicang Packaging Paperboard Purchase Agreements, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time.
- Term:** The Taicang Packaging Paperboard Purchase Agreements has a fixed term of three financial years ending on 30 June 2014.
- Price:** The selling prices of the packaging paperboard products sold by the Group to Taicang Packaging will be determined with reference to the prevailing market prices and will be no less favourable to the Group than those offered to independent third party purchasers of the Group's products. The terms of the Taicang Packaging Paperboard Purchase Agreements were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business.

**Cap Amount:**

With reference to the historical figures of the actual production capacity and adopting a conservative approach in estimating the planned production capacity of Taicang Packaging, the Directors decided to lower the annual caps previously agreed and disclosed in the announcement of the Company dated 16 May 2011. An supplemental agreement was entered into between the Company and Taicang Packaging on 23 May 2011, pursuant to which the parties thereto have agreed to revise the annuals caps from RMB500 million, RMB750 million, RMB800 million to RMB300 million RMB600 million and RMB700 million for the year ending 30 June 2012, 30 June 2013 and 30 June 2014 respectively.

The transaction amount under the Taicang Packaging Paperboard Purchase Agreements for each of three financial years ending 30 June 2014 will not exceed the following annual cap:

|            | <b>Financial<br/>year ending<br/>30 June 2012<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2013<br/>RMB' million</b> | <b>Financial<br/>year ending<br/>30 June 2014<br/>RMB' million</b> |
|------------|--|--|--|
| Annual cap | 300  | 600  | 700  |

It is expected that the business of Taicang Packaging will continue to grow and the prices of raw materials and finished products will increase in the period from 2011 to 2014 due to the increase in demand for such products and the expected inflation.

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## LETTER FROM THE BOARD

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The historical transaction amount of purchases made by Taicang Packaging for the three financial years ended 30 June 2010 and the nine months ended 31 March 2011 are as follows:

|              | For the<br>year ended<br>30 June 2008<br>RMB' million | For the<br>year ended<br>30 June 2009<br>RMB' million | For the<br>year ended<br>30 June 2010<br>RMB' million | For the<br>nine months<br>ended 31<br>March 2011<br>RMB' million |
|--------------|---|---|---|--|
| Annual cap   | 220   | 241   | 340   | 390  |
| Actual sales | 202.5   | 74.9  | 330   | 86*  |

\* un-audited figure

### *Reasons for the Taicang Packaging Paperboard Purchase Agreements*

The parties entered into an agreement on 12 February 2006 to regulate the sale of packaging products to Taicang Packaging. Such agreement was renewed on 26 June 2008 and its current term is due to expire on 30 June 2011. As the Group has been selling such products to Taicang Packaging for a long period of time, the Taicang Packaging Paperboard Purchase Agreements are to facilitate the continuous sale of such products to Taicang Packaging.

As the Taicang Packaging Paperboard Purchase Agreements are 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 (including the independent non-executive Directors) consider that the transactions between the Company and Taicang Packaging and the proposed annual caps for the transactions under the Taicang Packaging Paperboard Purchase Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Listing Rule Implications*

As noted in the announcement of the Company dated 16 May 2011, the applicable percentage ratios for the transactions under the Taicang Packaging Paperboard Purchase Agreements on an annual basis are over 0.1% but below 5% and the transactions under the Taicang Packaging Paperboard Purchase Agreements should only be subject to the reporting and announcement requirements but exempt from the requirement of Independent Shareholders' approval under Chapter 14A of the Listing Rules. Notwithstanding the applicable ratios under the Taicang Packaging Paperboard Purchase Agreements are below 5%, the Stock Exchange considers that the transactions under the Taicang Packaging Paperboard Purchase Agreements and the Longteng Packaging Paperboard Purchase Agreement are similar in nature and are with closely related connected persons of the Company, the transactions under the Taicang Packaging Paperboard Purchase Agreements should be aggregated with that under the Longteng Packaging Paperboard Purchase Agreement pursuant to Rule 14A.25 of the Listing Rules. Accordingly, the Taicang Packaging Paperboard Purchase Agreements will be put forward to the Independent Shareholders for approval at the Special General Meeting.

### **3. PROPOSED AMENDMENTS TO THE BYE-LAWS**

Bye-law 86(2) currently provides that any Directors so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Bye-law 86(2) will be amended with the effect that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment

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## LETTER FROM THE BOARD

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and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Bye-law 87(1) currently provides that all Directors shall retire at each annual general meeting.

It is proposed that the relevant provisions of the Bye-laws in relation to the rotation of Directors be amended to be in line with that of other listed companies and to reduce administrative burden of the Company.

The proposed amendments to the Bye-laws will give effect that, at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement once every three years and any Director who has been appointed by the Board to fill a casual vacancy or as an addition to the Board and re-elected at an annual general meeting shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation at the same annual general meeting.

The proposed amendments to the Bye-laws will be put forward to the Shareholders for approval by way of a special resolution at the Special General Meeting.

#### **4. SPECIAL GENERAL MEETING**

Set out on pages 37 to 40 of this circular is a notice convening the Special General Meeting to consider the resolutions relating to the matters as detailed in the above paragraphs.

A form of proxy for the Special General Meeting is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposit with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney at the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding the Special General Meeting or adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Special General Meeting if you so wish.

Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure that the chairman of the Special General Meeting shall demand voting on the ordinary resolutions and the special resolution set out in the notice of Special General Meeting be taken by way of poll. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun and their associates are considered to be interested in the transactions contemplated under the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and will abstain from voting for the resolutions proposed at the board meeting and Special General Meeting to approve such agreements. No Shareholder is interested in the proposal to amend the Bye-laws and no Shareholder is required to abstain from voting for the special resolution to amend the Bye-laws.

#### **5. GENERAL**

The Group primarily manufactures linerboard, high-performance corrugating medium and certain types of coated duplex board. The Group also manufactures specialty paper, wood and bamboo pulp, and produces 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 annual caps in any of the above agreements are exceeded or that there is any material amendment to their terms.

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## LETTER FROM THE BOARD

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The Independent Board Committee has been established to consider and, if appropriate, make recommendations to the Independent Shareholders: (i) as to whether the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (ii) to advise the Independent Shareholders on how to vote, taking into account the recommendations of Somerley.

The Company has appointed Somerley as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps.

After taking into account the opinions of Somerley, the Independent Board Committee considers that the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps, are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting to approve, ratify and confirm the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps. The Directors also recommend the Shareholders to vote in favour of the proposed amendments to the Bye-laws.

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

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

*Independent non-executive Directors:*

Ms. Tam Wai Chu, Maria  
Mr. Chung Shui Ming, Timpson  
Dr. Cheng Chi Pang  
Mr. Wang Hong Bo

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

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

Room 3129, 31/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

1 June 2011

*To the Independent Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 1 June 2011 issued by the Company (the “**Circular**”) to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to consider the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps, and to advise the Independent Shareholders as to the fairness and reasonableness of the same and to recommend how the Independent Shareholders should vote at the Special General Meeting. None of the members of the Independent Board Committee has any direct or indirect interest in the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements. In addition, Somerley has been appointed the independent financial adviser to advise us, the Independent Board Committee and the Independent Shareholders in relation to the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps.

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board, as set out on pages 3 to 12 of the Circular, and the letter from Somerley to us, the independent financial adviser to us, the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps, as set out on pages 15 to 30 of this Circular.

Having taken into account of the principal factors and reasons considered by Somerley and its conclusion and advice, we concur with the views of Somerley and consider that the terms of the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps, are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve the Longteng Packaging Paperboard Purchase Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the ACN Recovered Paper Supply Agreement and the Taicang Packaging Paperboard Purchase Agreements and their respective annual caps.

Yours faithfully,

The Independent Board Committee of  
**Nine Dragons Paper (Holdings) Limited**

**Ms. Tam Wai  
Chu, Maria**  
*Independent  
non-executive  
Director*

**Mr. Chung Shui  
Ming, Timpson**  
*Independent  
non-executive  
Director*

**Dr. Cheng  
Chi Pang**  
*Independent  
non-executive  
Director*

**Mr. Wang  
Hong Bo**  
*Independent  
non-executive  
Director*



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## LETTER FROM SOMERLEY LIMITED

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*The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

1 June 2011

To: *the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **RENEWAL OF AGREEMENTS AS REGARDS EXISTING CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the continuing connected transactions (the “Continuing Connected Transactions”) to be conducted under the ACN Recovered Paper Supply Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the Longteng Packaging Paperboard Purchase Agreement and the Taicang Packaging Paperboard Purchase Agreements (together the “New Agreements”). Details of the Continuing Connected Transactions and the proposed annual caps (the “Proposed Annual Caps”) are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 1 June 2011 (the “Circular”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

ACN is indirectly wholly owned by Ms. Cheung Yan, a Director and the controlling Shareholder with an approximate 65.17% equity interest in the Company. Dongguan Longteng is held as to 70% by Mr. Zhang Cheng Ming, a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan who are the Directors and Shareholders. Taicang Packaging is held as to 100% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, Directors and controlling Shareholders. As such, ACN, Dongguan Longteng, Taicang Packaging and their respective associates are connected persons of the Company under Chapter 14A of the Listing Rules.

The transaction governed by the Longteng Packaging Paperboard Purchase Agreement is required to be aggregated with that of the Taicang Packaging Paperboard Purchase Agreements (the “Purchase Agreements”) under Chapter 14A of the Listing Rules. As the applicable percentage ratios and the respective annual cap amounts under each of the ACN Recovered Paper Supply Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement and the Purchase Agreements are expected to exceed 5% and HK\$10 million on an annual basis respectively, the entering into of the New Agreements and the transactions contemplated thereunder constitute non-exempt continuing connected transactions and are subject to approval by the Independent Shareholders at the Special General Meeting under Chapter 14A of the Listing Rules. Ms. Cheung Yan, Mr. Zhang Cheng Ming, Mr. Zhang Cheng Fei and their respective associates, who as at the Latest Practicable Date held in aggregate 3,102,989,693 Shares, representing approximately 66.55% of the total issued share capital of the Company, shall abstain from voting on the resolutions approving the New Agreements at the Special General Meeting.

The Independent Board Committee, comprising all of the four independent non-executive Directors namely Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo, has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and whether they are in the interest of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM SOMERLEY LIMITED

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In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the Special General Meeting. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld from us, nor to doubt the truth, accuracy or completeness of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, ACN, Dongguan Longteng, Taicang Packaging or their respective associates, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

#### 1. **Background to and reasons for the Continuing Connected Transactions and the Proposed Annual Caps**

##### **Introduction**

Being one of the largest containerboard manufacturers in Asia, the Group primarily produces and sells a variety of packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as pulp and specialty paper. The majority of the Group's sales is generated from its packaging paperboard products and is related to domestic consumption.

The Group's major packaging paperboard production bases are currently located in Dongguan, Taicang, Chongqing and Tianjin in the PRC. In addition, the Group has a new medium-sized paper manufacturing base in Quanzhou, Fujian and a new production base located in the vicinity of Shenyang which are planned to commence production within one to two years. Besides, in the first half of 2011, the Group completed the acquisition of approximately 78.13% equity interest in Hebei Yongxin Paper Co., Ltd. which is principally engaged in the manufacture and sale of containerboard products. As such, the Group's overall geographical coverage in the PRC market has been enlarged.

##### **ACN Recovered Paper Supply Agreement**

ACN, founded by Ms. Cheung Yan in 1990, is the largest exporter of recovered paper in U.S.A. and Europe and a leading exporter of recovered paper in Asia. ACN has been the Group's major supplier of recovered paper since 1998.

Given the continuous development and expansion of the Group's operation and the fact that recovered paper is a key raw material to the Group's business, the Company and ACN entered into supply agreements in June 2008 for the three years ending 30 June 2011 under which ACN agreed to supply recovered paper to the Group, to ensure the Group had a stable supply of recovered paper at reasonable prices and on a priority basis. Over the past years, ACN has been an important supplier of recovered paper to the Group, and the Group finds their services satisfactory and reliable.

To regulate the future transactions between the Group and ACN and facilitate the continuous supply of recovered paper to the Group, on 16 May 2011, the Company and ACN entered into the ACN Recovered Paper Supply Agreement for a term of three years commencing from 1 July 2011 and ending on 30 June 2014.

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## LETTER FROM SOMERLEY LIMITED

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### **Longteng Packaging Materials and Chemicals Supply Agreement**

Dongguan Longteng is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. It was established in May 2003 and commenced production of packaging materials and chemicals in 2004 and 2005 respectively. As the quality of the materials supplied by Dongguan Longteng are able to meet the Group's standard at a competitive price, the Group has been purchasing packaging materials and chemicals from Dongguan Longteng for its own production of packaging paperboard products.

Pursuant to the supply agreement entered into between Dongguan Longteng and the Company on 26 June 2008, Dongguan Longteng agreed to supply packaging materials and chemicals to the Group for a period from 1 July 2008 to 30 June 2011.

To regulate the transactions between the Group and Dongguan Longteng to be conducted after 30 June 2011 and facilitate the continuous supply of packaging materials and chemicals to the Group, on 16 May 2011, the Company and Dongguan Longteng entered into the Longteng Packaging Materials and Chemicals Supply Agreement for a term of three years commencing from 1 July 2011 and ending on 30 June 2014.

### **Longteng Packaging Paperboard Purchase Agreement**

Dongguan Longteng has also been purchasing the Group's packaging paperboard products from time to time for its own trading and production purposes. On 26 June 2008, Dongguan Longteng and the Company entered into a purchase agreement, pursuant to which Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group for a period from 1 July 2008 to 30 June 2011.

To regulate the transactions between the Group and Dongguan Longteng to be conducted after 30 June 2011 and facilitate the future sale of packaging paperboard products to Dongguan Longteng, the Company has, on 16 May 2011, entered into the Longteng Packaging Paperboard Purchase Agreement with Dongguan Longteng for a term of three years commencing from 1 July 2011 and ending on 30 June 2014.

### **Taicang Packaging Paperboard Purchase Agreements**

Taicang Packaging was established in April 2002 by Mr. Zhang Cheng Fei and is principally engaged in the production of paper packaging containers and processed containerboard products. In June 2008, the Company and Taicang Packaging entered into purchase agreements where Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group for the three years ending 30 June 2011.

To regulate the transactions between the Group and Taicang Packaging to be conducted after 30 June 2011 and facilitate the future sale of packaging paperboard products to Taicang Packaging, the Company has, on 16 May 2011 and 23 May 2011, entered into the Taicang Packaging Paperboard Purchase Agreements with Taicang Packaging for a term of three years commencing from 1 July 2011 and ending on 30 June 2014.

The ACN Recovered Paper Supply Agreement, the Longteng Packaging Materials and Chemicals Supply Agreement, the Longteng Packaging Paperboard Purchase Agreement and the Taicang Packaging Paperboard Purchase Agreements set out the principal terms for the Continuing Connected Transactions, including the Proposed Annual Caps, the pricing basis and the payment terms for the transactions contemplated thereunder.

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## LETTER FROM SOMERLEY LIMITED

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Given that the Continuing Connected Transactions would be entered into in the Group's ordinary course of business, we agree with the Directors that it is in the interests of the Company and the Shareholders to enter into the New Agreements so as to maintain the Group's ongoing operation. This is particularly so in the case of the ACN Recovered Paper Supply Agreement, which serves to ensure a continuous supply of the key raw material to support the Group's operation. The Group is not committed to a fixed contract sum under each of the New Agreements. Therefore, the entering into of the New Agreements is conducive to the Group's conduct of business, while allowing it to maintain operational flexibility, which we consider to be in the interests of the Company and the Shareholders.

### **2. Principal terms for the Continuing Connected Transactions**

#### **ACN Recovered Paper Supply Agreement**

The purchase prices of recovered paper shall be determined from time to time with reference to the prevailing prices in the international and PRC recovered paper markets and the quantity of the Group's purchases. Credit period granted by ACN is 90 days after the receipt of invoice. ACN also agrees to supply recovered paper to the Group on a priority basis.

The terms of the ACN Recovered Paper Supply Agreement, including the purchase prices and the relevant payment terms, shall be no less favourable to the Group than those offered by independent third party suppliers of the Group.

#### **Longteng Packaging Materials and Chemicals Supply Agreement**

The purchase prices of packaging materials and chemicals will be determined from time to time with reference to the prevailing market prices. The terms of the Longteng Packaging Materials and Chemicals Supply Agreement, including the purchase prices and the relevant payment terms, shall be no less favourable to the Group than those offered by independent third party suppliers of the Group.

#### **Longteng Packaging Paperboard Purchase Agreement**

The selling prices of products offered to Dongguan Longteng pursuant to the Longteng Packaging Paperboard Purchase Agreement will be determined from time to time with reference to the prevailing market prices. Upon receipt of the Group's invoice, Dongguan Longteng shall pay the relevant purchase amount to the Group within 30 business days, which is within the normal credit period granted by the Group to its corporate customers.

The terms of the Longteng Packaging Paperboard Purchase Agreement, including the selling prices and the relevant payment terms, shall be no less favourable to the Group than those offered to independent third party purchasers of the Group's products.

#### **Taicang Packaging Paperboard Purchase Agreements**

The selling prices of products offered to Taicang Packaging pursuant to the Taicang Packaging Paperboard Purchase Agreements will be determined from time to time with reference to the prevailing market prices. Upon receipt of the Group's invoice, Taicang Packaging shall pay the relevant purchase amount to the Group within 60 days, which is within the normal credit period granted by the Group to its corporate customers.

The terms of the Taicang Packaging Paperboard Purchase Agreements, including the selling prices and the relevant payment terms, will be no less favourable to the Group than those offered to independent third party purchasers of the Group's products.

We consider the above terms, including the pricing bases which are determined with reference to prevailing market prices, are fair and reasonable.

## LETTER FROM SOMERLEY LIMITED

### 3. The Proposed Annual Caps for the Continuing Connected Transactions

#### (a) ACN Recovered Paper Supply Agreement

Set out below are the historical purchases of recovered paper from ACN for the two years ended 30 June 2010 and the nine months ended 31 March 2011, the estimated purchases for the three months ending 30 June 2011 and the three years ending 30 June 2014 as provided by the management of the Group and the proposed annual caps for the three years ending 30 June 2014 as set out in the ACN Recovered Paper Supply Agreement (the “ACN Annual Caps”), together with the key factors contributing to the fixing of the ACN Annual Caps:

|  | For the<br>year<br>ended<br>30 June<br>2009<br><i>(actual)</i> | For the<br>year<br>ended<br>30 June<br>2010<br><i>(actual)</i> | For the<br>nine<br>months<br>ended 31<br>March<br>2011<br><i>(actual)</i> | For the<br>three<br>months<br>ending<br>30 June<br>2011<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2012<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2013<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2014<br><i>(estimated)</i> |
|--|--|--|---|---|--|--|--|
| Production volume<br><i>(in tonnes)</i><br><i>(Note) (A)</i>   | 5,810,000  | 7,135,000  | 5,518,000   | 2,109,000   | 10,161,525   | 10,806,447   | 11,994,400   |
| Consumption rate of<br>recovered paper <i>(B)</i>  | 1.11   | 1.11   | 1.11  | 1.12  | 1.18   | 1.18   | 1.18   |
| Volume of purchase of<br>recovered paper<br>to meet the<br>production target<br><i>(in tonnes)</i><br><i>(C = A x B)</i> | 6,427,930  | 7,910,816  | 6,104,455   | 2,370,741   | 11,990,600   | 12,751,607   | 14,153,392   |
| Purchase from<br>ACN <i>(in tonnes)</i><br><i>(% of total<br/>purchases) (D)</i>   | 4,394,130<br><i>(68%)</i>                                      | 5,323,238<br><i>(67%)</i>                                      | 3,966,000<br><i>(65%)</i>   | 1,546,000<br><i>(65%)</i>   | 8,393,420<br><i>(70%)</i>  | 8,926,125<br><i>(70%)</i>  | 9,907,374<br><i>(70%)</i>  |
| Average price per tonne<br><i>(in RMB) (E)</i>   | 813  | 1,257  | 1,563   | 1,676   | 1,972  | 2,182  | 2,374  |
| Monetary value of<br>purchase from ACN<br><i>(in RMB'million)</i><br><i>(F = D x E ÷ 1,000,000)</i>                      | 3,574<br><i>(audited)</i>                                      | 6,693<br><i>(audited)</i>                                      | 6,200<br><i>(unaudited)</i>   | 2,592   | 16,553   | 19,480   | 23,522   |
| Annual caps<br><i>(in RMB'million)</i>   | 11,241   | 13,000   | 16,000  |   | 16,600   | 19,500   | 23,500   |

*Note:*

*The production volumes in the table above refer to those of the Group's seven major production bases located in Dongguan, Taicang, Chongqing, Tianjin, Quanzhou, Shenyang and Hebei Yongxin. As confirmed by the management of the Group, there will be no significant changes in production volume planned during the three years ending 30 June 2014.*

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## LETTER FROM SOMERLEY LIMITED

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(i) Review of historical/estimated figures for the three years ending 30 June 2011

The actual purchase of recovered paper from ACN (item F) increased by approximately 87.3% to approximately RMB6,693 million for the year ended 30 June 2010 when compared to the previous year, which was mainly attributable to (1) the commencement of operation of the Group's production base in Tianjin in September 2009 resulting in a greater need for recovered paper, (2) greater demand for the Group's products resulting from the general economy recovery, increasing the demand for raw materials, and (3) the increase in the prices of recovered paper driven by the price recovery after the 2008 global financial crisis. Due to similar reasons, the Group's actual purchase of recovered paper from ACN for the nine months ended 31 March 2011 further increased by approximately 23.5% when compared to the corresponding period in 2010 and reached approximately RMB6,200 million. Based on management's estimation, the purchase of recovered paper from ACN for the year ending 30 June 2011 is expected to reach approximately RMB8,792 million.

The volume of recovered paper purchased from ACN (item D) is expected to increase from approximately 4.39 million tonnes for the year ended 30 June 2009 to approximately 5.51 million tonnes for the year ending 30 June 2011, representing a compound annual growth rate of approximately 12.0%. The average unit purchase price of recovered paper (item E), on the other hand, is expected to increase from approximately RMB813 per tonne for the year ended 30 June 2009 to approximately RMB1,595 per tonne for the year ending 30 June 2011, representing a compound annual growth rate of approximately 40.1%.

(ii) Assessment of the ACN Annual Caps

The ACN Annual Caps are determined principally based on the expected production volume of the Group's seven major production bases in the PRC, the consumption rate of recovered paper, the percentage of recovered paper purchased from ACN and the estimated prices of recovered paper.

*Expected production volume*

To capitalise on the increasing demand for packaging paperboard products and to sustain its leading position in the PRC, the Group is expected to increase the annual design production capacity of its seven major production bases in the PRC from approximately 9.23 million tonnes as at 31 March 2011 to approximately 13.63 million tonnes as at 30 June 2014, representing an increase of approximately 4.40 million tonnes, as follows:

| <b>For the year<br/>ending<br/>30 June</b> | <b>Production bases</b>   | <b>Increase in annual design<br/>production capacity<br/>(in million tonnes)</b> |
|--|---|--|
| 2011                                       | Dongguan, Tianjin, Hebei<br>Yongxin and Taicang ( <i>Note</i> ) | 1.95   |
| 2012                                       | Chongqing and Tianjin   | 1.10   |
| 2013                                       | Quanzhou and Shenyang   | 1.35   |
|  |   | <hr/> 4.40   |

*Note:*

The increase in design production capacity of approximately 1.95 million tonnes was related to the period from April 2011 to June 2011.

As a result of the above, the production volume (item A) of the Group's seven major production bases is expected to increase from approximately 7.63 million tonnes for the year ending 30 June 2011 to approximately 12.0 million tonnes for the year ending 30 June 2014 and the Group's demand for recovered paper, a major raw material for its production, will increase correspondingly.

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## LETTER FROM SOMERLEY LIMITED

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### *Consumption rate of recovered paper*

The consumption rate of a raw material refers to the quantity of the raw material required for the production of a unit of final product. The Directors estimated that the consumption rate of recovered paper (item B) for each of the three years ending 30 June 2014 is approximately 1.18. That is, for each tonne of packaging paperboard products manufactured by the Group, approximately 1.18 tonnes of recovered paper is consumed.

The estimated consumption rate of approximately 1.18 is arrived at after considering (1) the actual consumption rate of recovered paper of approximately 1.13 in March 2011 at the Dongguan production base, the largest production base of the Group, and (2) the higher consumption rates required for new paper machines planned to commence production for the three years ending 30 June 2014 at the beginning of operation due to the testing required at the beginning of production.

### *Percentage of recovered paper purchased from ACN*

In view of the fluctuations in recovered paper prices in the international market, the Group has been increasing its proportion of domestic purchase of recovered paper. As disclosed in the 2010-2011 interim report of the Company, the amount of domestic recovered paper contributed approximately 30% of the Group's recovered paper purchase for the six months ended 31 December 2010 and the proportion of domestic recovered paper purchase is expected to reach approximately 40% by the end of 2011.

However, as advised by the Directors, in case of any relative increase in recovered paper prices in the PRC or any decrease in the same in the international market in the future, the Group is likely to increase its proportion of overseas purchase. To provide more flexibility to the Group in altering the proportion between domestic and overseas purchases according to the price differences between domestic and imported recovered paper, the Directors set the annual caps with reference to a proportion of 70% of recovered paper purchase to be made from ACN for the three years ending 30 June 2014, which we consider reasonable.

### *Estimated prices of recovered paper*

As discussed previously, the average unit purchase price of recovered paper of the Group from ACN has a compound annual growth rate of approximately 40.1% during the three years ending 30 June 2011. As advised by the Directors, it is expected that the average unit purchase price of recovered paper from ACN will continue to increase from approximately RMB1,563 per tonne for the nine months ended 31 March 2011 to approximately RMB2,374 per tonne for the year ending 2014, representing a compound annual growth rate of approximately 13.7%. Having considered the past growth rate of the average unit purchase price of recovered paper, we consider it reasonable for the Directors to make such estimation for the three years ending 30 June 2014.

### *ACN Annual Caps*

Having considered the above factors, for each of the three years ending 30 June 2014, the total purchases of the Group from ACN are estimated to be approximately RMB16,553 million, RMB19,480 million and RMB23,522 million respectively, and the Directors propose the ACN Annual Caps to be RMB16,600 million, RMB19,500 million and RMB23,500 million respectively.



## LETTER FROM SOMERLEY LIMITED

### (b) Longteng Packaging Materials and Chemicals Supply Agreement

Set out below are the historical purchases of packaging materials and chemicals from Dongguan Longteng for the two years ended 30 June 2010 and the nine months ended 31 March 2011, the estimated purchases for the three months ending 30 June 2011 and the three years ending 30 June 2014 as provided by the management of the Group and the proposed annual caps for the three years ending 30 June 2014 as set out in the Longteng Packaging Materials and Chemicals Supply Agreement (the “Longteng Supply Annual Caps”), together with the key factors contributing to the fixing of the Longteng Supply Annual Caps:

|  | For the<br>year ended<br>30 June<br>2009<br><i>(actual)</i> | For the<br>year ended<br>30 June<br>2010<br><i>(actual)</i> | For the<br>nine<br>months<br>ended<br>31 March<br>2011<br><i>(actual)</i> | For the<br>three<br>months<br>ending<br>30 June<br>2011<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2012<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2013<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2014<br><i>(estimated)</i> |
|--|---|---|---|---|--|--|--|
| <b>1. Packaging materials and chemicals currently supplied by Dongguan Longteng</b>  |   |   |   |   |  |  |  |
| Production volume ( <i>in tonnes</i> )<br><i>(Note 1) (A)</i>  | 5,810,000   | 7,135,000   | 5,518,000   | 2,109,000   | 10,161,525   | 10,806,447   | 11,994,400   |
| Monetary value of actual purchase from Dongguan Longteng and expected purchase of packaging materials and chemicals ( <i>in RMB'million</i> ) <b>(B)</b>           | 75<br><i>(audited)</i>                                      | 134<br><i>(audited)</i>                                     | 170<br><i>(unaudited)</i>   | 101   | 641  | 750  | 915  |
| <b>2. A new chemical to be supplied by Dongguan Longteng</b>   |   |   |   |   |  |  |  |
| Production volume of coated linerboard and coated duplex board ( <i>in tonnes</i> ) <b>(C)</b>   | 894,239   | 905,578   | 674,247   | 202,694   | 2,373,525  | 3,018,400  | 3,018,400  |
| Consumption rate of the new chemical <b>(D)</b>  | 0.04  | 0.04  | 0.04  | 0.04  | 0.04   | 0.04   | 0.04   |
| Average price per tonne ( <i>in RMB</i> ) <b>(E)</b>   | 5,627   | 6,606   | 7,640   | 7,677   | 8,404  | 9,244  | 10,168   |
| Monetary value of actual purchase from Dongguan Longteng and expected purchase of the new chemical ( <i>in RMB'million</i> )<br><b>(F = C x D x E ÷ 1,000,000)</b> | -   | -   | -   | -   | 798  | 1,116  | 1,228  |
| <b>Total:</b>  |   |   |   |   |  |  |  |
| Monetary value of purchase from Dongguan Longteng ( <i>in RMB'million</i> )<br><b>(G = B + F)</b>  | 75<br><i>(audited)</i>                                      | 134<br><i>(audited)</i>                                     | 170<br><i>(unaudited)</i>   | 101   | 1,439  | 1,866  | 2,143  |
| Annual caps ( <i>in RMB'million</i> )  | 126   | 151   | 271<br><i>(Note 2)</i>  |   | 500  | 1,500  | 2,200  |



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## LETTER FROM SOMERLEY LIMITED

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*Note 1:*

*The production volumes in the table above refer to those of the Group's seven major production bases located in Dongguan, Taicang, Chongqing, Tianjin, Quanzhou, Shenyang and Hebei Yongxin. As confirmed by the management of the Group, there will be no significant changes in production volume planned during the three years ending 30 June 2014.*

*Note 2:*

*On 9 May 2011, the Company and Dongguan Longteng entered into a supplementary agreement to increase the annual cap for the supply of packaging materials and chemicals from Dongguan Longteng to the Group from RMB181 million to RMB271 million for the year ending 30 June 2011.*

(i) Review of historical/estimated figures for the three years ending 30 June 2011

Owing to (1) the commencement of the production base in Tianjin in September 2009, which raised the total production capacity of the Group and gave rise to a corresponding increase in demand for packaging materials and chemicals, and (2) the growth in raw material prices driven by the increase in demand for packaging paperboard products and the effect of inflation, the Group's actual purchase of packaging materials and chemicals from Dongguan Longteng (item G) increased by approximately 78.7% to approximately RMB134 million for the year ended 30 June 2010 when compared to the previous year.

The Group's actual purchases for the nine months ended 31 March 2011 further increased by approximately 90.0% to approximately RMB170 million when compared to the corresponding period in 2010, which was mainly attributable to the increase in the production capacity of the Taicang production base and the inflated cost of raw materials. With further increase in the production capacities of the production bases located in Dongguan and Tianjin, the purchase of packaging materials and chemicals from Dongguan Longteng for the year ending 30 June 2011 is expected to reach approximately RMB271 million.

(ii) Assessment of the Longteng Supply Annual Caps

The Longteng Supply Annual Caps are determined with reference to the Group's demand for packaging materials and chemicals currently supplied, and a new chemical to be supplied, by Dongguan Longteng in the future.

(1) Packaging materials and chemicals currently supplied by Dongguan Longteng

The future purchases of packaging materials and chemicals currently supplied by Dongguan Longteng are estimated mainly based on the actual purchases in the past, the expected production volume of the Group's seven major production bases in the PRC, and the expected growth in purchase prices.

*Expected production volume*

According to the management of the Group, Dongguan Longteng, with its sole production plant in Dongguan currently, can only supply packaging materials and chemicals to the Group's production base in Dongguan. As a result of Dongguan Longteng's planned establishment of a production base in Jiangsu in 2011, the Directors expect Dongguan Longteng will be able to supply packaging materials and chemicals to other production bases of the Group in the future.

For the nine months ended 31 March 2011, the Group's seven major production bases had an actual production volume (item A) of approximately 5.52 million tonnes with regard to the packaging materials and chemicals supplied by Dongguan Longteng, of which approximately 2.96 million tonnes were attributable to the Dongguan production base. Considering the ability of Dongguan Longteng to supply to the Group's other production bases in the future, the purchase volume from Dongguan Longteng is expected to be significantly increased.

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## LETTER FROM SOMERLEY LIMITED

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### *Expected unit purchase prices*

The Directors estimate a compound annual growth rate of approximately 10% in purchase prices of packaging materials and chemicals for each of the three years ending 30 June 2014, after considering the compound annual growth rates of average unit purchase prices for the year ended 30 June 2010 and the nine months ended 31 March 2011, which ranged from approximately 8.5% to 47.2% for different kinds of packaging materials and chemicals. As advised by the Directors, the expected growth in average unit purchase prices of packaging materials and chemicals is mainly driven by the increase in demand for packaging paperboard products and the expected inflation.

### *Estimated purchases of existing packaging materials and chemicals*

Having considered the future demand for packaging materials and chemicals and the expected growth in purchase prices, the estimated purchases of packaging materials and chemicals currently supplied by Dongguan Longteng (item B) for each of the three years ending 30 June 2014 will be approximately RMB641 million, RMB750 million and RMB915 million respectively.

- (2) A new chemical to be supplied by Dongguan Longteng

According to the Directors, taking into account the pricing terms offered by Dongguan Longteng and the distance between the production plants of the Group and Dongguan Longteng, Dongguan Longteng will supply a new chemical to the Group for its production of coated linerboard and coated duplex board for the three years ending 30 June 2014. The purchase amounts of the new chemical will be projected based on the Group's production volume for the manufacture of coated linerboard and coated duplex board, the consumption rate and the expected growth in purchase prices of the new chemical.

### *Production volume*

Coated linerboard and coated duplex board are only manufactured in the Group's four major production bases located in Dongguan, Taicang, Chongqing and Tianjin. The Group is estimated to produce approximately 2.37 million tonnes, 3.02 million tonnes and 3.02 million tonnes of coated linerboard and coated duplex board (item C) for the three years ending 30 June 2012, 2013 and 2014 respectively. The estimated production volume is arrived at with reference to the expected production capacity of the Group in the future.

### *Consumption rate of the new chemical*

As advised by the Directors, the consumption rate of the new chemical to be supplied by Dongguan Longteng (item D) for the production of coated linerboard and coated duplex board by the Group was approximately 0.04 historically. That is, for each tonne of coated linerboard or coated duplex board produced by the Group, approximately 0.04 tonne (or 40 kilograms) of the new chemical is consumed. This consumption rate of 0.04 is also applied to the calculation of the estimated purchases for the three years ending 30 June 2014.

### *Expected purchase prices*

Same as the expected growth in purchase prices of existing packaging materials and chemicals supplied by Dongguan Longteng, the Directors estimate a compound annual growth rate of approximately 10% in purchase prices of the new chemical (item E) for each of the three years ending 30 June 2014, after taking into account the compound annual growth rate in average unit purchase prices for the year ended 30 June 2010 and the nine months ended 31 March 2011, which was approximately 18.9%.

## LETTER FROM SOMERLEY LIMITED

### *Estimated purchases of the new chemical*

Having taken into account the future production volume of the Group for the manufacture of coated linerboard and coated duplex board and the expected growth in purchase prices, the estimated purchases of the new chemical to be supplied by Dongguan Longteng (item F) for each of the three years ending 30 June 2014 will be approximately RMB798 million, RMB1,116 million and RMB1,228 million respectively.

### *Longteng Supply Annual Caps*

In aggregate, the total purchases of packaging materials and chemicals made by the Group (item G) for each of the three years ending 30 June 2014 are estimated to be approximately RMB1,439 million, RMB1,866 million and RMB2,143 million respectively. However, taking into account the limited production capacity of Dongguan Longteng for the two years ending 30 June 2013, the Directors proposed the Longteng Supply Annual Caps to be RMB500 million, RMB1,500 million and RMB2,200 million respectively for each of the three years ending 30 June 2014. As regards the limited production capacity of Dongguan Longteng, the Directors confirm that the Group is able to purchase packaging materials and chemicals from other independent third party suppliers.

### (c) Longteng Packaging Paperboard Purchase Agreement

Set out below are the historical sales of packaging paperboard products to Dongguan Longteng from the Group for the two years ended 30 June 2010 and the nine months ended 31 March 2011, the estimated sales for the three months ending 30 June 2011 and the three years ending 30 June 2014 as provided by the management of the Group and the proposed annual caps for the three years ending 30 June 2014 as set out in the Longteng Packaging Paperboard Purchase Agreement (“Longteng Purchase Annual Caps”):

|   | For the<br>year<br>ended<br>30 June<br>2009<br><i>(actual)</i> | For the<br>year<br>ended<br>30 June<br>2010<br><i>(actual)</i> | For the<br>nine<br>months<br>ended<br>31 March<br>2011<br><i>(actual)</i> | For the<br>three<br>months<br>ending<br>30 June<br>2011<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2012<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2013<br><i>(estimated)</i> | For the<br>year<br>ending<br>30 June<br>2014<br><i>(estimated)</i> |
|---|--|--|---|---|--|--|--|
| Sales volume <i>(in tonnes)</i> (A)   | 21,525   | 44,945   | 75,092  | 30,000  | 180,000  | 250,000  | 300,000  |
| Average price per<br>tonne <i>(in RMB)</i> (B)  | 2,404  | 2,655  | 2,863   | 3,367   | 3,113  | 3,363  | 3,613  |
| Sales of packaging<br>paperboard products<br>to Dongguan Longteng<br><i>(in RMB'million)</i><br>(C = A x B ÷ 1,000,000) | 52<br><i>(audited)</i>   | 119<br><i>(audited)</i>  | 215<br><i>(unaudited)</i>   | 101   | 560  | 841  | 1,084  |
| Annual caps<br><i>(in RMB'million)</i>  | 173  | 207  | 316<br><i>(Note)</i>  |   | 600  | 900  | 1,100  |

*Note:*

*On 9 May 2011, the Company and Dongguan Longteng entered into a supplementary agreement to increase the annual cap for the supply of packaging paperboard products from the Group to Dongguan Longteng from RMB241 million to RMB316 million for the year ending 30 June 2011.*

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## LETTER FROM SOMERLEY LIMITED

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(i) Review of historical/estimated figures for the three years ending 30 June 2011

As shown in the table above, the actual sales of packaging paperboard products from the Group to Dongguan Longteng (item C) increased by approximately 128.8% to approximately RMB119 million for the year ended 30 June 2010 when compared to the previous year. This is principally due to (1) the growth in Dongguan Longteng's own business and thus an increased demand for the Group's products, and (2) the increase in the average unit selling price driven by the increase in overall demand and the effect of inflation.

Due to similar reasons, for the nine months ended 31 March 2011, the Group's actual sales to Dongguan Longteng grew by approximately 31.9% to approximately RMB215 million when compared to the corresponding period in 2010. As such, the management of the Group estimates that sales to Dongguan Longteng for the year ending 30 June 2011 will reach approximately RMB316 million.

The volume of packaging paperboard products purchased by Dongguan Longteng from the Group (item A) is expected to increase from approximately 21,525 tonnes for the year ended 30 June 2009 to approximately 105,092 tonnes for the year ending 30 June 2011, representing a compound annual growth rate of approximately 121.0%. The average unit selling price (item B), on the other hand, is expected to increase from approximately RMB2,404 per tonne for the year ended 30 June 2009 to approximately RMB3,007 per tonne for the year ending 30 June 2011, representing a compound annual growth rate of approximately 11.8%.

(ii) Assessment of the Longteng Purchase Annual Caps

The Longteng Purchase Annual Caps are principally set with reference to Dongguan Longteng's expected demand for the Group's products according to its business projection and the expected growth in selling prices of packaging paperboard products.

*Dongguan Longteng's expected demand for the Group's products*

The Directors' estimation of Dongguan Longteng's demand for the Group's packaging paperboard products (item A) of approximately 180,000 tonnes, 250,000 tonnes and 300,000 tonnes respectively for the three years ending 30 June 2014, is arrived at after taking into account the actual sales volume during September to December 2010 from the Group to Dongguan Longteng and the planned production capacity of Dongguan Longteng.

*Expected selling prices*

The Directors estimate that the average unit selling price of the packaging paperboard products (item B) will grow from approximately RMB2,863 per tonne for the nine months ended 31 March 2011 to approximately RMB3,613 per tonne for the year ending 30 June 2014, representing a compound annual growth rate of approximately 7.4%, after considering the expected increase in production cost, including purchase prices of recovered paper and packaging materials and chemicals.

*Longteng Purchase Annual Caps*

Having considered the above factors, for each of the three years ending 30 June 2014, the total sales of the Group made to Dongguan Longteng are estimated to be approximately RMB560 million, RMB841 million and RMB1,084 million respectively, and the Directors propose the Longteng Purchase Annual Caps to be RMB600 million, RMB900 million and RMB1,100 million respectively.

## LETTER FROM SOMERLEY LIMITED

### (d) Taicang Packaging Paperboard Purchase Agreements

Set out below are the historical sales of packaging paperboard products to Taicang Packaging from the Group for the two years ended 30 June 2010 and the nine months ended 31 March 2011, the estimated sales for the three months ending 30 June 2011 and the three years ending 30 June 2014 as provided by the management of the Group and the proposed annual caps for the three years ending 30 June 2014 as set out in the Taicang Packaging Paperboard Purchase Agreements (“Taicang Purchase Annual Caps”):

|   | For the<br>year<br>ended 30<br>June 2009<br><i>(actual)</i> | For the<br>year<br>ended 30<br>June 2010<br><i>(actual)</i> | For the<br>nine<br>months<br>ended 31<br>March 2011<br><i>(actual)</i> | For the<br>three<br>months<br>ending 30<br>June 2011<br><i>(estimated)</i> | For the<br>year<br>ending 30<br>June 2012<br><i>(estimated)</i> | For the<br>year<br>ending 30<br>June 2013<br><i>(estimated)</i> | For the<br>year<br>ending 30<br>June 2014<br><i>(estimated)</i> |
|---|---|---|--|--|---|---|---|
| Sales volume <i>(in tonnes)</i> (A)   | 29,948  | 116,402   | 25,020   | 8,401  | 85,500  | 149,040   | 172,800   |
| Average price per<br>tonne <i>(in RMB)</i> (B)  | 2,501   | 2,835   | 3,437  | 3,333  | 3,497   | 3,750   | 4,000   |
| Sales of packaging<br>paperboard products<br>to Taicang Packaging<br><i>(in RMB'million)</i><br>(C = A x B ÷ 1,000,000) | 75<br><i>(audited)</i>                                      | 330<br><i>(audited)</i>                                     | 86<br><i>(unaudited)</i>   | 28   | 299   | 559   | 691   |
| Annual caps <i>(in RMB'million)</i>   | 241   | 340   | 390  |  | 300   | 600   | 700   |

#### (i) Review of historical/estimated figures for the three years ending 30 June 2011

As shown in the table above, the actual sales of packaging paperboard products from the Group to Taicang Packaging (item C) increased by approximately 340.0% to approximately RMB330 million for the year ended 30 June 2010 when compared to the previous year, which was mainly attributable to (1) the recovery of the PRC economy in the financial year 2010 from the economic downturn at the end of 2008, giving rise to an increase in domestic consumption, and (2) the expectation of a significant increase in purchase prices of packaging paperboard products in the financial year 2011 and afterwards, resulting in early purchases by Taicang Packaging during the financial year 2010.

For the nine months ended 31 March 2011, the Group’s actual sales to Taicang Packaging decreased by approximately 65.3% to approximately RMB86 million when compared to the corresponding period in 2010, since Taicang Packaging purchased a significant amount of packaging paperboard products from the Group in advance in the previous financial year as discussed above. It is estimated that sales to Taicang Packaging for the year ending 30 June 2011 will be approximately RMB114 million.

The volume of packaging paperboard products purchased by Taicang Packaging from the Group (item A) is expected to increase from approximately 29,948 tonnes for the year ended 30 June 2009 to approximately 33,421 tonnes for the year ending 30 June 2011, representing a compound annual growth rate of approximately 5.6%. The average unit selling price (item B), on the other hand, is expected to increase from approximately RMB2,501 per tonne for the year ended 30 June 2009 to approximately RMB3,411 per tonne for the year ending 30 June 2011, representing a compound annual growth rate of approximately 16.8%.

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## LETTER FROM SOMERLEY LIMITED

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(ii) Assessment of the Taicang Purchase Annual Caps

The Taicang Purchase Annual Caps are principally set with reference to Taicang Packaging's expected demand for the Group's products according to its planned production volume and the expected growth in selling prices of packaging paperboard products.

*Taicang Packaging's expected demand for the Group's products*

The Directors' estimation of Taicang Packaging's demand for the Group's packaging paperboard products (item A) of approximately 85,500 tonnes, 149,040 tonnes and 172,800 tonnes respectively for the three years ending 30 June 2014, is arrived at after taking into account the historical sales from the Group to Taicang Packaging and the planned production volume of Taicang Packaging. According to the management of the Group, Taicang Packaging is expected to increase its annual production capacity from approximately 90 million square meters at present to approximately 240 million square meters by the end of June 2013, in order to cater for additional demand for Taicang Packaging's own products.

*Expected selling prices*

The Directors estimate that the average unit selling price of the packaging paperboard products (item B) will grow from approximately RMB3,437 per tonne for the nine months ended 31 March 2011 to approximately RMB4,000 per tonne for the year ending 30 June 2014, representing a compound annual growth rate of approximately 4.8%, after considering the expected increase in production cost, including purchase prices of recovered paper and packaging materials and chemicals.

*Taicang Purchase Annual Caps*

Having considered the above factors, for each of the three years ending 30 June 2014, the total sales of the Group made to Taicang Packaging are estimated to be approximately RMB299 million, RMB559 million and RMB691 million respectively, and the Directors propose the Taicang Purchase Annual Caps to be RMB300 million, RMB600 million and RMB700 million respectively.

We have discussed with the management of the Group various factors in arriving at the Proposed Annual Caps, including but not limited to actual historical data, expected production capacity and expected demand for the relevant products. Provided that the pricing for the Continuing Connected Transactions is fair and reasonable and the conduct of the relevant transactions is subject to annual review by independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, it is reasonable for the Group to set annual caps that are tailored to future business growth. Overall, we consider that the ACN Annual Caps, the Longteng Supply Annual Caps, the Longteng Purchase Annual Caps and the Taicang Purchase Annual Caps have been set by the Company with due care and are fair and reasonable.

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## LETTER FROM SOMERLEY LIMITED

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### 4. Annual review of the Continuing Connected Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the relevant agreement governing the Continuing Connected Transactions; and
  - (iv) have not exceeded the ACN Annual Caps, the Longteng Supply Annual Caps, the Longteng Purchase Annual Caps and the Taicang Purchase Annual Caps;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Continuing Connected Transactions to allow, the Company's auditors to have sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b);
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

The independent non-executive Directors and the auditors of the Company have reviewed the then continuing connected transactions conducted during the two years ended 30 June 2010 and have provided the above confirmations as required under the Listing Rules, details of which are contained in the Company's annual reports for the two years ended 30 June 2009 and 2010. The required confirmations in respect of the relevant continuing connected transactions conducted during the year ending 30 June 2011 would be included in the Company's annual report for the year ending 30 June 2011.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (a) the restriction of the values of the Continuing Connected Transactions by way of the Proposed Annual Caps; and (b) the requirement under the Listing Rules for ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Proposed Annual Caps, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Independent Shareholders.

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## LETTER FROM SOMERLEY LIMITED

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### RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Continuing Connected Transactions would be conducted on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and its Shareholders as a whole. We also consider the terms of the Continuing Connected Transactions and the Proposed Annual Caps fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Special General Meeting to approve these arrangements.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*



## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

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

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

| Name of Directors                    | Long Position/<br>Short Position | Number of Shares      |                     |                                    | Number of underlying Shares<br>(in respect of share options) |                                 | Total         | Approximate<br>percentage of<br>shareholdings* |
|--------------------------------------|----------------------------------|-----------------------|---------------------|------------------------------------|--|---------------------------------|---------------|--|
|                                      |                                  | Personal<br>Interests | Family<br>Interests | Corporate<br>Interests<br>(Note 1) | Personal<br>Interests  | Family<br>Interests<br>(Note 5) |               |  |
| Ms. Cheung Yan<br>("Ms. Cheung")     | Long Position                    | 46,420,758            | 27,094,184          | 2,992,120,000                      | 33,200,000   | 33,200,000                      | 3,132,034,942 | 67.17%   |
| Mr. Liu Ming Chung<br>("Mr. Liu")    | Long Position                    | 27,094,184            | 46,420,758          | 2,992,120,000                      | 33,200,000   | 33,200,000                      | 3,132,034,942 | 67.17%   |
| Mr. Zhang Cheng Fei<br>("Mr. Zhang") | Long Position                    | 20,114,821            | -                   | -                                  | 33,200,000   | -                               | 53,314,821    | 1.14%  |
| Mr. Zhang Yuanfu                     | Long Position                    | -                     | -                   | -                                  | 2,400,000  | -                               | 2,400,000     | 0.05%  |
| Mr. Lau Chun Shun                    | Long Position                    | -                     | -                   | 2,992,120,000                      | 450,000  | -                               | 2,992,570,000 | 64.18%   |
| Ms. Gao Jing                         | Long Position                    | 200,000               | 400,000             | -                                  | -  | -                               | 600,000       | 0.01%  |
| Ms. Tam Wai Chu, Maria               | Long Position                    | 1,216,670             | -                   | -                                  | -  | -                               | 1,216,670     | 0.03%  |
| Mr. Chung Shui Ming,<br>Timpson      | Long Position                    | 1,017,496             | -                   | -                                  | -  | -                               | 1,017,496     | 0.02%  |
| Dr. Cheng Chi Pang                   | Long Position                    | 700,002               | -                   | -                                  | -  | -                               | 700,002       | 0.02%  |

\* The percentage has been compiled based on the total number of Shares of the Company issued as at 27 May 2011 (i.e. 4,662,572,620 ordinary Shares)

#### Notes:

- (1) Best Result Holdings Limited ("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 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (v) 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) YC2006 Family Irrevocable Trust and The Zhang Family Trust are irrevocable trusts while The Liu Family Trust and The Golden Nest Trust are revocable trusts.
- (3) Ms. Cheung is the spouse of Mr. Liu. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (4) Mr. Lau Chun Shun is a beneficiary of each of the YC2006 Family Irrevocable Trust, The Liu Family Trust and The Golden Nest Trust. He is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (5) Mr. Liu is the spouse of Ms. Cheung. Therefore, Ms. Cheung is deemed to be interested in the Shares subject to the share options granted to Mr. Liu and Mr. Liu is deemed to be interested in the Shares subject to the share options granted to Ms. Cheung.

**(B) the Underlying Shares of the Company**

Details of the outstanding options granted to the Directors under the 2006 Share Option Scheme as at the Latest Practicable Date were as follows:-

| Name of Director                       | Date of grant<br>("Grant Date") | Exercise price<br>per share<br>(HK\$) | Exercise period         | Number of<br>outstanding<br>options |
|--|---------------------------------|---------------------------------------|-------------------------|-------------------------------------|
| Ms. Cheung ( <i>Note 1</i> )           | 31/12/2006                      | 9.8365                                | 01/01/2008 – 31/12/2011 | 33,200,000                          |
| Mr. Liu ( <i>Note 1</i> )              | 31/12/2006                      | 9.8365                                | 01/01/2008 – 31/12/2011 | 33,200,000                          |
| Mr. Zhang ( <i>Note 1</i> )            | 31/12/2006                      | 9.8365                                | 01/01/2008 – 31/12/2011 | 33,200,000                          |
| Mr. Zhang Yuanfu<br>( <i>Note 2</i> )  | 25/08/2008                      | 4.3100                                | 25/08/2009 – 24/08/2013 | 600,000                             |
|  | 28/10/2008                      | 0.8940                                | 28/10/2009 – 27/10/2013 | 1,200,000                           |
|  | 10/11/2008                      | 1.5900                                | 11/11/2009 – 10/11/2013 | 600,000                             |
| Mr. Lau Chun Shun<br>( <i>Note 2</i> ) | 01/06/2010                      | 11.0520                               | 01/06/2011 – 30/05/2015 | 450,000                             |

*Notes:*

- (1) The exercisable of the share options is subject to the achievement of the performance targets of profit. The each of the five financial years during from 1 July 2007 to 30 June 2011 has different performance targets of profit. The performance target of profit is calculated based on the net profit of the Group for FY2006 which excludes the interest income of the Company derived from the over-subscription of the Shares during the Pre-Listing Initial Public Offering in March 2006. The performance targets of profit are calculated based on the 35% growth of the Net Profit FY2006 on the annual basis. The Remuneration Committee will be responsible for monitoring the performance targets of the profit of the Group and whether or not that the Group has been met the targets for each of the relevant years.
- (2) Each of the grantees has been conditionally granted under the 2006 Share Option Scheme will be entitled to exercise:
- (i) up to 20% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing on the first anniversary of the date on which the relevant option was so granted to him on Grant Date and ending on the second anniversary of the Grant Date;
- (ii) up to 40% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing on the expiry of the second anniversary of the Grant Date and ending on the third anniversary of the Grant Date;

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

**(C) Interests in Associated Corporation – Best Result**

| Name of Directors    | Long Position/<br>Short Position | Capacity  | No. of issued<br>ordinary shares<br>held in Best Result | Approximate<br>percentage of<br>shareholding |
|----------------------|----------------------------------|---|---|--|
| Ms. Cheung           | Long Position                    | Beneficial Owner  | 7,367   | 7.367%                                       |
|                      | Long Position                    | Founder of YC2006<br>Family Irrevocable Trust                                     | 29,706  | 29.706%                                      |
|                      |                                  | Interest of spouse  | 37,053  | 37.053%                                      |
| Mr. Liu              | Long Position                    | Founder of The Liu Family Trust   | 37,053  | 37.053%                                      |
|                      |                                  | Interest of spouse  | 37,073  | 37.073%                                      |
| Mr. Zhang            | Long Position                    | Founder and beneficiary of<br>The Zhang Family Trust<br>and The Golden Nest Trust | 25,874  | 25.874%                                      |
| Mr. Lau<br>Chun Shun | Long Position                    | Beneficiary of trusts ( <i>Note 4</i> )   | 82,633  | 82.633%                                      |

*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 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (v) 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) YC2006 Family Irrevocable Trust and The Zhang Family Trust are irrevocable trusts while The Liu Family Trust and The Golden Nest Trust are revocable trusts.
- (3) Ms. Cheung is the spouse of Mr. Liu. Each of Ms. Cheung and Mr. Liu is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (4) Mr. Lau Chun Shun is a beneficiary of each of the YC2006 Family Irrevocable Trust, The Liu Family Trust and The Golden Nest Trust. He is therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### 3. SUBSTANTIAL SHAREHOLDERS

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

| Name of Shareholder                                | Long Position/<br>Short Position | Capacity  | No. of<br>Shares held | Approximate<br>percentage<br>of total<br>issued Shares* |
|--|----------------------------------|---|-----------------------|---|
| Best Result  | Long Position                    | Beneficial Owner                                      | 2,992,120,000         | 64.17%  |
| The Northern Trust<br>Company of Delaware          | Long Position                    | Trustee of YC2006 Family<br>Irrevocable Trust         | 2,992,120,000         | 64.17%  |
| Zhang Xiujie                                       | Long Position                    | Special trustee of YC2006<br>Family Irrevocable Trust | 2,992,120,000         | 64.17%  |
| BNP Paribas<br>Jersey Trust<br>Corporation Limited | Long Position                    | Trustee of The Liu Family Trust                       | 2,992,120,000         | 64.17%  |
| Goldnew Limited                                    | Long Position                    | Interest of controlled corporation                    | 2,992,120,000         | 64.17%  |

\* The percentage has been compiled based on the total number of Shares of the Company issued as at 27 May 2011 (i.e. 4,662,572,620 ordinary Shares)

*Note:* Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 29.706% by YC2006 Family Irrevocable Trust with The Northern Trust Company of Delaware, as the trustee, and Zhang Xiujie, as the special trustee; (ii) as to approximately 7.367% by Ms. Cheung; (iii) as to approximately 37.053% by Goldnew Limited which was held by The Liu Family Trust with BNP Paribas Jersey Trust Corporation Limited as the trustee, (iv) as to approximately 10% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust, and (v) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

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

### 4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2010, the date to which the latest audited financial statements of the Group were made up.

### 5. LITIGATION

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

**6. SERVICE CONTRACT**

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

**7. MATERIAL INTEREST**

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

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

**8. COMPETING INTEREST**

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

**9. CONSENT OF EXPERT**

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 1 June 2011 and reference to its names in the form and context in which they respectively appear:

| <b>Name</b> | <b>Qualification</b>   |
|-------------|--|
| Somerley    | A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |

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

To the best knowledge of the Directors, as at the Latest Practicable Date, Somerley was not interested, directly or indirectly, in any assets which had since 30 June 2010, being the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at Room 3129-3140, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

- (c) The company secretary of the Company is Ms. Cheng Wai Chu, Judy, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (d) The Company's Hong Kong Branch Share Registrar is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

#### **11. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at the Hong Kong office of the Company, at Room 3129, 31/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 27 June 2011 and at the Special General Meeting:

- (a) the Longteng Packaging Paperboard Purchase Agreement;
- (b) the Longteng Packaging Materials and Chemicals Supply Agreement;
- (c) the ACN Recovered Paper Supply Agreement;
- (d) the Taicang Packaging Paperboard Purchase Agreements;
- (e) the Bye-laws;
- (f) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (g) the letter of advice from Somerley as set out in this circular; and
- (h) the written consent from Somerley referred to in the paragraph headed "Consent of Expert" of this appendix.

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## NOTICE OF SPECIAL GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Nine Dragons Paper (Holdings) Limited (the “**Company**”) will be held at 3:00 p.m. on Monday, 27 June 2011 at Atrium Room, Level 39, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

### **ORDINARY RESOLUTIONS**

1. “**THAT**

- (a) the Longteng Packaging Paperboard Purchase Agreement dated 16 May 2011 (copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purposes), the terms hereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation to the Longteng Packaging Paperboard Purchase Agreement for the three financial years ended 30 June 2014 be and are hereby approved;

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Longteng Packaging Paperboard Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps for the three financial years ended 30 June 2014.”

2. “**THAT**

- (a) the Longteng Packaging Materials and Chemicals Supply Agreement dated 16 May 2011 (copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purposes), the terms hereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation to the Longteng Packaging Materials and Chemicals Supply Agreement for the three financial years ended 30 June 2014 be and are hereby approved;

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Longteng Packaging Materials and Chemicals Supply Agreement, the transactions contemplated thereunder and the proposed annual caps for the three financial years ended 30 June 2014.”

\* *For identification purposes only*

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## NOTICE OF SPECIAL GENERAL MEETING

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3. **“THAT**

- (a) the ACN Recovered Paper Supply Agreement dated 16 May 2011 (copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purposes), the terms hereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation to the ACN Recovered Paper Supply Agreement for the three financial years ended 30 June 2014 be and are hereby approved;

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the ACN Recovered Paper Supply Agreement, the transactions contemplated thereunder and the proposed annual caps for the three financial years ended 30 June 2014.”

4. **“THAT**

- (a) the Taicang Packaging Paperboard Purchase Agreements dated 16 May 2011 and 23 May 2011 (copies of which are tabled at the meeting and marked “D” and “E” and initialed by the chairman of the meeting for identification purposes), the terms hereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps as set out in the Circular in relation to the Taicang Packaging Paperboard Purchase Agreements for the three financial years ended 30 June 2014 be and are hereby approved;

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental, ancillary to or in connection with the Taicang Packaging Paperboard Purchase Agreements, the transactions contemplated thereunder and the proposed annual caps for the three financial years ended 30 June 2014.”

### SPECIAL RESOLUTION

5. **“THAT** the bye-laws (**“Bye-laws”**) of the Company be and are hereby amended in the following manner:

- (i) The existing Bye-law 86(2) be deleted in its entirety and replaced therefor the following as the new Bye-law 86(2):
  - “(2) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the Members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.”



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## NOTICE OF SPECIAL GENERAL MEETING

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- (ii) The existing Bye-law 87(1) be deleted in its entirety and replaced therefor the following as the new Bye-law 87(1):

“87. (1) Notwithstanding any other provisions in the Bye-laws, at each annual general meeting one third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.”

- (iii) The existing Bye-law 87(2) be deleted in its entirety and replaced therefor the following as the new Bye-law 87(2):

“(2) A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to Bye law 86(2) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.”

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

Hong Kong, 1 June 2011

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

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

*Notes:*

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority shall be deposited at the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument proposes to vote.
3. The register of members of the Company will be closed from Thursday, 23 June 2011 to Monday, 27 June 2011, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the above mentioned meeting, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 22 June 2011.
4. The votes at the above mentioned meeting will be taken by poll.

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## NOTICE OF SPECIAL GENERAL MEETING

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*As at the date of this notice, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Zhang Yuanfu, Mr. Lau Chun Shun and Ms. Gao Jing are executive Directors, 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.*

*This circular (“Circular”) (in both English and Chinese versions) has been posted on the Company’s website at <http://www.ndpaper.com> and on the website of HKExnews at [www.hkexnews.hk](http://www.hkexnews.hk). Shareholders who have chosen to receive the Company’s Corporate Communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company’s website and for any reason have difficulty in gaining access to the Circular posted on the Company’s website will promptly upon request be sent by post the Circular in printed form free of charge. Shareholders may at any time change their choice of means of receipt and language of the Corporate Communications.*

*Shareholders may request for printed copy of the Circular or change their choice of means of receipt and language of the Corporate Communications by sending reasonable notice in writing to the Company’s branch registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong or by sending an email to [ndpaper-ecom@hk.tricorglobal.com](mailto:ndpaper-ecom@hk.tricorglobal.com).*

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