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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)**

## **CONNECTED TRANSACTION**

Sky Dragon (HK) (a wholly-owned subsidiary of the Company) entered into the Acquisition Agreement on 18 May 2007 with Mr. Zhang to acquire from him the entire issued share capital of Sky Dragon (BVI) which indirectly holds the Dongguan Land for a cash consideration of RMB1.00 (equivalent to approximately HK\$1.02). After completion of the Acquisition, the Group will assume the net outstanding obligation of RMB151,928,060 (equivalent to approximately HK\$154,703,439) representing the transfer price of the Dongguan Land, other relevant fees payable to the government authorities for obtaining the title of the Dongguan Land and the loans borrowed by Dongguan Sky Dragon for acquisition of the Dongguan Land.

The Directors (including the independent non-executive Directors) believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Zhang is an executive Director of the Company and is therefore a connected person of the Company as defined under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Acquisition are more than 0.1% but less than 2.5% of the relevant percentages as set out in the Listing Rules, the Acquisition constitutes an exempted connected transaction of the Company under Rule 14A.32 of the Listing Rules and is thus exempt from independent Shareholders' approval requirement but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

## **THE ACQUISITION**

### **The Acquisition Agreement**

The principal terms of the Acquisition Agreement are summarized as follows:

Date	:	18 May 2007
Parties	:	Sky Dragon (HK) (a wholly owned subsidiary of the Company), as purchaser Mr. Zhang (an executive Director of the Company), as vendor
Subject matter	:	Acquisition by Sky Dragon (HK) of the entire issued share capital of Sky Dragon (BVI) from Mr. Zhang
Consideration	:	RMB1.00 (equivalent to approximately HK\$1.02)
Completion	:	the Acquisition Agreement was completed on 18 May 2007

## **Basis of Consideration**

The Consideration of RMB1.00 (equivalent to approximately HK\$1.02) was determined on arm's length basis with reference to the net asset value of Sky Dragon (BVI) of approximately RMB1,940 as valued by an independent valuer, Vigers Appraisal & Consulting Ltd., as of 17 May 2007. The Consideration has been paid upon completion of the Acquisition Agreement.

According to the valuation report, the value of the Dongguan Land is approximately RMB151,930,000 (equivalent to approximately HK\$154,705,415). Dongguan Sky Dragon has a net outstanding obligation of RMB151,928,060 (equivalent to approximately HK\$154,703,439) which represents the transfer price of the Dongguan Land, other relevant fees payable to the government authorities for obtaining the title of the Dongguan Land and the loans borrowed by Dongguan Sky Dragon for acquisition of the Dongguan Land. The Directors intend to settle the outstanding payment obligation for the Dongguan Land from the Company's internal source of fund.

## **Background information of the company to be acquired**

The Dongguan Land is the only major asset of Sky Dragon (BVI) and is held through its wholly owned subsidiary Dongguan Sky Dragon. Sky Dragon (BVI) is a company incorporated in the British Virgin Islands with limited liability. Other than holding of the Dongguan Land, Sky Dragon (BVI) and Dongguan Sky Dragon do not engage in any other business. Dongguan Sky Dragon is wholly owned by Sky Dragon (BVI) and is therefore consolidated with Sky Dragon (BVI). On 11 September 2003, Dongguan Sky Dragon purchased the Dongguan Land from Foreign Economic Development Company of Mayong Town, Dongguan City (an independent third party of the Company) at the transfer price of RMB78,101,100. Dongguan Sky Dragon also needed to pay other fees, including the yearly land administration fee and the land use right in order to obtain the title of the Dongguan Land, which was up to the amount of approximately RMB73,825,574 (equivalent to approximately HK\$75,174,199). The cost of acquiring the Dongguan Land as of 17 May 2007 amounted to RMB151,926,674 (equivalent to approximately HK\$154,702,028), including the above-mentioned transfer price and other fees payable for obtaining the title of the Dongguan Land.

For the two financial years ended 30 June 2006, based on the unaudited accounts of Sky Dragon (BVI), Sky Dragon (BVI) incurred losses before and after tax of approximately US\$278 and US\$2 respectively.

The Dongguan Land is a parcel of land of approximately 659,118 square metres for industrial use and is located on Dacheng Village, Mayong County in Dongguan, Guangdong Province, the PRC.

## **Reasons and benefits of the Acquisition**

The Directors consider that further acquisition of land is required to ensure continuous development and expansion of the business of the Group. In Dongguan where the Group has a significant presence, it is increasingly more difficult to locate suitable land for industrial use as the supply of land becomes more limited. The Directors are of the view that the acquisition of the Dongguan Land, being located immediately adjacent to the existing factories operated by the Group, is more desirable and suitable for future expansion of the Group and is in line with the overall development plan of the Group. The Directors also confirm that there are no other suitable alternatives available in the vicinity of the existing facilities of the Group. Dongguan Land is intended to be used for building production and storage facilities.

The Directors (including the independent non-executive Directors) believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## GENERAL

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

Mr. Zhang is an executive Director of the Company and is therefore a connected person of the Company as defined under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Acquisition are more than 0.1% but less than 2.5% of the relevant percentages as set out in the Listing Rules, the Acquisition constitutes an exempted connected transaction of the Company under Rule 14A.32 of the Listing Rules and is thus exempt from independent Shareholders' approval requirement but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Particulars of the Acquisition are disclosed in this announcement and will be disclosed in the Company's annual report in accordance with Rule 14A.45 of the Listing Rules.

## DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued share capital of Sky Dragon (BVI) by Sky Dragon (HK) from Mr. Zhang in accordance with the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 18 May 2007 entered into between Mr. Zhang and Sky Dragon (HK) in relation to the shares of Sky Dragon (BVI)
“associate”	has the same meaning as given to it under the Listing Rules
“Board”	the board of Directors
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the same meaning as given to it under the Listing Rules
“Consideration”	RMB1.00, being the consideration for the acquisition of the entire issued share capital of Sky Dragon (BVI) pursuant to the Acquisition Agreement
“Director(s)”	the director(s) of the Company
“Dongguan Land”	the parcel of land of approximately 659,118 square metres for industrial use located in Dongguan, Guangdong Province, the PRC
“Dongguan Sky Dragon”	Dongguan Sky Dragon Paper Industries Co., Ltd. (東莞天龍紙業有限公司), a wholly foreign owned enterprise established in the PRC and wholly owned by Sky Dragon (BVI)

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhang”	Mr. Zhang Cheng Fei, an executive Director of the Company
“net outstanding obligation”	the difference between total liabilities and cash balance
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“Shareholder(s)”	holder(s) of shares of the Company
“Sky Dragon (BVI)”	Sky Dragon Paper Industries Co., Ltd., a company incorporated in the British Virgin Islands with limited liability on 6 March 2002 and wholly owned by Mr. Zhang
“Sky Dragon (HK)”	Sky Dragon Paper Industries (HK) Co., Limited, a company incorporated in Hong Kong with limited liability and wholly owned by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“%”	per cent.

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

Hong Kong, 22 May 2007

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

*(For illustration purpose, HK\$1 = RMB0.98206)*

*\* for identification purpose only*

“Please also refer to the published version of this announcement in the South China Morning Post”