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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.



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

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



**建泉融資有限公司
VBG Capital Limited**

A letter from the Board is set out on pages 4 to 28 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 29 to 30 of this circular. A letter from VBG Capital Limited, 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 Non-exempt Continuing Connected Transactions and their respective annual caps is set out on pages 31 to 54 of this circular.

A notice convening the Special General Meeting to be held at 11:30 a.m. on Thursday, 29 June 2017, at Studio 1, 7/F, W Hotel, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong is set out on pages 60 to 63 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, Level 22, Hopewell Centre, 183 Queen's Road East, 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.

* For identification purposes only

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DEFINITIONS

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

“2014 Continuing Connected Transactions”	the continuing connected transactions of the Company entered into on 8 May 2014 between the Company and (a) Dongguan Longteng in relation to (i) the purchase of packaging materials and chemicals by the Group, and (ii) the supply of paperboard products by the Group to Dongguan Longteng; (b) Taicang Packaging in relation to (i) the supply of paperboard products by the Group to Taicang Packaging, and (ii) the purchase by the Group of scrap materials products from Taicang Packaging; (c) Honglong Packaging in relation to (i) the purchase of packaging materials by the Group, and (ii) the supply of paperboard products by the Group to Honglong Packaging; (d) Nantong Tenglong in relation to the supply of packaging materials and chemicals to the Group; (e) ACN in relation to the purchase by the Group of wastepaper products; and (f) Tianjin ACN in relation to the purchase by the Group of wastepaper products (the details of which were set out in the announcement of the Company dated 8 May 2014 and the circular of the Company dated 28 May 2014);
“ACN”	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States, which is indirectly wholly-owned by Ms. Cheung Yan and Mr. Liu Ming Chung, Directors and substantial shareholders of the Company;
“ACN Recovered Paper Purchase Agreement”	the agreement entered into between the Company and ACN on 8 May 2017 in relation to the purchase by the Group of recovered paper from ACN;
“associate(s)”	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;
“Director(s)”	the director(s) of the Company;
“Dongguan Longteng”	Dongguan Longteng Industrial Co., Ltd. (東莞市龍騰實業有限公司), a limited liability company established in the PRC which owned by Mr. Zhang Cheng Ming and his family members;
“Group”	the Company and its subsidiaries;
“Guangdong Tenglong Chemicals”	Guangdong Tenglong Chemicals Technology Co., Ltd. (廣東騰龍化工科技有限公司), a company established in the PRC which is indirectly owned by Mr. Zhang Cheng Ming and his family members;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong International Paper”	Hong Kong International Paper Manufacturing Chemical Technology Limited (香港國際造紙化學品科技有限公司), a company incorporated in Hong Kong and is beneficially owned by Mr. Zhang Cheng Ming and his family members;
“Hong Kong International Paper Chemicals Purchase Agreement”	the agreement entered into between the Company and Hong Kong International Paper on 8 May 2017 in relation to the purchase of chemicals by the Group for its production of paperboard products;

DEFINITIONS

“Honglong Packaging”	Dongguan Honglong Packaging Co., Ltd. (東莞弘龍包裝有限公司), a company established in the PRC which is beneficially owned as to 60% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, all being Directors and substantial shareholders;
“Honglong Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Honglong Packaging on 8 May 2017 in relation to the sale of paperboard products by the Group to Honglong Packaging;
“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 Non-exempt Continuing Connected Transactions and their respective annual caps;
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions;
“Independent Shareholders”	Shareholders who are not interested in the transactions described in this circular;
“Latest Practicable Date”	9 June 2017, 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;
“Longteng Packaging Materials and Chemicals Purchase Agreement”	the agreement entered into between the Company and Dongguan Longteng on 8 May 2017 in relation to the purchase of packaging materials and chemicals by the Group for its production of paperboard products;
“Longteng Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Dongguan Longteng on 8 May 2017 in relation to the sale of paperboard products by the Group to Dongguan Longteng;
“Mr. Zhang Cheng Ming”	Mr. Zhang Cheng Ming is a brother of Ms. Cheung Yan and Mr. Zhang Cheng Fei, both being Directors and substantial shareholders of the Company. He is deemed to be a connected person of the Company according to the Listing Rules;
“Nantong Tenglong”	Nantong Tenglong Chemical Technology Co., Ltd. (南通騰龍化工科技有限公司), a company established in the PRC which is indirectly owned by Mr. Zhang Cheng Ming and his family;
“Non-exempt Continuing Connected Transactions”	the continuing connected transactions contemplated under the Longteng Packaging Materials and Chemicals Purchase Agreement, the Hong Kong International Paper Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement, the Honglong Packaging Paperboard Supply Agreement, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of PRC;

DEFINITIONS

“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);
“Special General Meeting”	the special general meeting of the Company to be held at Studio 1, 7/F, W Hotel, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on 29 June 2017 at 11:30 a.m., convened to approve and confirm the Non-exempt Continuing Connected Transactions and their respective annual caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Taicang Packaging”	Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司), a wholly foreign-owned enterprise established in the PRC, which is wholly-owned by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, all being Directors and substantial shareholders of the Company;
“Taicang Packaging Paperboard Supply Agreement”	the agreement entered into between the Company and Taicang Packaging on 8 May 2017 in relation to the sale of packaging paperboard products by the Group to Taicang Packaging;
“Tianjin ACN”	ACN (Tianjin) Resources Co., Ltd. (中南(天津)再生資源有限公司), a company established in the PRC and is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan and Mr. Liu Ming Chung;
“Tianjin ACN Wastepaper Purchase Agreement”	the agreement entered into between the Company and Tianjin ACN on 8 May 2017 in relation to the purchase of wastepaper by the Group from Tianjin ACN; and
“%”	per cent.

LETTER FROM THE BOARD



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

Executive Directors:

Ms. Cheung Yan *JP (Chairlady)*

Mr. Liu Ming Chung

(Deputy Chairman and Chief Executive Officer)

Mr. Zhang Cheng Fei

(Deputy Chief Executive Officer)

Mr. Lau Chun Shun

Mr. Zhang Yuanfu *(Chief Financial Officer)*

Independent non-executive Directors:

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

Mr. Ng Leung Sing *SBS, JP*

Mr. Lam Yiu Kin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

Unit 1, 22/F

One Harbour Square

181 Hoi Bun Road

Kwun Tong, Kowloon

Hong Kong

14 June 2017

*To the Shareholders and, for information only,
holders of the share options*

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 8 May 2017 in relation to the renewal of the 2014 Continuing Connected Transactions. The purposes of this circular are:

- (i) to provide the Shareholders with details of the Non-exempt Continuing Connected Transactions and their respective annual caps;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps; and
- (iv) to give the Shareholders notice of the Special General Meeting.

* For identification purposes only

LETTER FROM THE BOARD

II. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Purchase of chemicals and packaging materials

(1) Longteng Packaging Materials and Chemicals Purchase Agreement

Date: 8 May 2017

Parties: the Company; and
Dongguan Longteng.

Dongguan Longteng is a limited liability company established in the PRC which is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. Dongguan Longteng is wholly-owned by Mr. Zhang Cheng Ming and his family members. Dongguan Longteng is therefore an associate of a connected person of the Company and the transactions between the Group and Dongguan Longteng constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: Dongguan Longteng will supply packaging materials and chemicals on a non-exclusive basis to the Group for the Group's production requirements from time to time.

Term: The Longteng Packaging Materials and Chemicals Purchase Agreement has a fixed term of three financial years ending on 30 June 2020.

Price: The purchase prices of the products supplied by Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and subject to the following additional principles:

The pricing terms for individual orders of chemicals and packaging materials will also be determined by reference to:

- (a) the prevailing market price of similar chemical products as publicly announced on public websites, for example www.100ppi.com, which contains pricing information in relation to the current and historical market price of chemical products; or
- (b) the pricing terms of chemical products of comparable quality, specifications, quantities and required time of delivery offered by the independent suppliers to the Group, which should include quotations from at least three independent suppliers on the Group's approved suppliers' list.

LETTER FROM THE BOARD

The terms of the Longteng Packaging Materials and Chemicals Purchase Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business, and on terms that are no less favourable to the Group than from independent third party suppliers.

Payment terms: The payment terms of the products supplied by Dongguan Longteng is from 15 days to 30 days (as the case may be) of the receipt of the relevant products by the Group, which is in line with the payment terms of the Group for purchases from independent third parties.

Cap Amount: The transaction amount under the Longteng Packaging Materials and Chemicals Purchase Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 <i>RMB' million</i>	Financial year ending 30 June 2019 <i>RMB' million</i>	Financial year ending 30 June 2020 <i>RMB' million</i>
Annual cap	150	100	100

The annual caps under the Longteng Packaging Materials and Chemicals Purchase Agreement were determined based on the historical transactional amounts between the Group and Dongguan Longteng, which for the year ended 30 June 2016 was RMB213 million and for the six months ended 31 December 2016 was already RMB110 million and the expected production requirements of the Group.

The decrease in the annual caps from that of RMB600 million for the year ending 30 June 2017 to RMB150 million for the year ending 30 June 2018, and further decrease to RMB100 million for the year ending 30 June 2019 is due to Dongguan Longteng transferring part of its chemical business to Guangdong Tenglong Chemicals, which is expected to commence production in July 2017, and thereby resulting in less purchases by the Group from Dongguan Longteng.

LETTER FROM THE BOARD

The historical amount of purchases by the Group from Dongguan Longteng for the three financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows. Such purchases represent approximately 7.6%, 7.4% and 7.5% of the total purchases of packaging materials and chemicals by the Group for the two financial years ended 30 June 2015 and 2016, and the six months ended 31 December 2016, respectively:

	For the year ended 30 June 2014 RMB' million	For the year ended 30 June 2015 RMB' million	For the year ended 30 June 2016 RMB' million	For the six months ended 31 December 2016 RMB' million
Annual cap	2,200	600	600	600 <i>(Note 1)</i>
Actual purchases	226	234	213	110 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

Reasons for the Longteng Packaging Materials and Chemicals Purchase Agreement

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the supply of packaging materials and chemical products to the Group. Such agreement was renewed on 26 June 2008, 16 May 2011 and 8 May 2014 respectively, and the current term of the agreement is due to expire on 30 June 2017. As the Group requires packaging materials and chemicals for the production of paperboard products in its ordinary course of business, and Dongguan Longteng is capable of supplying quality products, the Longteng Packaging Materials and Chemicals Purchase Agreement is entered into to facilitate the continuous supply of such packaging materials and chemical products to the Group.

As the Longteng Packaging Materials and Chemicals Purchase Agreement is 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 consider that the transactions between the Company and Dongguan Longteng and the proposed annual caps for the transactions under the Longteng Packaging Materials and Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) Hong Kong International Paper Chemicals Purchase Agreement

Date: 8 May 2017

Parties: the Company; and
Hong Kong International Paper.

LETTER FROM THE BOARD

Hong Kong International Paper is a company incorporated in Hong Kong with limited liability and is an investment holding company. It is wholly-owned by Mr. Zhang Cheng Ming and his family members. Hong Kong International Paper has several subsidiaries including Nantong Tenglong and Guangdong Tenglong Chemicals, which are both engaged in the production of chemicals. Hong Kong International Paper is therefore deemed to be a connected person of the Company and the transactions between the Group and Hong Kong International Paper constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: The subsidiaries of Hong Kong International Paper will supply packaging materials and chemicals on a non-exclusive basis to the Group for the Group's production requirements time to time.

Term: The Hong Kong International Paper Chemicals Purchase Agreement has a fixed term of three financial years ending on 30 June 2020.

Price: The purchase prices of the products supplied by Hong Kong International Paper will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and subject to the additional principles as set out in (1) Longteng Packaging Materials and Chemicals Purchase Agreement above.

The terms of the Hong Kong International Paper Chemicals Purchase Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business, and on terms that are no less favourable to the Group than from independent third party suppliers.

Payment terms: The payment terms of the products supplied by Hong Kong International Paper is from 15 days to 30 days (as the case may be) of the receipt of the relevant products by the Group, which is in line with the payment terms of the Group for purchases from independent third parties.

Cap Amount: The transaction amount under the Hong Kong International Paper Chemicals Purchase Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 RMB' million	Financial year ending 30 June 2019 RMB' million	Financial year ending 30 June 2020 RMB' million
Annual cap	1,150	1,350	1,550

LETTER FROM THE BOARD

The caps under the Hong Kong International Paper Chemicals Purchase Agreement were determined with reference to the historical transaction amount between the Group and Nantong Tenglong. The reasons for maintaining the annual cap at the level of RMB1,150 million even though the actual historical purchases were only at a lower level, purchases for the year ended 30 June 2016 and the six months ended 31 December 2016 were RMB238 million and RMB135 million, respectively, is that Dongguan Longteng will transfer part of its chemical business to Guangdong Tenglong Chemicals and thereby transferring certain purchases from Dongguan Longteng to Hong Kong International Paper. The increase in the annual caps from that of RMB1,150 million for the year ending 30 June 2018 to RMB1,550 million for the year ending 30 June 2020 are due to (1) Dongguan Longteng will transfer part of its chemical business to Guangdong Tenglong Chemicals; and (2) the Group is introducing new paper machines at certain of its production bases in PRC and Vietnam, which are expected to be completed and commence production by the end of June 2017 and successively in the 4th quarter of 2018. The new paper machines are expected to increase the production capacity of the Group by 2.35 million tpa and bring the Group's total design production capacity from the currently 14.08 million tpa to over 16 million tpa. The resulting significant increase in the Group's annual production volume will increase the Group's demand for chemicals and packaging products. Moreover, the Group is continuously implementing technological upgrade to its existing production lines, which is also expected to result in progressive increase in the Group's annual production volume in the next 3 years.

The historical amount of purchases by the Group from Nantong Tenglong for the two financial years ended 30 June 2015 and 2016 and the six months ended 31 December 2016 are as follows. Such purchases represent approximately 3.5%, 8.3% and 9.2% of the total purchases of chemicals and packaging materials by the Group for the two financial years ended 30 June 2015 and 2016, and the six months ended 31 December 2016, respectively.

	For the year ended 30 June 2015	For the year ended 30 June 2016	For the six months ended 31 December 2016
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	1,150	1,150	1,150 <i>(Note 1)</i>
Actual purchases	108	238	135 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

Nantong Tenglong commenced trial production in April 2014 and there have not been any previous transactions between the Group and Nantong Tenglong prior to April 2014.

LETTER FROM THE BOARD

Reasons for the Hong Kong International Paper Chemicals Purchase Agreement

The Group uses various kinds of chemicals in its production process including primarily starch, retention agent and sizing agent. Starch is used to enhance the strength of its products, retention agent is used to increase the retention rate of stock and sizing agent is used to increase water repellency of the paper product. The Group's sourcing strategy is to source from reliable and reputable suppliers that can provide the most cost-effective chemicals with the requisite quality. It also seeks to develop the use of new alternative chemicals with suppliers to improve machine performance and reduce costs. As Dongguan Longteng and Hong Kong International Paper are capable of supplying reliable quality chemicals to the Group, and that they have cooperated with the Group in the past in developing specialty chemicals specifically for the products of the Company, the Directors are of the view that it would be beneficial to continue to source chemicals from Dongguan Longteng and Hong Kong International Paper. In this connection, the Hong Kong International Paper Chemicals Purchase Agreement is entered into to facilitate the continuous supply of chemical products to the Group to satisfy the Group's production requirements.

As the Hong Kong International Paper Chemicals Purchase Agreement is 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 consider that the transactions between the Company and Hong Kong International Paper and the proposed annual caps for the transactions under the Hong Kong International Paper Chemicals Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

The Longteng Packaging Materials and Chemicals Purchase Agreement and the Hong Kong International Paper Chemicals Purchase Agreement are similar in nature and related to the purchase of chemicals for the Group's production requirements from companies controlled by Mr. Zhang Cheng Ming and his family members. Accordingly, the Longteng Packaging Materials and Chemicals Purchase Agreement and the Hong Kong International Paper Chemicals Purchase Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregate transaction amount of the Longteng Packaging Materials and Chemicals Purchase Agreement and the Hong Kong International Paper Chemicals Purchase Agreement are on an annual basis over 5%, the Longteng Packaging Materials and Chemicals Purchase Agreement and the Hong Kong International Paper Chemicals Purchase Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

B. Supply of paperboard products

(3) Longteng Packaging Paperboard Supply Agreement

Date:	8 May 2017
Parties:	the Company; and Dongguan Longteng.
Subject:	The Group will supply packaging paperboard products on a non-exclusive basis to Dongguan Longteng.
Term:	The Longteng Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2020.

LETTER FROM THE BOARD

Price: The selling prices of the products of the Group will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, subject to the following additional principles:

The pricing terms for individual orders shall be determined by reference to:

- (a) the costs of the paperboard products as calculated by the accounts department and the sales and marketing department of the Group;
- (b) the prevailing market price of paperboard products of comparable quality, specifications, quantities and related delivery costs (the “**Prevailing Market Terms**”) based on the market information collected by the sales and marketing department of the Group through its network from time to time; and
- (c) where applicable, the terms agreed with independent customers for products of comparable quality, specifications, quantities and related delivery costs in recent transactions (the “**Independent Products Pricing Terms**”).

Based on the above, the sales and marketing department of the Group will take into account the costs of the paperboard products as a benchmark reference, upon which the sales and marketing department of the Group will determine the final prices through comparison with the Prevailing Market Terms or Independent Products Pricing Terms from at least three independent customers of the Group of similar products, depending on the availability of such information at the time of transaction. In any event, the sales and marketing department of the Group will conduct such comparison before entering into each transaction with the connected person and will ensure that the pricing terms agreed with the connected person are no less favourable than the Prevailing Market Terms or the Independent Products Pricing Terms.

Payment terms: The payment terms of the products supplied by the Group to Dongguan Longteng is from 15 days to 30 days (as the case may be) from the delivery of the relevant products to Dongguan Longteng, which is in line with the payment terms of the products sold by the Group to independent third parties.

LETTER FROM THE BOARD

Cap Amount: The transaction amount under the Longteng Packaging Paperboard Supply Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 RMB' million	Financial year ending 30 June 2019 RMB' million	Financial year ending 30 June 2020 RMB' million
Annual cap	1,000	1,000	1,000

The annual caps under the Longteng Packaging Paperboard Supply Agreement were determined based on historical transaction amount and the expected business growth of Dongguan Longteng in the future. Dongguan Longteng has indicated to the Group that its demand for packaging paperboard will be at around 300,000 tonnes per annum, which is a level that is higher than the actual historical transaction amount. The expected demand, together with the expected increase in the average price of packaging paperboard products is the reason that the proposed annual cap under the Longteng Packaging Paperboard Supply Agreement is higher than the actual historical transaction amount.

The historical transaction amount of purchases by Dongguan Longteng for the three financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows. Such purchases represent approximately 1.5%, 1.3% and 1.5% of the sales of packaging paperboard of the Group for the two years ended 30 June 2015 and 2016, and the six months ended 31 December 2016, respectively:

	For the year ended 30 June 2014 RMB' million	For the year ended 30 June 2015 RMB' million	For the year ended 30 June 2016 RMB' million	For the six months ended 31 December 2016 RMB' million
Annual cap	1,100	610	800	1,000 <i>(Note 1)</i>
Actual sales	478	452	422	294 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

LETTER FROM THE BOARD

Reasons for the Longteng Packaging Paperboard Supply Agreement

The Group and Dongguan Longteng entered into an agreement on 12 February 2006 to regulate the supply of packaging paperboard products manufactured by the Group to Dongguan Longteng. Such agreement was renewed on 26 June 2008, 16 May 2011 and 8 May 2014 respectively, and the current term of the agreement is due to expire on 30 June 2017. As Dongguan Longteng requires paperboard products to package its goods as part of its manufacturing operation, the Group has been a supplier of packaging paperboard products to Dongguan Longteng in the ordinary course of business of the Group since 2004. The Longteng Packaging Paperboard Supply Agreement is entered into to facilitate the continuous sale of the packaging paperboard products by the Group to Dongguan Longteng.

As the Longteng Packaging Paperboard Supply Agreement is 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 consider that the transactions between the Company and Dongguan Longteng and the proposed annual caps for the transactions under the Longteng Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(4) *Taicang Packaging Paperboard Supply Agreement*

Date:	8 May 2017
Parties:	the Company; and Taicang Packaging.
Subject:	The Group will from time to time supply packaging paperboard products manufactured by the Group on a non-exclusive basis to Taicang Packaging.
Term:	The Taicang Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2020.
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 in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, and subject to such additional pricing principles as set out in (3) Longteng Packaging Paperboard Supply Agreement above and will be no less favourable to the Group than those offered to independent purchasers of the Group.
Payment terms:	The payment terms of the products supplied by the Group to Taicang Packaging is from 15 days to 30 days (as the case may be) from the delivery of the relevant products to Taicang Packaging, which is in line with the payment terms of the products sold by the Group to independent third parties.

LETTER FROM THE BOARD

Cap Amount: The transaction amount under the Taicang Packaging Paperboard Supply Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 RMB' million	Financial year ending 30 June 2019 RMB' million	Financial year ending 30 June 2020 RMB' million
Annual cap	600	1,200	1,320

The annual caps under the Taicang Packaging Paperboard Supply Agreement were determined by reference to the historical transaction amount with Taicang Packaging, which for the year ended 30 June 2016 was RMB218 million, and the six months ended 31 December 2016 was RMB160 million. Taicang Packaging has indicated to the Group that its demand for packaging paperboard will be at around 164,160 tonnes per annum, which is a level that is higher than the actual historical transaction amount. In addition, Taicang Packaging is expected to increase its production capacity in mid-2018 from 200 million sq.m. to 680 million sq.m. This significant increase in production capacity, together with the increases in the price of the products as a result of increased material costs, is the reason that the proposed annual cap under the Taicang Packaging Paperboard Supply Agreement is higher than the actual historical transaction amount.

The historical amount of sales to Taicang Packaging for the three financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows, representing approximately 0.6%, 0.7% and 0.8% of the sales of packaging paperboard of the Group for the two years ended 30 June 2015 and 2016 and the six months ended 31 December 2016, respectively.

	For the year ended 30 June 2014 RMB' million	For the year ended 30 June 2015 RMB' million	For the year ended 30 June 2016 RMB' million	For the six months ended 31 December 2016 RMB' million
Annual cap	700	330	350	380 <i>(Note 1)</i>
Actual purchases	181	185	218	160 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

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Reasons for the Taicang Packaging Paperboard Supply Agreement

The Group and Taicang Packaging entered into an agreement on 12 February 2006 to regulate the supply of packaging products manufactured by the Group to Taicang Packaging. Such agreement was renewed on 26 June 2008, 16 May 2011 and 8 May 2014 respectively, and the current term of the agreement is due to expire on 30 June 2017. As Taicang Packaging requires paperboard products for the packaging of its products in its manufacturing operation, the Group has been a supplier of paperboard products to Taicang Packaging in the ordinary course of business of the Group for a long period of time. The Taicang Packaging Paperboard Supply Agreement is entered into to facilitate the continuous sale of such products by the Group to Taicang Packaging.

As the Taicang Packaging Paperboard Supply Agreement is 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 consider that the transactions between the Company and Taicang Packaging and the proposed annual caps for the transactions under the Taicang Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(5) *Honglong Packaging Paperboard Supply Agreement*

Date: 8 May 2017

Parties: the Company; and
Honglong Packaging.

Honglong Packaging is a limited liability company established in the PRC which is principally engaged in the manufacture of paper carton boxes. Honglong Packaging is held as to 60% by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, all being Directors and substantial shareholders of the Company. Honglong Packaging is therefore an associate of a connected person of the Company and the transactions between the Group and Honglong Packaging constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: The Group will from time to time supply packaging paperboard products manufactured by the Group on a non-exclusive basis to Honglong Packaging.

Term: Honglong Packaging Paperboard Supply Agreement has a fixed term of three financial years ending on 30 June 2020.

Price: The selling prices of the packaging paperboard products sold by the Group to Honglong Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed "Pricing Principles for Continuing Connected Transactions" below, subject to such additional pricing principles as set out in (3) Longteng Packaging Paperboard Supply Agreement above and will be no less favourable to the Group than those offered to independent purchasers of the Group.

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Payment terms: The payment terms of the products supplied by the Group to Honglong Packaging is from 15 days to 30 days (as the case may be) from the delivery of the relevant products to Honglong Packaging, which is in line with the payment terms of the products sold by the Group to independent third parties.

Cap Amount: The transaction amount under the Honglong Packaging Paperboard Supply Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 <i>RMB' million</i>	Financial year ending 30 June 2019 <i>RMB' million</i>	Financial year ending 30 June 2020 <i>RMB' million</i>
Annual cap	280	300	320

The annual caps under the Honglong Packaging Paperboard Supply Agreement were determined based on the historical transactional amounts between the Group and Honglong Packaging and the expected business volume of Honglong Packaging. Honglong Packaging has indicated to the Group that its demand for packaging paperboard will be a around 75,000 tonnes per annum, which is at a level higher than the actual transaction amount in the past. The increase in demand, together with the increases in the price of the products as a result of increased material costs is the reason that the annual caps proposed under the Honglong Packaging Paperboard Supply Agreement is higher than the actual transaction amount in the past.

The historical amount of supplies by the Group to Honglong Packaging for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows, representing approximately 0.3%, 0.4% and 0.5% of the sales of packaging paperboard of the Group for the two years ended 30 June 2015 and 2016, and the six months ended 31 December 2016:

	For the year ended 30 June 2015 <i>RMB' million</i>	For the year ended 30 June 2016 <i>RMB' million</i>	For the six months ended 31 December 2016 <i>RMB' million</i>
Annual cap	110	150	210 <i>(Note 1)</i>
Actual supplies	80	132	89 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

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Reasons for the Honglong Packaging Paperboard Supply Agreement

The Group and Honglong Packaging entered into an agreement on 8 May 2014 in respect of such sale of paperboard products by the Group to Honglong Packaging. The term of such agreement is due to expire on 30 June 2017. The Honglong Packaging Paperboard Supply Agreement is entered into to facilitate the continuous sale of paperboard products by the Group to Honglong Packaging in the ordinary course of business of the Group.

The Honglong Packaging Paperboard Supply Agreement is 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 thus consider that the transactions between the Company and Honglong Packaging and the proposed annual caps for the transactions under the Honglong Packaging Paperboard Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement are similar in nature and related to the supply of the Group's paperboard products to companies controlled by Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei, as the case may be, all being Directors and substantial shareholders of the Company, and their associates. Accordingly, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregate annual transaction amount of the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement are over 5%, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement and the Honglong Packaging Paperboard Supply Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

C. Purchase of wastepaper products

(6) ACN Recovered Paper Purchase Agreement

Date: 8 May 2017

Parties: the Company; and
ACN.

ACN is the largest exporter of recovered paper in the United States and a leading exporter of recovered paper in Europe and Asia, is indirectly wholly owned by Ms. Cheung Yan and Mr. Liu Ming Chung, both being Directors and substantial shareholders of the Company. ACN is therefore a connected person of the Company and the transactions under the ACN Recovered Paper Purchase 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 Purchase Agreement, the Group will purchase on a non-exclusive basis recovered paper from ACN from time to time.

Term: The ACN Recovered Paper Purchase Agreement has a fixed term of three financial years ending on 30 June 2020.

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Price: The purchase prices of the products under the ACN Recovered Paper Purchase Agreement will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, subject to the following additional principles:

The pricing terms for individual orders of wastepaper shall be determined by reference to:

- (a) the prevailing market price of similar waste paper as publicly announced on the public website (www.risi-umpaper.com), which contains pricing information in relation to the current and historical market price of wastepaper, which collects data from market participants and updates the pricing of wastepaper; or
- (b) the pricing terms of wastepaper of comparable quality, specifications, quantities and required time of delivery offered by the independent suppliers (the “**Independent Raw Material Pricing Terms**”) to the Group based on the quotations obtained from at least three independent suppliers on the Group’s approved list of suppliers. The procurement department of the Group will compare the prices quoted and ensure that the pricing terms of the wastepaper are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.

The terms of the ACN Recovered Paper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

Payment terms: The payment terms of the products supplied by ACN to the Group is based on 90 days letter of credit, which is in line with the payment terms of the products purchased by the Group from independent third parties overseas.

Cap Amount: The transaction amount under the ACN Recovered Paper Purchase Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 <i>RMB’ million</i>	Financial year ending 30 June 2019 <i>RMB’ million</i>	Financial year ending 30 June 2020 <i>RMB’ million</i>
Annual cap	19,000	21,000	23,000

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The annual caps under the ACN Recovered Paper Purchase Agreement were determined by reference to the historical transaction amount and the expected demand of recovered paper by the Group. The historical amount of purchases from ACN for the three financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows. Such purchases represent approximately 40%, 50% and 45% of the total purchase of recovered paper products of the Group for the two years ended 30 June 2015 and 2016 and the six months ended 31 December 2016:

	For the year ended 30 June 2014 <i>RMB' million</i>	For the year ended 30 June 2015 <i>RMB' million</i>	For the year ended 30 June 2016 <i>RMB' million</i>	For the six months ended 31 December 2016 <i>RMB' million</i>
Annual cap	23,500	15,000	17,000	19,000 <i>(Note 1)</i>
Actual purchases	13,268	6,955	9,013	4,408 <i>(Note 2)</i>

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

As noted above, the Group is in the process of improving its existing production lines and introducing new paper machines at its production bases located in Vietnam and the PRC, which will commence production by the end of June 2017 and successively in the 4th quarter of 2018 respectively. It is therefore expected that the production volume of the Group will expand and its design production capacity will expand substantially by 2.35 million tpa from the currently 14.08 million tpa to over 16 million tpa. With the increase in production capacity, the volume of purchase of recovered paper by the Group will increase correspondingly. The said factor explains why the Group's expected demand for recovered paper from ACN for the financial year ending 30 June 2018 is considerably higher than the historical actual transaction amounts. Moreover, the Group is continuously implementing technological upgrade to its existing production lines, which is also expected to result in progressive increase in the Group's annual production volume in the next 3 years.

Reasons for the ACN Recovered Paper Purchase Agreement

Recovered paper is the Group's largest raw materials component. Like most large-scale packaging paperboard manufacturers, the Group's ability to source large volumes of consistently high-quality recovered paper under stable, long-term arrangements is critical to its success. Because of the Group's policy of maximizing the use of recovered paper to produce high-quality products to meet its customers' cost objectives and environmental policies, this ability is even more critical to the Group's strategy. As a result, the Group's sourcing strategy is to source from suppliers that can offer reliable and high volume supplies of recovered paper with consistent quality. ACN is the largest exporter of recovered paper from the United States

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and Europe to China. It is a well-known international supplier of recovered paper and procures recovered paper from major suppliers globally pursuant to long-term supply contracts to ensure a continuous and stable supply of recovered paper.

ACN has been a supplier of recovered paper to the Group since 1998 and is the major supplier of recovered paper to the Group. Given that recovered paper from North America and Europe are more consistent in quality, they form the key raw material component of the Group's production. Due to the volume of its shipments to China, ACN has been able to obtain favorable ocean freight rates for shipment of recovered paper to the Group. Moreover, the Group is able to obtain volume discounts on its purchases from ACN, which usually would result in the Group being able to source quality recovered paper from ACN at a more competitive price than those available from other suppliers for the same types of recovered paper. Such competitive price and the consistent quality of recovered paper available from ACN is beneficial to the operation and development of the Group.

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, 30 June 2008, 16 May 2011 and 8 May 2014 respectively, and the current term of the agreement is due to expire on 30 June 2017.

The Group is introducing new paper machines at certain of its production bases in the PRC and Vietnam, which are targeted to be completed and commence production before the end of 2018. With the new equipment, it is expected that the Group's production capacity will increase from 14.08 million tpa to over 16 million tpa, and result in a significant increase in the Group's annual production volume. Furthermore, the Group is continuously implementing technological upgrading on its existing production lines, which is also expected to result in progressive increase in the Group's annual production volume in the next 3 years. With the increases in capacity, it is critical to the Group's continuous operation for it to be able to secure a stable and consistent source of supply of quality recovered paper at a competitive price. The ACN Recovered Paper Purchase Agreement is entered into to facilitate the continuous supply of such products to the Group.

Notwithstanding that ACN has been the major supplier of recovered paper to the Group, the Group has a policy to diversify its sources of supply and maintains a portion of its supplies of recovered paper from independent suppliers.

As the ACN Recovered Paper Purchase Agreement is 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 consider that the transactions between the Company and ACN and the proposed annual caps for the transactions under the ACN Recovered Paper Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(7) *Tianjin ACN Wastepaper Purchase Agreement*

Date: 8 May 2017

Parties: the Company; and
Tianjin ACN.

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Tianjin ACN is a company established in the PRC and is principally engaged in the business of the sourcing of wastepaper in PRC. Tianjin ACN is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan and Mr. Liu Ming Chung, both are Directors and substantial shareholders of the Company. Accordingly, Tianjin ACN is a connected subsidiary of the Company and the transactions under the Tianjin ACN Wastepaper Purchase Agreement will constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Subject: Pursuant to the terms of the Tianjin ACN Wastepaper Purchase Agreement, the Group will purchase on a non-exclusive basis recovered paper from Tianjin ACN from time to time.

Term: The Tianjin ACN Wastepaper Purchase Agreement has a fixed term of three financial years ending on 30 June 2020.

Price: The purchase prices of the products under the Tianjin ACN Wastepaper Purchase Agreement will be determined with reference to the prevailing market prices of waste paper in the PRC and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing Principles for Continuing Connected Transactions” below, subject to the additional pricing principles set forth in (6) ACN Recovered Paper Purchase Agreement above, and will be no less favourable to the Group than those offered by independent suppliers of similar products.

The terms of the Tianjin ACN Wastepaper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.

Payment terms: The payment terms of the wastepaper supplied by Tianjin ACN to the Group is based on 7 days credit terms from the delivery of the relevant products to the Group, which is in line with the payment terms of products purchased by the Group from independent third parties.

Cap Amount: The transaction amount under the Tianjin ACN Wastepaper Purchase Agreement for each of three financial years ending 30 June 2020 will not exceed the following annual cap:

	Financial year ending 30 June 2018 RMB’ million	Financial year ending 30 June 2019 RMB’ million	Financial year ending 30 June 2020 RMB’ million
Annual cap	12,000	14,000	16,000

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The annual caps under the Tianjin ACN Wastepaper Purchase Agreement were determined by reference to the historical transaction amount, the expected demand of recovered paper by the Group, and the fluctuation in recovered paper prices in the PRC. The prices of recovered paper in the PRC has fluctuated and was highly volatile, with the average price for recovered paper being at a historical low point during 2013 to 2016. In early 2017, the average price for recovered paper has increased by approximately 30% to 40% as compared to the average price for 2013 to 2016. The annual caps have therefore taken into consideration the potential hike in recovered paper prices during the term of the agreement.

Moreover, the Group is introducing new paper machines at certain of its production bases in PRC and Vietnam, which will commence production by the end of June 2017 and successively in the 4th quarter of 2018 respectively. It is expected to increase the production capacity of the Group by 2.35 million tpa from the current 14.08 million tpa to over 16 million tpa. Such increase in the Group's annual production volume is also expected to increase the Group's demand for recovered paper to meet its production needs. The said factor explains why the Group's expected demand for recovered paper from Tianjin ACN for the financial year ending 30 June 2018 is considerably higher than the historical actual transaction amounts. Furthermore, the Group is continuously implementing technological upgrading on its existing production lines, which is also expected to result in progressive increase in the Group's annual production volume in the next 3 years.

The historical amount of purchases from Tianjin ACN for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 are as follows. Such purchases represent approximately 36%, 27% and 33% of the total purchase of recovered paper products of the Group for the two years ended 30 June 2015 and 2016, and the six months ended 31 December 2016, respectively:

	For the year ended 30 June 2015	For the year ended 30 June 2016	For the six months ended 31 December 2016
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	7,600	8,900	10,000 (Note 1)
Actual purchases	5,784	4,773	3,302 (Note 2)

Notes:

1. The annual cap is for the entire financial year ended 30 June 2017
2. unaudited figures

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Reasons for the Tianjin ACN Wastepaper Purchase Agreement

As noted above, recovered paper is a key raw material in the Group's production. Although recovered paper from North America and Europe still form the bulk of the supplies, with economic development in the PRC, recovered paper quality in the PRC has improved in the past decade and the Group has begun to source recovered paper locally in the PRC. The Group and Tianjin ACN entered into an agreement on 8 May 2014 in respect of purchases of recovered paper by the Group from Tianjin ACN. The term of such agreement is due to expire on 30 June 2017 and the Tianjin ACN Wastepaper Purchase Agreement is entered into to facilitate the continuous purchase by the Group of recovered paper products in the PRC.

As the Tianjin ACN Wastepaper Purchase Agreement is 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 consider that the transactions between the Company and Tianjin ACN and the proposed annual caps for the transactions under the Tianjin ACN Wastepaper Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

The ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement are similar in nature and related to the purchase of waste paper for the Group's production requirements from companies controlled by or associated with Ms. Cheung Yan and Mr. Liu Ming Chung, both being Directors and substantial shareholders of the Company. Accordingly, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement would need to be aggregated for the calculation of the classification of the transactions. As the applicable ratios for the aggregated annual transaction amount of the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement are over 5%, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. PRICING PRINCIPLES FOR CONTINUING CONNECTED TRANSACTIONS

The basis of determining the prices of the products to be supplied or purchased by the Group under the respective agreement of the continuing connected transactions of the Group will be in accordance with the prevailing market prices of similar products and on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality offered by other suppliers/purchasers;
- (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supplied or purchased by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

In determining the prevailing market price for the products for a particular contract, the Company will:

- (a) in respect of procurement of products from a connected person or his/her associates, invite quotations from at least three independent suppliers to give a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from

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both the technical and commercial perspectives by qualified personnel of the Company to ensure that the products to be procured from a connected person or his/her associates are comparable to the prices for such products being offered by independent third parties; and

- (b) in respect of provision of products to be sold to a connected person or his/her associates, evaluate and assess the scope of the relevant order and prepare a detailed cost calculation by reference to cost of materials, products and labors, quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available) to ensure that the prices of the products of the Group are competitive and comparable to those being offered to independent third party customers of the Group.

To ensure that the actual prices for the continuing connected transactions of the Group are on normal commercial terms and on terms no less favourable to the Group than that available from independent third party suppliers/customers, the Group has in place procedures and principles to conduct regular checks to review and assess whether the products have been supplied/purchased in accordance with the terms of the relevant agreement.

IV. INTERNAL CONTROL FOR CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the prices of the products are fair and reasonable, and are in line with the market average, the Group adopts the following methods and procedures:

- (a) The relevant personnel of the business department of the Company will conduct regular checks on a monthly basis to review and assess whether the transactions contemplated under the relevant continuing connected transactions are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy:
 - (i) both the sales team and the marketing team will from time to time (on a regular bi-weekly basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to ascertain the quality of the products compared to similar products in the market and the reference price of each type of the products in the market;
 - (ii) the operations team will regularly on a bi-weekly basis review, monitor and benchmark with the average industry gross profit margin in respect of the sales of the products;
 - (iii) the Company also conducts regular bi-weekly basis reviews of the sales, margin, market and profitability of the products and ensures the transactions are within the annual cap;
 - (iv) the Group would also work closely with customers with a view to obtaining information on the demand and inventory situation of the customers. The Company would then adjust or negotiate the prices of the products as and when necessary to ensure price fairness.
- (b) The Company will conduct periodic half-yearly audit reviews of the continuing connected transactions of the Company, to consider (i) effective implementation of the pricing policies and the payment methods, evaluation of balances of annual caps; and (ii) identification of management weaknesses, and recommendation of improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable.
- (c) The independent non-executive directors of the Company will review the transactions contemplated under the continuing connected transactions of the Company pursuant to Listing Rule 14A.55, and confirm in the annual report whether the transactions have been entered in the ordinary and usual course of business of the listed issuer's group; on normal commercial terms or better; and according to the agreement governing the transactions on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

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The independent auditor of the Group will also conduct an annual review on the pricing terms and annual caps thereof.

V. RELATIONSHIPS WITH CONTROLLING SHAREHOLDERS

Set out below is a summary of the purchases from or sales to connected persons under the non-exempt continuing connected transactions in this circular:

	For the year ended 30 June 2014 <i>RMB' million</i>	Percentage of purchases/ supply under the category	For the year ended 30 June 2015 <i>RMB' million</i>	Percentage of purchases/ supply under the category	For the year ended 30 June 2016 <i>RMB' million</i>	Percentage of purchases/ supply under the category	For the six months ended 31 December 2016 <i>RMB' million</i>	Percentage of purchases/ supply under the category
Purchase of chemicals from:								
Dongguan Longteng	226	8.3%	234	7.6	213	7.4	110	7.5
Hong Kong								
International Paper	—	—	108	3.5	238	8.3	135	9.2
Supply of paperboard products to:								
Dongguan Longteng	478	1.7%	452	1.5	422	1.3	294	1.5
Taicang Packaging	181	0.6%	185	0.6	218	0.7	160	0.8
Honglong Packaging	—	—	80	0.3	132	0.4	89	0.5
Purchases of Recovered Paper from:								
ACN	13,268	80%	6,955	40	9,013	50	4,408	45
Tianjin ACN	—	—	5,784	36	4,773	27	3,302	33

Set out below is a summary of the purchases from the connected persons under the non-exempt continuing connected transactions in this circular as a percentage of the total purchases of the Group:

	For the year ended 30 June 2014 <i>RMB' million</i>	Percentage of total purchases of the Group	For the year ended 30 June 2015 <i>RMB' million</i>	Percentage of total purchases of the Group	For the year ended 30 June 2016 <i>RMB' million</i>	Percentage of total purchases of the Group	For the six months ended 31 December 2016 <i>RMB' million</i>	Percentage of total purchases of the Group
Purchase of chemicals and recovered paper	13,494	61.8	13,081	61.0	14,237	62.6	7,955	57.1

As demonstrated by the table above, the connected persons, in particular ACN and Tianjin ACN, have been the major suppliers of recovered paper to the Group.

In respect of the supply of chemicals and packaging materials to the Group, the purchases from Dongguan Longteng and Hong Kong International Paper accounted for less than 20% of the Group's purchases of chemicals for its production and hence the Group is not in reliance on Dongguan Longteng and Hong Kong International Paper for its production requirements.

In respect of recovered paper, ACN and Tianjin ACN, supplied over 70% of the Group's requirements for recovered paper. Recovered paper is the Group's largest raw materials component. Like most large scale packaging paperboard manufacturers, the Group's ability to source large volumes of consistently high-quality recovered paper under stable, long-term arrangements is critical to its success. Because of the Group's policy of maximizing the use of recovered paper to produce high-quality products to meet its customers' cost objectives and environmental policies, this ability is even more critical to the Group's strategy.

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Background of ACN

In 1985, Ms. Cheung started her recovered paper business in Hong Kong. The business has grown quickly during the period from 1985 to 1990 and was principally engaged in the export of recovered paper to the PRC and other Asian countries. Capitalising the growing demand for recovered paper in the PRC market, Ms. Cheung founded ACN in 1990 in the U.S. where there was abundant supply of waste paper as the raw materials for recovered paper. ACN quickly developed into a major collector of waste paper and became the largest exporter of recovered paper from the United States and Europe to China.

ACN sources its supplies of waste paper globally including the United States and Europe and has its own recycled paper packing plants. The Directors understand that ACN has also entered into long-term supply agreements with major supply sources such as supermarkets and chain stores which ensures stable and consistent supply of raw materials. ACN's customers include various sizes of paper manufacturers in the PRC and overseas using recovered paper as primary raw materials. It is not supplying exclusively to the Group.

ACN's board of directors and management team are independent of the Company. For the purpose of the listing of the shares of the Company on the Stock Exchange, Ms. Cheung and Mr. Liu resigned from their office as directors of ACN in January 2006. The Company, in managing its business with ACN, has delegated such management to certain members of the Group's senior management other than Ms. Cheung and Mr. Liu. In addition, Ms. Cheung and Mr. Liu will, together with their associates who are the Directors, abstain from voting at the board meetings of the Company in respect of the supply arrangement between ACN and the Group.

Purchases of recovered paper from connected persons

The Group has been sourcing recovered paper from ACN due to its reliable supply, consistent quality and reasonable price, which are beneficial to the operations of the Group and provide the Group with a competitive edge. ACN procures its supplies from major sources globally and has long-term supply agreements with major supply sources. The Group believes that reliability of supply of recovered paper is essential for its production planning, inventory control, pricing and delivery schedules. As the Group is ACN's largest customer, ACN also gives priority to the Group's purchase orders over those from its other customers. In addition, ACN's strict control on the quality of recovered paper that it supplies helps ensure that the recovered paper that the Group purchases from ACN and hence its products are of consistent quality.

The mutually beneficial relationship between the Group and ACN has grown from the application of commercial considerations by both parties as two independent business entities. The Group is a significant player in the containerboard manufacturing sector in its own right commanding considerable bargaining power vis-a-vis its customers and suppliers. Due to the Group's recurring purchases of recovered paper in large quantities, the Group has been able to secure from ACN supplies at a lower average purchase cost as compared with ACN's sales of the same types of recovered paper to its other customers. As the ability of the Group to enjoy the lower costs benefit arising from its arrangement with ACN is due to its recurring bulk purchases, the Directors consider that the Group's purchases from ACN have been conducted on an arm's length basis and were on normal commercial terms.

Given that the purchases from ACN and Tianjin ACN are being carried out under normal commercial terms and on an arm's length basis and that the supplies from ACN and Tianjin ACN are of consistent and high quality, the Directors consider that purchasing a substantial majority of the Group's recovered paper requirements from ACN and Tianjin ACN is consistent with the Group's sourcing strategy and is fair and reasonable as far as the Company and its shareholders are concerned.

The Group sourced more than 70% of its recovered paper in terms of value from ACN and Tianjin ACN. Apart from ACN and Tianjin ACN, the Group also sources 20% and more of its recovered paper from other suppliers. The Group believes it would be able to source its recovered paper from other independent suppliers.

LETTER FROM THE BOARD

According to China Paper Association, although imports accounted for the bulk of the consumption of recovered paper in China, with economic development and the fast developing on-line sales where large amount of paper products are being used for packaging purpose, the availability and quality of recovered paper in China have also increased/improved. Given the increased supply of recovered paper in the PRC and that the Group has various independent suppliers of varying sizes in Europe, China, Japan and Australia which are capable of offering recovered paper of comparable quality to that offered by ACN for similar and different product grades, the Group believes that it would be able to source from other existing and potential suppliers of recovered paper at competitive rates.

The Group's sourcing strategy is to source from suppliers that can offer reliable and high volume supply of recovered paper with consistent quality. To select additional suppliers, the Group's sourcing department compares the quality and price of recovered paper from major suppliers and considers each supplier's ability to satisfy its volume and delivery requirements. Given the Group's position as the leading containerboard manufacturer in China with considerable bargaining power, and that the Group has sufficient manpower, resources and expertise to develop suppliers, the Directors believe the Group would be able to source raw materials directly from alternative sources. However, as most of the suppliers of recovered paper have their own established sales network and it may take time for the Group to increase its purchases from new suppliers, the Group may experience short to medium term interruption in obtaining sufficient quantity of supplies to replace the quantities of recovered paper supplied by ACN.

VI. SPECIAL GENERAL MEETING

Set out on pages 60 to 63 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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, the vote of the shareholders at a general meeting would be taken by poll. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, and their associates are considered to be interested in the Longteng Packaging Materials and Chemicals Purchase Agreement, the Hong Kong International Paper Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement, the Honglong Packaging Paperboard Supply Agreement, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement. As at the Latest Practicable Date, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun, through Best Results Holdings Limited, held in aggregate 2,992,120,000 Shares, representing approximately 64.01% of the issued share capital of the Company. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun also personally hold 85,597,758 Shares, 27,094,184 Shares, 29,899,821 Shares, and 9,649,000 Shares, representing 1.83%, 0.58%, 0.64% and 0.21% of the issued share capital of the Company, respectively. Accordingly, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, and their associates will abstain from voting for the resolutions proposed at the Special General Meeting to approve the Non-exempt Continuing Connected Transactions.

LETTER FROM THE BOARD

VII. GENERAL

The Group is mainly engaged in the manufacture and sales of packaging paper, recycled printing and writing paper and high value specialty paper products in the PRC. 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.

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei and Mr. Lau Chun Shun are considered to be interested in the Longteng Packaging Materials and Chemicals Purchase Agreement, the Hong Kong International Paper Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement, the Honglong Packaging Paperboard Supply Agreement, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement, and have abstained from voting for the approval of such agreements at the Board meeting held to approve such agreements.

The Independent Board Committee has been established to consider and, if appropriate, make recommendations to the Independent Shareholders on whether the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has appointed VBG Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps.

VIII. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Non-exempt Continuing Connected Transactions. Your attention is also drawn to the letter of advice from VBG Capital which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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 *GBM, JP*

Mr. Ng Leung Sing *SBS, JP*

Mr. Lam Yiu Kin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in

Hong Kong:

Unit 1, 22/F

One Harbour Square

181 Hoi Bun Road

Kwun Tong, Kowloon

Hong Kong

14 June 2017

*To the Independent Shareholders and, for information only,
holders of the share options*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 14 June 2017 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 Non-exempt Continuing Connected Transactions 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 Non-exempt Continuing Connected Transactions. In addition, VBG Capital Limited (“**VBG Capital**”) has been appointed the independent financial adviser to advise us, the Independent Board Committee and the Independent Shareholders in relation to Non-exempt Continuing Connected Transactions and their respective annual caps.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 28 of the Circular, and the letter from VBG Capital to us and the Independent Shareholders containing its advice in respect of the terms of Non-exempt Continuing Connected Transactions and their respective annual caps, as set out on pages 31 to 54 of this Circular.

Having taken into account of the principal factors and reasons considered by VBG Capital and its conclusion and advice, we concur with the views of VBG Capital and consider that the terms of the Non-exempt Continuing Connected Transactions 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

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve Non-exempt Continuing Connected Transactions and their respective annual caps.

Yours faithfully,
The Independent Board Committee of
Nine Dragons Paper (Holdings) Limited

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

Mr. Ng Leung Sing
SBS, JP
*Independent non-executive
Director*

Mr. Lam Yiu Kin
*Independent non-executive
Director*

LETTER FROM VBG CAPITAL

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

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

14 June 2017

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 14 June 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Terms used in this letter of advice shall have the same meanings as defined in the Circular unless the context requires otherwise.

References are made to the announcement and circular of the Company dated 8 May 2014 and 29 May 2014 respectively in relation to the continuing connected transactions of the Group under the 2014 Continuing Connected Transactions. As the current term of each of the agreements under the 2014 Continuing Connected Transactions will expire on 30 June 2017, the Company has on 8 May 2017 entered into, amongst others, the Longteng Packaging Materials and Chemicals Purchase Agreement, the Hong Kong International Paper Chemicals Purchase Agreement, the Longteng Packaging Paperboard Supply Agreement, the Taicang Packaging Paperboard Supply Agreement, the Honglong Packaging Paperboard Supply Agreement, the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement (altogether, the “**CCT Agreements**”) to renew the terms and conditions of such continuing connected transactions. Completion of each of the CCT Agreements is subject to fulfilment of the respective condition(s) precedent thereunder.

With reference to the Letter from the Board, the transactions contemplated under each of the aforesaid agreements constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As such, the Non-exempt Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing and Mr. Lam Yiu Kin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the CCT Agreements and the Non-exempt Continuing Connected Transactions at the Special General Meeting. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM VBG CAPITAL

BASIS OF OUR OPINION

In formulating our opinion with regard to the Non-exempt Continuing Connected Transactions, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the announcement of the Company dated 8 May 2017 and the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Special General Meeting. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, Dongguan Longteng, Hong Kong International Paper, Taicang Packaging, Honglong Packaging, ACN, Tianjin ACN or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 30 June 2020, and they do not represent forecasts of revenues/costs or purchases/sales to be recorded/incurred from the Non-exempt Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue, costs, purchases or sales to be incurred under the Non-exempt Continuing Connected Transactions will correspond with the proposed annual caps.

LETTER FROM VBG CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

(1) **Background of and reasons for the Non-exempt Continuing Connected Transactions**

Business overview of the Group

As referred to in the Letter from the Board, the Group is engaged in the manufacture of linerboard, high performance corrugating medium and certain types of coated duplex board and printing and writing paper.

Set out below is the consolidated financial information of the Group for the six months ended 31 December 2016 and 2015 and two financial years ended 30 June 2016 as extracted from the interim report of the Company for the six months ended 31 December 2016 (the “**2016/17 Interim Report**”) and its annual report for the financial year ended 30 June 2016 (the “**2015/16 Annual Report**”) respectively:

	For the six months ended 31 December 2016 (unaudited) RMB'000	For the six months ended 31 December 2015 (unaudited) RMB'000	For the financial year ended 30 June 2016 (audited) RMB'000	For the financial year ended 30 June 2015 (audited) RMB'000
Sales	19,125,024	16,310,521	32,092,770	30,092,546
Profit for the period/year	1,919,084	327,658	1,149,379	1,456,289

As depicted by the above table, the Group recorded sales of approximately RMB32.1 billion for the financial year ended 30 June 2016, representing a modest growth of approximately 6.7% as compared to the prior financial year. The Group's profitability, however, decreased by approximately 21.1% during the said financial year under review which, with reference to the 2015/16 Annual Report, was mainly attributable to the effect of exchange rate changes. If the exchange losses on operating and financing activities and the one-off loss from derivative financial instruments (including loss on currency and interest rate swap contracts and foreign currency option contracts and cash flow hedge reserve released) (net of tax) were excluded, the profit attributable to equity holders of the Company would have been approximately RMB2,834.1 million, representing a significant increase of over 100% as compared to the prior financial year.

As advised by the Directors, the major contributor of the Group's revenue was its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which altogether accounted for approximately 93.5% of the revenue of the Group for the financial year ended 30 June 2016. The Group generated the rest of its revenue from the recycled printing and writing paper and high value specialty paper products business. The total sales volume of packaging paperboard products and recycled printing and writing paper reached approximately 13.0 million tonnes for the financial year ended 30 June 2016, up by approximately 7.1% as compared to the prior financial year.

From the above table, we further noted that the Group recorded sales of approximately RMB19.1 billion for the six months ended 31 December 2016, representing a significant increase of approximately 17.3% as compared to the corresponding period of prior financial year. The Group's profitability also jumped by more than five times during the said period under review. With reference to the 2016/17 Interim Report, the increase of the Group's sales was mainly driven by the approximately 6.2% increase in sales volume and approximately 10.4% increase in average selling price for the period as compared to the corresponding period of prior financial year.

LETTER FROM VBG CAPITAL

The Group's production capacity

Based on our discussion with the Directors, we understand that as at the Latest Practicable Date, the Group had 38 paper machines for packaging paperboard and printing and writing paper at nine production bases located in the PRC and Vietnam, with aggregate design production capacity of 13,730,000 tonnes per annum (**tpa**). Although the Group did not have any new paper machine commencing production during the financial year ended 30 June 2016 and up to the six months ended 31 December 2016, the Directors advised us that the Group's sales volume achieved historical high due to internal optimisation and upgrading of paper machines at production bases as well as effective strategies of the sales team. The Group is in the process of improving its existing production lines and it is expected that the production volume of the Group will expand progressively in the next three years. Moreover, with reference to the 2016/17 Interim Report, the Group is implementing new paper machine plans at a number of production bases, which include:

Production base	Design capacity
Vietnam	350,000 tpa
Quanzhou, the PRC	350,000 tpa
Chongqing, the PRC	550,000 tpa
Hebei Yongxin, the PRC	500,000 tpa
Shenyang, the PRC	600,000 tpa
Total	2,350,000 tpa

Following the Group's current production plan, the new paper machine at the Vietnam base will commence production by the end of June 2017; whilst the other new paper machines in the PRC are expected to commence production successively in the 4th quarter of 2018.

Information on Dongguan Longteng

As extracted from the Letter from the Board, Dongguan Longteng is a limited liability company established in the PRC which is principally engaged in the trading of packaging paperboard and production of packaging materials and chemicals. The Directors consider that Dongguan Longteng is capable of supplying reliable quality products to the Group.

Information on Hong Kong International Paper

As extracted from the Letter from the Board, Hong Kong International Paper is a company incorporated in Hong Kong with limited liability and is an investment holding company. It has several subsidiaries including Nantong Tenglong and Guangdong Tenglong Chemicals, both being engaged in the production of chemicals. The Directors consider that Hong Kong International Paper is capable of supplying reliable quality chemicals to the Group.

Information on Taicang Packaging

As extracted from the Letter from the Board, Taicang Packaging is a limited liability company established in the PRC and is principally engaged in the manufacture of paper carton boxes and processing of paper products.

Information on Honglong Packaging

As extracted from the Letter from the Board, Honglong Packaging is a limited liability company established in the PRC which is principally engaged in the manufacture of paper carton boxes.

LETTER FROM VBG CAPITAL

Information on ACN

As extracted from the Letter from the Board, ACN is a corporation established with limited liability under the laws of the State of California in the United States and is the largest exporter of recovered paper in the United States and a leading exporter of recovered paper in Europe and Asia.

Information on Tianjin ACN

As extracted from the Letter from the Board, Tianjin ACN is a company established in the PRC and is principally engaged in the business of the sourcing of wastepaper in the PRC.

Shareholders may refer to the Letter from the Board for the shareholding structure of the aforesaid companies and each of their connected relationship with the Group.

Reasons for and possible benefits of the Non-exempt Continuing Connected Transactions

The Company has set forth the respective reasons for and possible benefits of the Non-exempt Continuing Connected Transactions in the paragraph headed “Non-exempt Continuing Connected Transactions” in the Letter from the Board. To sum up, while the Non-exempt Continuing Connected Transactions are recurrent, the entering into of the CCT Agreements are for the purposes of facilitating (i) the purchase of reliable quality chemicals and packaging materials as well as high volume and reliable quality recovered paper and wastepaper products (all being the necessary inputs for the Group’s production of paperboard products); and (ii) the supply of paperboard products to parties which require paperboard products as part of the manufacturing operation, by the Group. The Directors consider that the CCT Agreements are entered into in the ordinary and usual course of business of the Group and the terms have been negotiated on an arm’s length basis and on normal commercial terms. The Directors also consider that the transactions contemplated under each of the CCT Agreements and the proposed annual caps under the CCT Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that according to the Directors,

- (i) both of Dongguan Longteng and Hong Kong International Paper have cooperated with the Group in the past in developing specialty chemicals specifically for the products of the Company and they are capable of supplying reliable quality products to the Group;
- (ii) the selling of paperboard products to Dongguan Longteng, Taicang Packaging and Honglong Packaging can broaden the revenue base of the Group;
- (iii) recovered paper is the Group’s largest raw materials component and hence the Group’s ability to source large volumes of consistently high quality recovered paper under stable, long-term arrangements is critical for its success;
- (iv) the recovered paper from North America and Europe are more consistent in quality and due to the volume of ACN’s shipments to the PRC, ACN has been able to obtain favourable ocean freight rates for shipment of recovered paper to the Group; and
- (v) although recovered paper from North America and Europe still form the bulk of the supplies, with economic development in the PRC, recovered paper quality in the PRC has improved in the past decade and the Group has begun to source recovered paper locally (including but not limited to sourcing from Tianjin ACN) in the PRC.

We are of the view that the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole even though the relevant transactions are not conducted with independent external suppliers/ customers (as the case may be), and the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group.

LETTER FROM VBG CAPITAL

(2) Principal terms of the CCT Agreements

The tables below summarise the major terms of each of the CCT Agreements dated 8 May 2017 as extracted from the Letter from the Board:

(A) *Longteng Packaging Materials and Chemicals Purchase Agreement* (“CCT 1”)

Term:	A fixed term of three financial years ending on 30 June 2020.
Parties:	(i) The Company (ii) Dongguan Longteng
Subject:	Dongguan Longteng will supply packaging materials and chemicals on a non-exclusive basis to the Group for the Group’s production requirements from time to time.
Price:	The purchase prices of the products supplied by Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, and subject to the following additional principles:

The pricing terms for individual orders of packaging materials and chemicals will also be determined by reference to:

- (a) the prevailing market price of similar chemical products as publicly announced on public websites, for example www.100ppi.com, which contains pricing information in relation to the current and historical market price of chemical products; or
- (b) the pricing terms of chemical products of comparable quality, specifications, quantities and required time of delivery offered by the independent suppliers to the Group, which should include quotations from at least three independent suppliers on the Group’s approved suppliers’ list.

The terms of the Longteng Packaging Materials and Chemicals Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business, and on terms that are no less favourable to the Group than from independent third party suppliers.

Payment terms:	The payment terms of the products supplied by Dongguan Longteng is from 15 days to 30 days (as the case may be) of receipt of the relevant products by the Group, which is in line with the payment terms of the Group for purchases from independent third parties.
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The Longteng Packaging Materials and Chemicals Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed (i) around ten individual agreements (which were picked randomly) governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the supply of products similar as those under CCT 1. We noted that the major terms (including the pricing and payment terms) offered by the independent third parties to the Group were similar to those offered by Dongguan Longteng to the Group previously.

LETTER FROM VBG CAPITAL

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the Longteng Packaging Materials and Chemicals Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Longteng Packaging Materials and Chemicals Purchase Agreement, we concur with the Directors that the terms of the Longteng Packaging Materials and Chemicals Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(B) Hong Kong International Paper Chemicals Purchase Agreement (“CCT 2”)

- Term:** A fixed term of three financial years ending on 30 June 2020.
- Parties:** (i) The Company
(ii) Hong Kong International Paper
- Subject:** Hong Kong International Paper will supply packaging materials and chemicals on a non-exclusive basis to the Group for the Group’s production requirements time to time.
- Price:** The purchase prices of the products supplied by Hong Kong International Paper will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, and subject to the additional principles as set out in “(A) Longteng Packaging Materials and Chemicals Purchase Agreement (“CCT 1”)” above.
- The terms of the Hong Kong International Paper Chemicals Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business, and on terms that are no less favourable to the Group than from independent third party suppliers.
- Payment terms:** The payment terms of the products supplied by Hong Kong International Paper is from 15 days to 30 days (as the case may be) of receipt of the relevant products by the Group, which is in line with the payment terms of the Group for purchases from independent third parties.

The Hong Kong International Paper Chemicals Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed (i) around ten agreements (which were picked randomly) governing the actual transactions between the Group and Nantong Tenglong (subsidiary of Hong Kong International Paper which is engaged in the production of chemicals) under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the supply of products similar as those under CCT 2. We noted that the major terms (including the pricing and payment terms) offered by the independent third parties to the Group were similar to those offered by Nantong Tenglong to the Group previously.

LETTER FROM VBG CAPITAL

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Nantong Tenglong under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the Hong Kong International Paper Chemicals Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Hong Kong International Paper Chemicals Purchase Agreement, we concur with the Directors that the terms of the Hong Kong International Paper Chemicals Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(C) Longteng Packaging Paperboard Supply Agreement (“CCT 3”)

- Term:** A fixed term of three financial years ending on 30 June 2020.
- Parties:** (i) The Company
(ii) Dongguan Longteng
- Subject:** The Group will supply packaging paperboard products on a non-exclusive basis to Dongguan Longteng.
- Price:** The selling prices of the products sold by the Group to Dongguan Longteng will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, subject to the following additional principles:
- The pricing terms for individual orders shall be determined by reference to:
- (a) the costs of the paperboard products as calculated by the accounts department and the sales and marketing department of the Group;
 - (b) the prevailing market price of paperboard products of comparable quality, specifications, quantities and related delivery costs (the “**Prevailing Market Terms**”) based on the market information collected by the sales and marketing department of the Group through its network from time to time; and
 - (c) where applicable, the terms agreed with independent customers for products of comparable quality, specifications, quantities and related delivery costs in recent transactions (the “**Independent Products Pricing Terms**”).

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Based on the above, the sales and marketing department of the Group will take into account the costs of the paperboard products as a benchmark reference, upon which the sales and marketing department of the Group will determine the final prices through comparison with the Prevailing Market Terms or the Independent Products Pricing Terms from at least three independent customers of the Group of similar products, depending on the availability of such information at the time of transaction. In any event, the sales and marketing department of the Group will conduct such comparison before entering into each transaction with the connected person and will ensure that the pricing terms agreed with the connected person are no less favourable than the Prevailing Market Terms or the Independent Products Pricing Terms.

Payment terms: The payment terms of the products supplied by the Group to Dongguan Longteng is from 15 days to 30 days (as the case may be) from delivery of the relevant products to Dongguan Longteng, which is in line with the payment terms of the products sold by the Group to independent third parties.

The Longteng Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Therefore, for our due diligence purpose, we have reviewed (i) around three individual agreements (which were picked randomly) governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 3. We noted that the major terms (including the pricing and payment terms) offered by the Group to the independent third parties are similar to those offered by the Group to Dongguan Longteng previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Dongguan Longteng under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the Group to the independent third parties; (ii) it is stipulated under the Longteng Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Longteng Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Longteng Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(D) Taicang Packaging Paperboard Supply Agreement (“CCT 4”)

Term: A fixed term of three financial years ending on 30 June 2020.

Parties: (i) The Company
(ii) Taicang Packaging

Subject: The Group will from time to time supply packaging paperboard products manufactured by the Group on a non-exclusive basis to Taicang Packaging.

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Price: The selling prices of the products sold by the Group to Taicang Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, subject to such additional pricing principles as set out in “(C) Longteng Packaging Paperboard Supply Agreement (“CCT 3”)” above and will be no less favourable to the Group than those offered to independent purchasers of the Group.

Payment terms: The payment terms of the products supplied by the Group to Taicang Packaging is from 15 days to 30 days (as the case may be) from delivery of the relevant products to Taicang Packaging, which is in line with the payment terms of the products sold by the Group to independent third parties.

The Taicang Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Therefore, for our due diligence purpose, we have reviewed (i) around ten individual agreements (which were picked randomly) governing the actual transactions between the Group and Taicang Packaging under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 4. We noted that the major terms (including the pricing and payment terms) offered by the Group to the independent third parties are similar to those offered by the Group to Taicang Packaging previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Taicang Packaging under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the Group to the independent third parties; (ii) it is stipulated under the Taicang Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Taicang Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Taicang Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(E) Honglong Packaging Paperboard Supply Agreement (“CCT 5”)

Term: A fixed term of three financial years ending on 30 June 2020.

Parties: (i) The Company
(ii) Honglong Packaging

Subject: The Group will from time to time supply packaging paperboard products manufactured by the Group on a non-exclusive basis to Honglong Packaging.

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Price: The selling prices of the products sold by the Group to Honglong Packaging will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, subject to such additional pricing principles as set out in “(C) Longteng Packaging Paperboard Supply Agreement (“CCT 3”)” above, and will be no less favourable to the Group than those offered to independent purchasers of the Group.

Payment terms: The payment terms of the products supplied by the Group to Honglong Packaging is from 15 days to 30 days (as the case may be) from delivery of the relevant products to Honglong Packaging, which is in line with the payment terms of the products sold by the Group to independent third parties.

The Honglong Packaging Paperboard Supply Agreement is a framework agreement that sets out the general principles of the supply of products only. Therefore, for our due diligence purpose, we have reviewed (i) around three individual agreements (which were picked randomly) governing the actual transactions between the Group and Honglong Packaging under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as supplier) and independent third parties (as purchaser) in relation to the supply of products similar as those under CCT 5. We noted that the major terms (including the pricing and payment terms) offered by the Group to the independent third parties are similar to those offered by the Group to Honglong Packaging previously.

In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Honglong Packaging under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the Group to the independent third parties; (ii) it is stipulated under the Honglong Packaging Paperboard Supply Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered to the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Honglong Packaging Paperboard Supply Agreement, we concur with the Directors that the terms of the Honglong Packaging Paperboard Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(F) ACN Recovered Paper Purchase Agreement (“CCT 6”)

- Term:** A fixed term of three financial years ending on 30 June 2020.
- Parties:** (i) The Company
(ii) ACN
- Subject:** Pursuant to the terms of the ACN Recovered Paper Purchase Agreement, the Group will purchase recovered paper from ACN on a non-exclusive basis from time to time.
- Price:** The purchase prices of the products supplied by ACN will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, subject to the following additional principles:
- The pricing terms for individual orders of wastepaper shall be determined by reference to:
- (a) the prevailing market price of similar wastepaper as publicly announced on the public website (www.risi-umpaper.com), which contains pricing information in relation to the current and historical market price of wastepaper; or
 - (b) the pricing terms of wastepaper of comparable quality, specifications, quantities and required time of delivery offered by the independent suppliers (the “**Independent Raw Material Pricing Terms**”) to the Group based on the quotations obtained from at least three independent suppliers on the Group’s approved list of suppliers. The procurement department of the Group will compare the prices quoted and ensure that the pricing terms of the wastepaper are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.
- The terms of the ACN Recovered Paper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.
- Payment terms:** The payment terms of the products supplied by ACN to the Group is based on 90 days letter of credit, which is in line with the payment terms of the products purchased by the Group from independent third parties overseas.

The ACN Recovered Paper Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed (i) around ten individual agreements (which were picked randomly) governing the actual transactions between the Group and ACN under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the purchase of products similar as those under CCT 6. We noted that the major terms (including the pricing and payment terms) offered by the independent third parties to the Group are similar to those offered by ACN to the Group previously.

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In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and ACN under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the ACN Recovered Paper Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the ACN Recovered Paper Purchase Agreement, we concur with the Directors that the terms of the ACN Recovered Paper Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(G) Tianjin ACN Wastepaper Purchase Agreement (“CCT 7”)

- Term:** A fixed term of three financial years ending on 30 June 2020.
- Parties:** (i) The Company
(ii) Tianjin ACN
- Subject:** Pursuant to the terms of the Tianjin ACN Wastepaper Purchase Agreement, the Group will purchase recovered paper from Tianjin ACN on a non-exclusive basis from time to time.
- Price:** The purchase prices of the products supplied by Tianjin ACN will be determined with reference to the prevailing market prices in the PRC of wastepaper and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the paragraph headed “Pricing principles for continuing connected transactions” in the Letter from the Board, subject to the additional pricing principles set forth in “(F) ACN Recovered Paper Purchase Agreement (“CCT 6”)” above, and will be no less favourable to the Group than those offered by independent suppliers of similar products to the Group. The terms of the Tianjin ACN Wastepaper Purchase Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.
- Payment terms:** The payment terms of the wastepaper supplied by Tianjin ACN to the Group is based on seven days credit terms from delivery of the relevant products to the Group, which is in line with the payment terms of products purchased by the Group from independent third parties.

The Tianjin ACN Wastepaper Purchase Agreement is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have reviewed (i) around ten individual agreements (which were picked randomly) governing the actual transactions between the Group and Tianjin ACN under the relevant framework agreement for the 2014 Continuing Connected Transactions; and (ii) around ten agreements (which were picked randomly) entered into between the Group (as purchaser) and independent third parties (as supplier) in relation to the purchase of products similar as those under CCT 7. We noted that the major terms (including the pricing and payment terms) offered by the independent third parties to the Group are similar to those offered by Tianjin ACN to the Group previously.

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In light of that (i) the terms of the individual agreements governing the actual transactions between the Group and Tianjin ACN under the relevant framework agreement for the 2014 Continuing Connected Transactions are similar to those offered by the independent third parties to the Group; (ii) it is stipulated under the Tianjin ACN Wastepaper Purchase Agreement that the prices of the products will be determined with reference to the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group, and will be no less favourable to the Group than those offered by the independent third parties; and (iii) the Company will adopt thorough internal control measures as detailed in the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board to monitor the future transactions under the Tianjin ACN Wastepaper Purchase Agreement, we concur with the Directors that the terms of the Tianjin ACN Wastepaper Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Annual caps under each of the CCT Agreements

Set out below are the proposed annual caps under each of the CCT Agreements for the three financial years ending 30 June 2020. For reference purpose, we also set out below the actual transaction amounts of the 2014 Continuing Connected Transactions for the three financial years ended 30 June 2016 and the six months ended 31 December 2016:

	Actual transaction amounts				Proposed annual caps		
	For the financial year ended			For the	For the financial year ending		
	30 June	30 June	30 June	six months	30 June	30 June	30 June
	2014	2015	2016	ended	2018	2019	2020
	RMB' million	RMB' million	RMB' million	30 December	RMB' million	RMB' million	RMB' million
				2016			
				RMB' million			
CCT 1	226	234	213	110	150	100	100
CCT 2	0 (Note)	108	238	135	1,150	1,350	1,550
CCT 3	478	452	422	294	1,000	1,000	1,000
CCT 4	181	185	218	160	600	1,200	1,320
CCT 5	0 (Note)	80	132	89	280	300	320
CCT 6	13,268	6,955	9,013	4,408	19,000	21,000	23,000
CCT 7	0 (Note)	5,784	4,773	3,302	12,000	14,000	16,000

Note: The relevant business has not yet commenced during the financial year ended 30 June 2014.

To assess the fairness and reasonableness of the proposed annual caps under each of the CCT Agreements, we have discussed with the Directors regarding the basis and assumptions underlying the projections of each of the proposed annual caps and requested for the relevant supporting documents. Details of our due diligence work done are as follows:

Purchase of chemicals and packaging materials

CCT 1

As stated in the Letter from the Board, the proposed annual caps under CCT 1 were estimated based on the historical transaction amounts between the Group and Dongguan Longteng and the expected production requirements of the Group. The decrease in the annuals caps from RMB600 million for the financial year ending 30 June 2017 to RMB150 million for the financial year ending 30 June 2018 and further to RMB100 million for the financial year ending 30 June 2019 is due to the reason that Dongguan Longteng will transfer its chemical business partly to Guangdong Tenglong Chemicals (subsidiary of Hong Kong International Paper which is engaged in the production of chemicals) which is expected to commence production in July 2017, and thereby resulting in less purchases by the Group from Dongguan Longteng. To substantiate the proposed annual caps under CCT 1, we have obtained the Group's expected demand for packaging materials and chemicals for the three financial years ending 30 June 2020 from Dongguan Longteng, with comprehensive

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breakdown by (i) the types of materials and chemicals and their respective expected prices throughout the three financial years ending 30 June 2020; and (ii) the expected usage of those materials and chemicals by different paper machines and production bases of the Group based on their respective production capacities. In particular, upon our enquiry with the Directors, we understand that since it is expected that Dongguan Longteng will transfer its chemical business partly to Guangdong Tenglong Chemicals starting from the second half of 2017, the Group will purchase chemicals from Dongguan Longteng for three months only during the financial year ending 30 June 2018.

Summaries below are the key data for calculation of the proposed annual caps for CCT 1:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Expected total demand for packaging materials by the Group (A)	5,376 tonnes and 4,116,000 pieces	10,176 tonnes and 8,139,600 pieces	10,176 tonnes and 8,139,600 pieces
Expected average price of packaging materials per tonne/piece (RMB) (B)	4,997 per tonne and 2.75 per piece	5,436 per tonne and 2.76 per piece	5,436 per tonne and 2.76 per piece
Expected total demand for chemicals by the Group (tonnes) (C)	18,839	—	—
Expected average price of chemicals per tonne (RMB) (D)	4,470	—	—
Expected total purchase from Dongguan Longteng for packaging materials (RMB' million) (E) = (A)*(B)	38	78	78
Expected total purchase from Dongguan Longteng for chemicals (RMB' million) (F) = (C)*(D)	84	—	—
Expected total purchase from Dongguan Longteng (RMB' million) (G) = (E)+(F)	122	78	78

CCT 2

As stated in the Letter from the Board, the proposed annual caps under CCT 2 were estimated based on the historical transaction amounts between the Group and Nantong Tenglong. As mentioned in the paragraph headed "The Group's production capacity" in this letter of advice, the Group is in the process of improving its existing production lines and implementing new paper machine plans at production bases located in Vietnam and the PRC, which will commence production by the end of June 2017 and successively in the 4th quarter of 2018 respectively. It is therefore expected that the production volume of the Group will expand and its design production capacity will also expand substantially by 2,350,000 tpa from the second half of 2017 and hence the volume of purchase of chemicals by the Group will increase correspondingly. Besides, Dongguan Longteng will transfer its chemical business partly to Guangdong Tenglong Chemicals (subsidiary of Hong Kong International Paper which is engaged in the production of chemicals) which is expected to commence production in July 2017. The above factors explain why the Group's expected demand

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for chemical products from Hong Kong International Paper for the financial year ending 30 June 2018 is considerably higher than the historical actual transaction amounts. The aforesaid gradual successive commencement of production of the Group's new paper machines in the PRC in the 4th quarter of 2018 further explains why the Group's expected demand for chemical products from Hong Kong International Paper for the two financial years ending 30 June 2020 will increase continuously.

To substantiate the proposed annual caps under CCT 2, we have obtained the Group's expected demand for chemical products for the three financial years ending 30 June 2020 from Hong Kong International Paper, with comprehensive breakdown by (i) the types of chemicals and their respective prices; and (ii) the expected usage of those chemical products by different paper machines and production bases of the Group based on their respective production capacities. We have also independently researched over the internet and we noted that the expected increase in the average price of chemical products is supported by its recent increasing trend as revealed in the industry updates published at www.100ppi.com, an on-line data and market information provider on the paper industry in the PRC.

Summarises below are the key data for calculation of the proposed annual caps for CCT 2:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Expected annual demand for chemical products by the Group (tonnes)			
(A)	165,869	188,869	205,401
Expected average price of chemical products per tonne (RMB)			
(B)	6,830	7,052	7,105
Expected total purchase from Hong Kong International Paper (RMB' million)			
(C) = (A)*(B)	1,133	1,332	1,459

Supply of paperboard products

CCT 3

As stated in the Letter from the Board, the proposed annual caps under CCT 3 were estimated based on the historical transaction amounts and the expected business growth of Dongguan Longteng in the future. To substantiate the proposed annual caps under CCT 3, we have obtained (i) the purchase indication from Dongguan Longteng for different packaging paperboard products for the three financial years ending 30 June 2020, indicating that its demand for packaging paperboard from the Group will be higher than the historical actual transaction amounts and stays relatively constant at around 300,000 tonnes per annum; and (ii) information with regard to the price movement of paperboard products in recent years. We have also independently researched over the internet and we noted that the expected increase in the average price of packaging paperboard products is supported by its recent increasing trend as revealed in the industry updates published at www.chinapaper.net, an on-line data and market information provider on the paper industry in the PRC.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 3:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Purchase indication for packaging paperboard products received by the Group from Dongguan Longteng (tonnes) (A)	300,000	300,000	300,000
Expected average price of packaging paperboard products per tonne (RMB) (B)	2,591	2,720	2,850
Expected total sales to Dongguan Longteng (RMB' million) (C) = (A)*(B)	777	816	855

CCT 4

As stated in the Letter from the Board, the proposed annual caps under CCT 4 were estimated based on (i) the historical transaction amounts with Taicang Packaging; (ii) the increases in price of the products as a result of increased material costs; and (iii) the expected increase in demand from Taicang Packaging as a result of the increase in its production capacity in mid-2018 from 200 million square meters to 680 million square meters. Based on the purchase indication for packaging paperboard products received by the Group from Taicang Packaging, its demand for packaging paperboard from the Group will be around 164,160 tonnes for the financial year ending 30 June 2018, which is higher than the historical actual transaction amounts. The Company was also informed by Taicang Packaging that as a result of the expected increase in its production capacity in mid-2018, there will be a significant jump in its annual demand for packaging paperboard from around 164,160 tonnes to 362,880 tonnes for the financial year ending 30 June 2019. Thereafter, Taicang Packaging's annual demand of packaging paperboard from the Group will remain relatively constant as compared to that for the financial year ending 30 June 2019.

To substantiate the proposed annual caps under CCT 4, we have obtained (i) the purchase indication received by the Group from Taicang Packaging for packaging paperboard products for the three financial years ending 30 June 2020 as supported by the expected increase of its production scale and hence the quantity of paperboard products it would require from the Company; and (ii) information with regard to the price movement of the products in recent years. We have also independently researched over the internet and we noted that the expected increase in the average price of packaging paperboard products is supported by its recent increasing trend as revealed in the industry updates published at www.chinapaper.net, an on-line data and market information provider on the paper industry in the PRC.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 4:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Purchase indication for packaging paperboard products received by the Group from Taicang Packaging (tonnes) (A)	164,160	362,880	388,800
Expected average price of packaging paperboard products per tonne (RMB) (B)	2,920	3,120	3,320
Expected total sales to Taicang Packaging (RMB' million) (C) = (A)*(B)	479	1,132	1,291

CCT 5

As stated in the Letter from the Board, the proposed annual caps under CCT 5 were estimated based on the historical transaction amounts between the Group and Honglong Packaging and the expected business volume of Honglong Packaging. To substantiate the proposed annual caps under CCT 5, we have obtained (i) the purchase indication received by the Group from Honglong Packaging for different packaging paperboard products for the three financial years ending 30 June 2020, indicating that its demand for packaging paperboard from the Group will be higher than the historical actual transaction amounts and stays relatively constant at around 75,000 tonnes per annum; and (ii) information with regard to the price movement of paperboard products in recent years. We have also independently researched over the internet and we noted that the expected increase in the average price of packaging paperboard products is supported by its recent increasing trend as revealed in the industry updates published at www.chinapaper.net, an on-line data and market information provider on the paper industry in the PRC.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 5:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Purchase indication for packaging paperboard products received by the Group from Honglong Packaging (tonnes) (A)	75,000	75,000	75,000
Expected average price of packaging paperboard products per tonne (RMB) (B)	2,900	3,100	3,300
Expected total sales to Honglong Packaging (RMB' million) (C) = (A)*(B)	218	233	248

Purchase of wastepaper products

CCT 6

As stated in the Letter from the Board, the proposed annual caps under CCT 6 were estimated based on the historical transaction amounts and the expected demand of recovered paper by the Group. As mentioned in the paragraph headed “The Group’s production capacity” in this letter of advice, the Group is in the process of improving its existing production lines and implementing new paper machine plans at production bases located in Vietnam and the PRC, which will commence production by the end of June 2017 and successively in the 4th quarter of 2018 respectively. It is therefore expected that the production volume of the Group will expand and its design production capacity will also expand substantially by 2,350,000 tpa from the second half of 2017 and hence the volume of purchase of recovered paper by the Group will increase correspondingly. The said factor explains why the Group’s expected demand for recovered paper from ACN for the financial year ending 30 June 2018 is considerably higher than the historical actual transaction amounts. The aforesaid gradual successive commencement of production of the Group’s new paper machines in the PRC in the 4th quarter of 2018 further explains why the Group’s expected demand for recovered paper from ACN for the two financial years ending 30 June 2020 will increase continuously.

To substantiate the annual caps under CCT 6, we have obtained (i) the Group’s expected demand for recovered paper for the three financial years ending 30 June 2020 from ACN based on the expected production capacities of the production bases of the Group; (ii) information with regard to the price movement of recovered paper in recent years; and (iii) information with regard to the consumption rate of recovered paper and percentage of purchase of recovered paper from overseas sources. As at the Latest Practicable Date, the aggregate design production capacity of the Group was 13,730,000 tpa. Based on the Group’s current production plan, its design production capacity will expand substantially by 2,350,000 tpa from the second half of 2017. As such, we consider that the expected annual production of the Group of around 13,276,000 tonnes, 14,761,000 tonnes and 15,311,000 tonnes for the three financial years ending 30 June 2020 respectively is achievable. We have also independently researched over the internet and we noted that the expected increase in the average price of recovered paper is supported by its recent increasing trend as revealed in the industry updates published at www.risi-umpaper.com and www.chinapaper.net, both being on-line data and market information providers on the paper industry in the PRC. As for the consumption rate of recovered paper and percentage of purchase of recovered paper from overseas sources, we checked that they are in line with the historical pattern.

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Summarises below are the key data for calculation of the proposed annual caps for CCT 6:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Expected annual production of the Group (tonnes)			
(A)	13,276,000	14,761,000	15,311,000
Expected demand for recovered paper by the Group from ACN based on the Group's total production (tonnes)			
<i>(Note)</i>			
(B) = (A)*1.15*0.60	9,160,440	10,185,090	10,564,590
Expected price of recovered paper per tonne (RMB)			
(C)	1,650	1,700	1,750
Expected total purchase from ACN (RMB' million)			
(D) = (B)*(C)	15,115	17,315	18,488

Note: The consumption rate of recovered paper is 1:1.15 and it is expected that the Group shall purchase 60% of the total recovered paper it requires for production from overseas sources.

CCT 7

As stated in the Letter from the Board, the proposed annual caps under CCT 7 were estimated based on the historical and the expected demand of recovered paper by the Group, and the fluctuation in recovered paper prices in the PRC. As mentioned in the paragraph headed "The Group's production capacity" in this letter of advice, the Group is in the process of improving its existing production lines and implementing new paper machine plans at production bases located in Vietnam and the PRC, which will commence production by the end of June 2017 and successively in the 4th quarter of 2018 respectively. It is therefore expected that the production volume of the Group will expand and its design production capacity will also expand substantially by 2,350,000 tpa from the second half of 2017 and hence the volume of purchase of recovered paper by the Group will increase correspondingly. The said factor explains why the Group's expected demand for recovered paper from Tianjin ACN for the financial year ending 30 June 2018 is considerably higher than the historical actual transaction amounts. The aforesaid gradual successive commencement of production of the Group's new paper machines in the PRC in the 4th quarter of 2018 further explains why the Group's expected demand for recovered paper from Tianjin ACN for the two financial years ending 30 June 2020 will increase continuously.

To substantiate the annual caps under CCT 7, we have obtained (i) the Group's expected demand for recovered paper for the three financial years ending 30 June 2020 from Tianjin ACN; (ii) information with regard to the price movement of recovered paper in recent years; and (iii) information with regard to the consumption rate of recovered paper and percentage of purchase of recovered paper from local sources. As at the Latest Practicable Date, the aggregate design production capacity of the Group was 13,730,000 tpa. Based on the Group's current production plan, its design production capacity will expand substantially by 2,350,000 tpa from the second half of 2017. As such, we consider that the expected annual production of the Group of around 13,276,000 tonnes, 14,761,000 tonnes and 15,311,000 tonnes for the three financial years ending 30 June 2020 respectively is achievable. We have also independently researched over the internet and we noted that the expected increase in the average price of recovered paper is supported by its recent increasing trend as revealed in the industry updates published at www.risi-umpaper.com and

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www.chinapaper.net, both being on-line data and market information providers on the paper industry in the PRC. As for the consumption rate of recovered paper and percentage of purchase of recovered paper from local sources, we checked that they are in line with the historical pattern.

Summarises below are the key data for calculation of the proposed annual caps for CCT 7:

	Financial year ending 30 June 2018	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Expected annual production of the Group (tonnes)			
(A)	13,276,000	14,761,000	15,311,000
Expected demand for recovered paper by the Group from Tianjin ACN based on the Group's total production (tonnes)			
<i>(Note)</i>			
(B) = (A)*1.15*0.40	6,106,960	6,790,060	7,043,060
Expected price of recovered paper per tonne (RMB)			
(C)	1,550	1,700	1,750
Expected total purchase from Tianjin ACN (RMB' million)			
(D) = (B)*(C)	9,466	11,543	12,325

Note: The consumption rate of recovered paper is 1:1.15 and it is expected that the Group shall purchase 40% of the total recovered paper it requires for production locally.

Based on our independent research over the internet, as revealed by the 2015 annual report of the paper industry (the “**Report**”) published in May 2016 by China Paper Association (a social organisation founded in 1992, registered at the State Ministry of Civil Affairs and regulated by the relevant department of the State Council), the output of paper and paperboard in the PRC in 2015 increased by approximately 2.29% than that in 2014 to approximately 107.1 million tonnes. Consumption of paper and paperboard in the PRC in 2015 also increased by approximately 2.79% than that in 2014 to approximately 103.5 million tonnes. From 2006 to 2015, average output of paper and paperboard per year increased by approximately 5.7%, and average consumption of the same per year increased by approximately 5.1%. The Report further revealed that the Company was one of the top 30 paper manufacturers in the PRC. In 2015, paper output of the Company ranked the first among the top 30 enterprises, and its production doubled that of the paper manufacturer which ranked the second on the top 30 list. Furthermore, as aforementioned, based on the industry updates published at www.100ppi.com, www.risi-umpaper.com, www.chinapaper.net, the market prices of chemicals, paperboard products and wastepaper products in the PRC have been increasing recently. In particular, we noted that the prices of recovered paper in the PRC has fluctuated and was volatile due to factors like currency and exchange rate movement and the increasing global concern on environmental protection.

According to the Food and Agriculture Organisation of the United Nations, the PRC dominated the world's production and consumption of paper and paperboard, and recovered paper. For paper and paperboard, it contributed approximately 27% of the world's total production and consumption. As for recovered paper, it contributed approximately 24% and 37% of the world's total production and consumption, respectively.

LETTER FROM VBG CAPITAL

Taking into account (i) the persistent expansion and optimistic outlook of the paper industry of the PRC and the Group's competitive strength within the industry as aforementioned; (ii) the rising price trend of chemicals, paperboard products and wastepaper products, especially that the prices of recovered paper in the PRC has fluctuated and was volatile; (iii) the historical year on year increase in the gross domestic products of the PRC was over 7% on average from 2012 to 2016; (iv) the depreciation of RMB in recent years which was one of the major factors which have caused the increase in market price of wastepaper products; (v) the increasing global concern on environment protection which may cause further increase in the future price of wastepaper products; and (vi) other possible unforeseeable factors such as inflation, we are of the view that it is acceptable that the proposed annual caps for each of the Non-exempt Continuing Connected Transactions for the three financial years ending 30 June 2020 are set with buffers as compared to their respective expected future transaction amounts so as to cater for any unpredictable market changes.

In view of all of the foregoing, we consider that the proposed annual caps under each of the CCT Agreements for the three financial years ending 30 June 2020 are fair and reasonable so far as the Independent Shareholders are concerned.

(4) Reliance on connected persons

As stated in the Letter from the Board, the historical amount of purchases by the Group from Dongguan Longteng for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 7.6%, 7.4% and 7.5% of the total purchases of chemicals and packaging materials by the Group during the same said year/period, respectively.

As stated in the Letter from the Board, the historical amount of purchases by the Group from Nantong Tenglong for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 3.5%, 8.3% and 9.2% of the total purchases of chemicals and packaging materials by the Group during the same said year/period, respectively.

Since the historical amount of purchases of chemicals and packaging materials by the Group from connected persons represents less than 20% of the Group's total purchases of such products in aggregate and there are other independent third party suppliers available in the market, we are of the view that the level of reliance of the Company on connected persons in this relation was not high. However, given that the proposed annual caps under CCT 1 and CCT 2 are much higher than the historical amount of purchases by the Group from Dongguan Longteng and Nantong Tenglong, we are of the view that the Group's reliance on connected persons in this relation may increase in the future depending on whether the Group can implement effective policies on supplier diversification. With regard to the policies of the Group on supplier diversification, please refer to the sub-section headed "Listing Rules implication and internal control of the Group" in this letter of advice.

As stated in the Letter from the Board, the historical amount of supplies by the Group to Dongguan Longteng for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 1.5%, 1.3% and 1.5% of the sales of packaging paperboard of the Group during the same said year/period, respectively.

As stated in the Letter from the Board, the historical amount of supplies by the Group to Taicang Packaging for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 0.6%, 0.7% and 0.8% of the sales of packaging paperboard of the Group during the same said year/period, respectively.

As stated in the Letter from the Board, the historical amount of supplies by the Group to Honglong Packaging for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 0.3%, 0.4% and 0.5% of the sales of packaging paperboard of the Group during the same said year/period, respectively.

LETTER FROM VBG CAPITAL

Since the historical amount of sales of packaging paperboard by the Group to connected persons represents less than 5% of the Group's total sales of such product in aggregate, we concur with the Directors that the level of reliance of the Company on connected persons in this relation was low. Judging from the amount of the proposed annual caps under CCT 3, CCT 4 and CCT 5, we are of the view that the Group's reliance on connected persons in this relation would likely to remain low in the future.

As stated in the Letter from the Board, the historical amount of purchases by the Group from ACN for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 40%, 50% and 45% of the total purchase of recovered paper products of the Group during the same said year/period, respectively.

As stated in the Letter from the Board, the historical amount of purchases by the Group from Tianjin ACN for the two financial years ended 30 June 2016 and the six months ended 31 December 2016 represents approximately 36%, 27% and 33% of the total purchase of recovered paper products of the Group during the same said year/period, respectively.

We noted that the historical amount of purchases of recovered paper products by the Group from connected persons represents over 70% of the Group's total purchases of such product in aggregate. Furthermore, given that the proposed annual caps under CCT 6 and CCT 7 are much higher than the historical amount of purchases by the Group from ACN and Tianjin ACN, we are of the view that the Group's reliance on connected persons in this relation may further increase in the future depending on whether the Group can implement effective policies on supplier diversification. On the other hand, in view of that (i) recovered paper is the Group's largest raw materials component and hence the Group's ability to source large volumes of consistently high quality recovered paper under stable, long-term arrangements is critical for its success; (ii) ACN is the largest exporter of recovered paper in the United States and a leading exporter of recovered paper in Europe and Asia, accordingly ACN is able to supply the Group with high quality recovered paper such that the Group's production would not be disrupted by possible shortage of key raw material; and (iii) the terms of each of the ACN Recovered Paper Purchase Agreement and the Tianjin ACN Wastepaper Purchase Agreement are fair and reasonable, we are of the opinion that the seemingly high reliance of the Group on connected persons in this relation is justifiable. With regard to the policies of the Group on supplier diversification, please refer to the sub-section headed "Listing Rules implication and internal control of the Group" in this letter of advice.

(5) Listing Rules implication and internal control of the Group

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the values of the Non-exempt Continuing Connected Transactions must be restricted by their respective annual caps for the financial years concerned under the respective CCT Agreements; (ii) the terms of the CCT Agreements (together with the respective annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the CCT Agreements (together with the respective annual caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and their respective annual caps are not being exceeded. In the event that the total amounts of the Non-exempt Continuing Connected Transactions exceed their respective annual caps, or that there is any material amendment to the terms of the CCT Agreements, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

In relation to the above, we noted from the annual reports of the Company for each the three financial years ended 30 June 2016 that the Company has been complying with the stipulated requirements under the Listing Rules for the 2014 Continuing Connected Transactions.

LETTER FROM VBG CAPITAL

Shareholders may also refer to the paragraphs headed “Pricing principles for continuing connected transactions” and “Internal control for continuing connected transactions” in the Letter from the Board with regard to the internal control procedures which the Company has adopted (i) when determining the prevailing market price of the products under the Non-exempt Continuing Connected Transactions; and (ii) to govern the Non-exempt Continuing Connected Transactions. In particular, in order to reduce the Group’s reliance on connected persons on the Non-exempt Continuing Connected Transactions, the Company has implemented the following additional policies:

- (1) Given that according to the China’s National Bureau of Statistics, online retail sales in the PRC reached approximately RMB5.16 trillion in 2016, representing an approximate 26.2% growth from 2015, the accessibility to independent chemicals, packaging materials and local wastepaper suppliers has been widened and it is expected that the Company will be able to source more of those raw materials from different independent third party suppliers.
- (2) As mentioned in the sub-section headed “Principal terms of the CCT Agreements” in this letter of advice, when placing an individual order for chemicals, packaging paper and wastepaper, the Group will try to obtain quotations from at least independent third party suppliers. In the event that the terms and conditions offered by the independent suppliers are in line with the prevailing market terms and/or no less favourable to the Group than those offered by the connected person suppliers, the Company will give priority to the independent suppliers.

We have obtained the relevant internal control manuals from the Company and discussed with the Directors regarding how those internal control procedures have actually been carried out. Moreover, we have obtained from the Company its periodic internal control review reports regarding the 2014 Continuing Connected Transactions to substantiate that those internal control procedures were actually followed to ensure that the terms of the 2014 Continuing Connected Transactions are on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules and the internal control measures adopted by the Company, we are of the view that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions (together with the respective annual caps) and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting to approve the CCT Agreements and the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

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

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/ Short Position	Number of Shares			Number of underlying Shares (in respect of share options)		Total	Approximate percentage of shareholdings*
		Personal Interests	Family Interests	Corporate Interests (Notes)	Personal Interests	Family Interests		
Ms. Cheung Yan ("Ms. Cheung")	Long Position	85,597,758	27,094,184	2,992,120,000	4,500,000	4,500,000	3,113,811,942	66.62%
Mr. Liu Ming Chung ("Mr. Liu")	Long Position	27,094,184	85,597,758	2,992,120,000	4,500,000	4,500,000	3,113,811,942	66.62%
Mr. Zhang Cheng Fei ("Mr. Zhang")	Long Position	29,899,821	—	—	4,500,000	—	34,399,821	0.74%
Mr. Lau Chun Shun	Long Position	9,649,000	—	2,992,120,000	4,500,000	—	3,006,269,000	64.32%
Ms. Tam Wai Chu, Maria	Long Position	1,216,670	—	—	—	—	1,216,670	0.03%

* The percentage has been compiled based on the total number of Shares of the Company issued as at the Latest Practicable Date (i.e. 4,674,220,811 ordinary Shares)

Notes:

- 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 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust; (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust; and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.
- The Zhang Family Trust is irrevocable trust. The Liu Family Trust and The Golden Nest Trust are revocable trusts.
- 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.
- Mr. Lau Chun Shun is a beneficiary of each of 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.

(B) the Underlying Shares of the Company

Details of the outstanding options granted to the Directors under the share option scheme of the Company adopted on 12 February 2006 as at the Latest Practicable Date were as follows:

Name of Director	Date of grant ("Grant Date")	Exercise price per share (<i>HK\$</i>)	Exercise period	Number of outstanding options
Ms. Cheung	29/02/2016	5.19	01/09/2016–28/02/2019	4,500,000
Mr. Liu	29/02/2016	5.19	01/09/2016–28/02/2019	4,500,000
Mr. Zhang	29/02/2016	5.19	01/09/2016–28/02/2019	4,500,000
Mr. Lau Chun Shun	29/02/2016	5.19	01/09/2016–28/02/2019	4,500,000

Note: All options granted have a vesting period of 6 months from the Grant Date and may be exercised on or after 1 September 2016. All options granted have a validity period of 3 years from 29 February 2016 to 28 February 2019.

(C) Interests in Associated Corporation — Best Result

Name of Directors	Long Position/ Short Position	Capacity	No. of issued ordinary shares held in Best Result	Approximate percentage of shareholding
Ms. Cheung	Long Position	Beneficial Owner	37,073	37.073%
	Long Position	Interest of spouse	37,053	37.053%
Mr. Liu	Long Position	Founder of The Liu Family Trust	37,053	37.053%
	Long Position	Interest of spouse	37,073	37.073%
Mr. Zhang	Long Position	Founder and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Mr. Lau Chun Shun	Long Position	Beneficiary of trusts (<i>Note 4</i>)	52,927	52.927%

Notes:

- (1) Best Result directly held 2,992,120,000 Shares in the Company. The issued share capital of Best Result is held (i) as to approximately 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust; (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust; and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.
- (2) The Zhang Family Trust is irrevocable trust. 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 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/ Short Position	Capacity	No. of Shares held	Approximate percentage of total issued Shares*
Best Result (<i>Note</i>)	Long Position	Beneficial Owner	2,992,120,000	64.01%
Ms. Cheung	Long Position	Interest of controlled corporation	2,992,120,000	64.01%
Goldnew Limited	Long Position	Interest of controlled corporation	2,992,120,000	64.01%
BNP Paribas Jersey Trust Corporation Limited	Long Position	Trustee of The Liu Family Trust	2,992,120,000	64.01%

* The percentage has been compiled based on the total number of Shares of the Company issued as at the Latest Practicable Date (i.e. 4,674,220,811 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 37.073% by Ms. Cheung personally; (ii) as to approximately 37.053% by Goldnew Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Liu Family Trust; (iii) as to approximately 10.000% by Acorn Crest Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Zhang Family Trust; and (iv) as to approximately 15.874% by Winsea Investments Limited which was held by BNP Paribas Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.

Save as disclosed above, as at the Latest Practicable Date, 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 2016, 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, save as disclosed in this circular, 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 14 June 2017 and reference to its names in the form and context in which they respectively appear:

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

To the best knowledge of the Directors, as at the Latest Practicable Date, VBG Capital 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, VBG Capital was not interested, directly or indirectly, in any assets which had since 30 June 2016, 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 HM11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at Unit 1, 22/F, One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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 Unit 1, 22/F, One Harbour Square, 181 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including 29 June 2017 and at the Special General Meeting:

- (a) the Longteng Packaging Materials and Chemicals Purchase Agreement;
- (b) the Hong Kong International Paper Chemicals Purchase Agreement;
- (c) the Longteng Packaging Paperboard Supply Agreement;
- (d) the Taicang Packaging Paperboard Supply Agreement;
- (e) the Honglong Packaging Paperboard Supply Agreement;
- (f) the ACN Recovered Paper Purchase Agreement;
- (g) the Tianjin ACN Wastepaper Purchase Agreement;
- (h) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (i) the letter of advice from VBG Capital as set out in this circular;
- (j) the written consent from VBG Capital referred to in the paragraph headed "Consent of Expert" of this appendix; and
- (k) this circular.

NOTICE OF SPECIAL GENERAL MEETING



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

NOTICE IS HEREBY GIVEN that a special general meeting of Nine Dragons Paper (Holdings) Limited (the “**Company**”) will be held at 11:30 a.m. on Thursday, 29 June 2017, at Studio 1, 7/F, W Hotel, 1 Austin Road West, Kowloon Station, Kowloon, 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 Materials and Chemicals Purchase Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the Longteng Packaging Materials and Chemicals Purchase Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Purchase Agreement and the transactions contemplated thereunder.”

2. “**THAT**

- (a) the Hong Kong International Paper Chemicals Purchase Agreement dated 8 May 2017 (copy of which are tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the Hong Kong International Paper Chemicals Purchase Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Hong Kong International Paper Chemicals Purchase Agreement and the transactions contemplated thereunder.”

3. “**THAT**

- (a) the Longteng Packaging Paperboard Supply Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, confirmed and ratified;

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

- (b) the proposed annual caps as set out in the Circular in relation the Longteng Packaging Paperboard Supply Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Supply Agreement and the transactions contemplated thereunder.”

4. **“THAT**

- (a) the Taicang Packaging Paperboard Supply Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “D” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the Taicang Packaging Paperboard Supply Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Supply Agreement and the transactions contemplated thereunder.”

5. **“THAT**

- (a) the Honglong Packaging Paperboard Supply Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “E” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the Honglong Packaging Paperboard Supply Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Honglong Packaging Paperboard Supply Agreement and the transactions contemplated thereunder.”

6. **“THAT**

- (a) the ACN Recovered Paper Purchase Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “F” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the ACN Recovered Paper Purchase Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Purchase Agreement and the transactions contemplated thereunder.”

NOTICE OF SPECIAL GENERAL MEETING

7. “**THAT**

- (a) the Tianjin ACN Wastepaper Purchase Agreement dated 8 May 2017 (copy of which is tabled at the meeting and marked “G” and initialed by the chairman of the meeting for identification purposes), the terms thereof 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 the Tianjin ACN Wastepaper Purchase Agreement for the three financial years ended 30 June 2020 be and are hereby approved; and
- (c) 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 Tianjin ACN Wastepaper Purchase Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 14 June 2017

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

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

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, Level 22, Hopewell Centre, 183 Queen’s Road East, 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 Wednesday, 28 June 2017 to Thursday, 29 June 2017, 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 Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 27 June 2017.
- 4. The votes at the above mentioned meeting will be taken by poll.

NOTICE OF SPECIAL GENERAL MEETING

As at the date of this notice, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Yuanfu are executive Directors, and Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing and Mr. Lam Yiu Kin 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. 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 Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong or by sending an email to 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.