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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
FOR SUPPLY OF RAW PAPER MATERIAL**

AND

**(2) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS FOR PURCHASE OF WASTEPAPER PRODUCTS**

THE FIRST TRANSACTION

Reference is made to the announcement of the Company dated 7 March 2016 under which the Company agreed to supply raw paper material to the Purchaser and its subsidiaries, including the Joint Venture, for a period of three years from 1 April 2016 to 31 March 2019.

As the term of the Existing Come Sure Agreement will expire on 31 March 2019, the Company and the Purchaser entered into the 2019 Come Sure Agreement on 6 March 2019 to renew the continuing connected transactions under the Existing Come Sure Agreement.

THE SECOND TRANSACTION

Reference is made to the announcement of the Company dated 8 May 2017 and the circular of the Company dated 14 June 2017 in relation to the Tianjin ACN Wastepaper Purchase Agreement.

On 6 March 2019, the Company and Tianjin ACN entered into the Tianjin ACN Supplemental Agreement to revise the annual caps for the continuing connected transactions under the Tianjin ACN Wastepaper Purchase Agreement.

LISTING RULES IMPLICATIONS

The First Transaction

The Joint Venture is an associate of Mr. Zhang Cheng Fei, an executive Director and a substantial shareholder of the Company. The transactions contemplated under the 2019 Come Sure Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the annual transaction amount under the 2019 Come Sure Agreement are expected to be more than 0.1% but less than 5%, the 2019 Come Sure Agreement will be subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirements under Rule 14A.76(2)(a) of the Listing Rules.

The Second Transaction

Tianjin ACN is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng, all are Directors and substantial shareholders of the Company. Accordingly, Tianjin ACN is an associate of connected persons 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.

As the applicable percentage ratios in respect of the revised annual caps under the Tianjin ACN Supplemental Agreement are more than 5%, the revision to the annual caps will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Tianjin ACN Supplemental Agreement and VBG Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Tianjin ACN Supplemental Agreement, a letter from VBG Capital and a notice of the Special General Meeting will be despatched to the Shareholders on or before 27 March 2019.

THE FIRST TRANSACTION

Reference is made to the announcement of the Company dated 7 March 2016 under which the Company agreed to supply raw paper material to the Purchaser and its subsidiaries, including the Joint Venture, for a period of three years from 1 April 2016 to 31 March 2019.

As the term of the Existing Come Sure Agreement will expire on 31 March 2019, the Company and the Purchaser entered into the 2019 Come Sure Agreement on 6 March 2019 to renew the continuing connected transactions under the Existing Come Sure Agreement. The key terms of the 2019 Come Sure Agreement are set out below:

Date: 6 March 2019

Parties: the Company and the Purchaser

The Purchaser is a company listed on the main board of the Stock Exchange and is principally engaged in the manufacturing and sale of corrugated paperboards and paper-based packaging products to customers which are manufacturers with production bases in the PRC.

Subject: Pursuant to the 2019 Come Sure Agreement, the Group will supply raw paper materials to the Purchaser and its subsidiaries, including the Joint Venture, for a period commencing from the Effective Date until 31 March 2019.

Pricing Policy: The prices of the products to be supplied by the Group to the Purchaser under the 2019 Come Sure Agreement will be based on prevailing market prices of the products supplied by the Group to its third-party customers, taking into account the quality and comparable order quantities of the products to be supplied to the Purchaser.

The Group will ensure that the prices for products supplied under the 2019 Come Sure Agreement will be fair and reasonable and no more favourable to the Purchaser than those offered by the Group to its independent third party customers.

Annual Caps: The parties have agreed that the annual transaction amount under the 2019 Come Sure Agreement will not exceed the following annual cap:

	For the period from the Effective Date to 31 March 2020 RMB'000	From 1 April 2020 to 31 March 2021 RMB'000	From 1 April 2021 to 31 March 2022 RMB'000
Sale of raw paper materials	550,000	550,000	550,000

The annual cap amounts were determined with reference to the historical transactional amounts between the Group and the Purchaser and the projected requirement of raw paper materials as provided by the Purchaser over the term of the 2019 Come Sure Agreement.

The Company and the Purchaser have entered into the Existing Come Sure Agreement on 28 February 2016 to govern the terms of supply of raw paper materials to the Purchaser up to 31 March 2019. The historical transactional amounts between the Group and the Purchaser are as follows:

	From 1 April 2016 to 31 March 2017 RMB'000	From 1 April 2017 to 31 March 2018 RMB'000	From 1 April 2018 to 31 December 2018 RMB'000
Annual cap amount under the Existing Come Sure Agreement	500,000	500,000	500,000 (<i>Note</i>)
Actual raw paper materials supplied	246,000	426,000	312,000

Note: For the whole year from 1 April 2018 to 31 March 2019.

Payment terms

Payment for the products supplied by the Group under the 2019 Come Sure Agreement will be settled by open accounts, provided that the terms offered to the Purchaser will be no more favourable to the Purchaser than those offered by the Group to its independent third party customers.

Conditions Precedent

The 2019 Come Sure Agreement is conditional upon the fulfillment of the conditions below:

- (i) the compliance of the requirements of the Listing Rules in relation to continuing connected transactions by the Purchaser; and
- (ii) the compliance of the requirements of the Listing Rules in relation to continuing connected transactions by the Company.

THE SECOND TRANSACTION

Reference is made to the announcement of the Company dated 8 May 2017 and the circular of the Company dated 14 June 2017 in relation to the Tianjin ACN Wastepaper Purchase Agreement.

On 8 May 2017, the Company and Tianjin ACN entered into the Tianjin ACN Wastepaper Purchase Agreement in relation to the purchase of recovered paper by the Group from Tianjin ACN. As it is reasonably expected that the annual caps in relation to the transactions under the Tianjin ACN Wastepaper Purchase Agreement will be exceeded for the two remaining financial years ending 30 June 2019 and 2020, on 6 March 2019, the Company and Tianjin ACN entered into the Tianjin ACN Supplemental Agreement to adjust the said annual caps of the Tianjin ACN Wastepaper Purchase Agreement. The details of the Tianjin ACN Wastepaper Purchase Agreement and the Tianjin ACN Supplemental Agreement are set out below:

Parties

- (1) the Company; and
- (2) Tianjin ACN

Tianjin ACN is a company established in the PRC and is principally engaged in the business of sourcing of wastepaper in the PRC.

Subject

Under the Tianjin ACN Wastepaper Purchase Agreement, the Group will purchase wastepaper on a non-exclusive basis from Tianjin ACN from time to time.

Term

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

Pricing terms

The purchase prices of the products under the Tianjin ACN Wastepaper Purchase Agreement will be determined with reference to the prevailing market prices of wastepaper in the PRC and in accordance with the pricing policies of continuing connected transactions of the Group and 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.umpaper.com), which contains pricing information in relation to the current and historical market price of wastepaper, and 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 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.

Revised Annual Caps

Pursuant to the Tianjin ACN Supplemental Agreement, the annual caps for the purchases of wastepaper from Tianjin ACN by the Group for the two remaining financial years ending 30 June 2019 and 2020 will be revised as follows:

	Annual Cap for the financial year ending 30 June	
	2019	2020
	<i>RMB’ million</i>	<i>RMB’ million</i>
Original	14,000	16,000
Revised	30,000	45,000

Basis of determining the revised annual caps

The revised annual caps were determined after arm's length negotiations between the Company and Tianjin ACN based on the historical transaction amount for the financial year ended 30 June 2018 and the six months ended 31 December 2018, the expected demand for wastepaper by the Group to meet its manufacturing requirements, and the expected increases in the price of domestic wastepaper during the term of the Tianjin ACN Wastepaper Purchase Agreement.

The historical transaction amount for the purchases of wastepaper products by the group from Tianjin ACN for the financial year ended 30 June 2018 and the six months ended 31 December 2018 was as follows:

	For the financial year ended 30 June 2018 RMB' million	For the six months ended 31 December 2018 RMB' million
Original annual cap	12,000	14,000 (<i>Note</i>)
Actual transaction amount	11,148	7,096

Note: The annual cap for the financial year ending 30 June 2019.

Save for the revision to the annual caps, the other terms of the Tianjin ACN Wastepaper Purchase Agreement will remain unchanged.

REASONS FOR THE TRANSACTIONS

The First Transaction

On 29 July 2010, Mass Winner Holdings Limited, a wholly owned subsidiary of the Purchaser, and Crown Gold Limited, a company wholly owned by Mr. Zhang Cheng Fei, an executive Director and a substantial shareholder of the Company, have entered into a joint venture agreement to establish the Joint Venture to engage in the manufacturing and sale of corrugated paperboard and paper-based packaging products. The Joint Venture is owned as to 60% by the Purchaser and as to 40% by Crown Gold Limited and is an associate of Mr. Zhang Cheng Fei for the purpose of the Listing Rules. As the supply of raw paper materials to the Purchaser will include supplies to the Joint Venture, the Purchaser and the Company have entered into agreements on 29 July 2010 and 28 February 2013 respectively to govern the supply of raw paper materials to the Purchaser. The Existing Come Sure Agreement entered on 7 March 2016 is due to expire on 31 March 2019. As it is expected that the Group will continue to supply raw paper materials to the Purchaser in the ordinary course of business of the Group, it is necessary to renew the continuing connected transaction under the Existing Come Sure Agreement and enter into the 2019 Come Sure Agreement.

Given that the 2019 Come Sure Agreement is entered into in the usual and ordinary course of business of the Group and the transactions under the 2019 Come Sure Agreement will be conducted on an arm's length basis and on normal commercial terms, the Directors (including the independent non-executive Directors) consider that the terms of the 2019 Come Sure Agreement are fair and reasonable and the entering into of the 2019 Come Sure Agreement is in the interests of the Group and the Shareholders as a whole.

The Second Transaction

The Group purchases wastepaper for its manufacturing operations. Historically, the Group purchased a significant portion of its supplies of wastepaper from overseas. The import of wastepaper by each paper manufacturer is subject to quota pre-approved by the relevant government authority from time to time and the prevailing quality standards required by the government. In 2018, the import quota granted to the paper industry has been reduced, and quality standards have been significantly tightened, notably the prohibition of import of "mixed paper" grades from all countries. All these have effectively reduced the quantity of imported wastepaper available to the paper industry, resulting in greater dependence on wastepaper procurement from the domestic market and bidding up prices of domestic wastepaper. As a result, the Group had to procure significantly larger amounts of domestic wastepaper at higher prices as compared to 2017 and before.

Furthermore, owing to the trade war between the PRC and the U.S., with effect from 23 August 2018, a tariff (currently 25%) became applicable on all wastepaper imported from the U.S. The trade war has also led to tightened measures imposed by the PRC authorities on the inspection and customs clearance of imported wastepaper from the U.S. All these have resulted in volatility in both supplies and prices of imported wastepaper, which caused escalating industry demand for domestic wastepaper and much higher prices in the domestic wastepaper market. In order to ensure that the Group could secure sufficient quantity of wastepaper to meet its manufacturing requirements, and in light of the sporadic supply of imported wastepaper, the Group has to rely more on domestic supply of wastepaper.

As prices for domestic wastepaper have increased by more than 75% since June 2017, and that the Group's new paper production line in Chongqing with designed capacity of 0.55 million tpa has commenced production in January 2019, and four more new paper production lines in Shenyang, Hebei, Quanzhou and Dongguan with combined designed capacity of 2.05 million tpa will commence production in the second and third quarters of 2019, it is expected that the existing annual caps under the Tianjin ACN Wastepaper Purchase Agreement for the two remaining financial years ending 30 June 2019 and 2020 will not be sufficient to meet the Group's requirements. Accordingly, the Tianjin ACN Supplemental Agreement was entered into to enable the Group to purchase wastepaper from Tianjin ACN to meet the Group's production requirements in compliance with the Listing Rules.

Given that the Tianjin ACN Supplemental Agreement have been entered into after arm's length negotiations and under normal commercial terms, the Board considers that (i) the transactions contemplated under the Tianjin ACN Supplemental Agreement are being provided on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) the terms of the Tianjin ACN Supplemental Agreement and the proposed revised annual caps thereunder are fair and reasonable; and (iii) the Tianjin ACN Supplemental Agreement is in the interests of the Company and its Shareholders as a whole. The view of the independent non-executive Directors will be set out in the circular of the Company after taking advice from the independent financial adviser.

INTERNAL CONTROL FOR THE GROUP'S CONTINUING CONNECTED TRANSACTIONS

The pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the finance department of the Group and the management of the Group dedicated with the responsibility of supervising the continuing connected transactions charges of the Group to ensure that the relevant continuing connected transaction is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole. The relevant personnel from the finance department of the Group and the management of the Group will conduct regular checks on a monthly basis to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

The independent non-executive Directors will review the transactions under the relevant continuing connected transaction and the auditors of the Company will also conduct an annual review on the pricing terms and annual caps thereof. Accordingly, the Directors consider that the internal control system of the Group is effective to ensure that the transactions contemplated under the relevant continuing connected transaction have been and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The First Transaction

Mr. Zhang Cheng Fei is an executive Director and a substantial shareholder of the Company. The Joint Venture is 40% owned by Crown Gold Limited, a company wholly owned by Mr. Zhang Cheng Fei, the Joint Venture is hence an associate of Mr. Zhang Cheng Fei for the purpose of the Listing Rules. As the scope of the 2019 Come Sure Agreement will include supplies to the Joint Venture, the 2019 Come Sure Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As the annual transaction amount under the 2019 Come Sure Agreement is expected to exceed 0.1% but below 5%, the transactions under the 2019 Come Sure Agreement will be subject to the reporting and announcement requirements and exempt from the circular, independent financial advice and shareholders' approval requirement under Rule 14A.76(2)(a) of the Listing Rules.

At the Board meeting held to approve the 2019 Come Sure Agreement, Mr. Zhang Cheng Fei, together with Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Lau Chun Shun, Mr. Liu Ken and Mr. Zhang Lianpeng, who are associates of Mr. Zhang Cheng Fei, are considered to be interested in the transactions contemplated under the 2019 Come Sure Agreement and have abstained from voting for the resolutions proposed to approve the 2019 Come Sure Agreement.

The Second Transaction

Tianjin ACN is indirectly owned as to 30% by the Company and as to 70% beneficially owned by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng, all are Directors and substantial shareholders of the Company. Accordingly, Tianjin ACN is an associate of connected persons 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.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the revised annual caps under the Tianjin ACN Supplemental Agreement are more than 5%, the revision to the annual caps is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Liu Ken and Mr. Zhang Lianpeng were considered to be interested in the transactions contemplated under the Tianjin ACN Supplemental Agreement and have abstained from voting at the Board meeting and the Special General Meeting in respect of the resolutions proposed to approve the Second Transaction.

GENERAL

The Group is primarily engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard and white top linerboard), high performance corrugating medium and coated duplex board, as well as the production and sale of recycled printing and writing paper and specialty paper.

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Tianjin ACN Supplemental Agreement and VBG Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Tianjin ACN Supplemental Agreement, a letter from VBG Capital on its advises to the Independent Board Committee and the Independent Shareholders on the terms of the Tianjin ACN Supplemental Agreement and a notice of the Special General Meeting will be despatched to the Shareholders on or before 27 March 2019.

DEFINITIONS

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

“2019 Come Sure Agreement”	the materials purchase agreement dated 6 March 2019 between the Company and Come Sure;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Effective Date”	the date the conditions precedent set forth in the 2019 Come Sure Agreement being satisfied, which is expected to be on or before 1 April 2019;
“Existing Come Sure Agreement”	the agreement dated 7 March 2016 between the Company and the Purchaser;
“First Transaction”	the renewal of the continuing connected transactions for the supply of raw paper material as contemplated under the 2019 Master Agreement;
“Group”	the Company and its subsidiaries;
“Independent Board Committee”	the independent committee of the Board;

“Independent Shareholders”	Shareholders who are not interested in the transactions contemplated under the Tianjin ACN Wastepaper Purchase Agreement and the Tianjin ACN Supplemental Agreement;
“Joint Venture”	Turbo Best Holdings Limited, a joint venture company established by a subsidiary of the Purchaser and Crown Gold Limited, a company wholly owned by Mr. Zhang Cheng Fei, and is indirectly held as to 60% by the Purchaser and as to 40% by Crown Gold Limited;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Purchaser”	Come Sure Group (Holdings) Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange;
“RMB”	Renminbi, the lawful currency of the PRC;
“Second Transaction”	the revision to the annual caps to the Tianjin ACN Wastepaper Purchase Agreement as contemplated under the Tianjin ACN Supplemental Agreement;
“Special General Meeting”	the special general meeting of the Company to be convened to approve the Tianjin ACN Supplemental Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“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% by Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng;
“Tianjin ACN Supplemental Agreement”	supplemental agreement to the Tianjin ACN Wastepaper Purchase Agreement;

“Tianjin ACN Wastepaper Purchase Agreement”	the agreement dated 8 May 2017 entered into between the Company and Tianjin ACN;
“tpa”	unit of production capacity in tonnes per annum;
“U.S.”	the United States of America;
“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 as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee in respect of the revision of annual caps for the continuing connected transactions; and
“%”	per cent.

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

6 March 2019

As at the date of this announcement, the Executive Directors of the Company are Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Ken Liu, Mr. Zhang Lianpeng and Mr. Zhang Yuanfu and the Independent Non-Executive Directors are Ms. Tam Wai Chu, Maria, Mr. Ng Leung Sing, Mr. Lam Yiu Kin and Mr. Chen Kefu.

* *For identification purposes only*