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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders**



**建泉融資有限公司
VBG Capital Limited**

A letter from the Board is set out on pages 3 to 11 of this circular and letters from the Independent Board Committee to the Independent Shareholders is set out on pages 12 to 13 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening the Special General Meeting to be held at Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Friday, 21 July 2023 at 2:30 p.m. is set out on pages 30 to 31 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, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the Special General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you so wish.

* For identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter From The Board	3
Letter from The Independent Board Committee	12
Letter from The Independent Financial Adviser	14
Appendix — General Information	24
Notice of Special General Meeting	30

DEFINITIONS

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

“2020 Continuing Connected Transactions”	(1) the continuing connected transactions of the Company entered into on 2 June 2020 amongst the Company and (a) Dongguan Longteng in relation to the supply of paperboard products by the Group to Dongguan Longteng; (b) Cheng Ming Group in relation to purchase of chemicals from Cheng Ming Group; and (2) the continuing connected transactions of the Company entered into on 2 June 2020, and as amended on 26 March 2021 and 29 August 2022 amongst the Company and ACN, Tianjin ACN and Hainan ACN in relation to the purchase by the Group of recovered paper, recycled pulp and woodchips;
“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;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Cheng Ming Group”	Cheng Ming Group (H.K.) Co., Ltd. (formerly known as Hong Kong International Paper Manufacturing Chemical Technology Limited), a company incorporated in Hong Kong and is beneficially owned by Mr. Zhang Cheng Ming and his family members;
“Cheung Family”	Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun, Mr. Zhang Lianpeng and Ms. Zhang Lianru;
“Company”	Nine Dragons Paper (Holdings) Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the main board of the Stock Exchange;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	directors 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;
“Hainan ACN”	Hainan ACN Resources Co., Ltd. (海南中南再生資源有限公司), a company established in the PRC and is indirectly owned as to 39.9%, 30.1% and 30% by the Cheung Family, Mr. Liu Bocun (an independent third party) and the Company, respectively;

DEFINITIONS

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors;
“Independent Financial Adviser”	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 on the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement;
“Independent Shareholders”	Shareholders who are not interested in the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement;
“Latest Practicable Date”	15 June 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Recovered Paper, Recycled Pulp and Woodchips Agreement”	the agreement entered into amongst the Company, ACN, Tianjin ACN and Hainan ACN on 25 May 2023 in relation to the purchase of recovered paper, recycled pulp and woodchips by the Group;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholders”	shareholders of the Company;
“Special General Meeting”	the special general meeting of the Company to be convened and held at Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Friday, 21 July 2023 at 2:30 p.m. for the Independent Shareholders to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“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 39.9%, 30.1% and 30% by the Cheung Family, Mr. Liu Bocun (an independent third party) and the Company, respectively;
“U.S.”	the United States of America; 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 Chairman and Deputy Chief Executive Officer)

Mr. Ken Liu (Deputy Chairman and Vice President)

Mr. Lau Chun Shun (Vice President)

Mr. Zhang Lianpeng (Vice President)

Mr. Zhang Yuanfu (Chief Financial Officer)

Independent Non-executive Directors:

Mr. Ng Leung Sing *SBS, JP*

Mr. Lam Yiu Kin

Mr. Chen Kefu

Ms. Chan Man Ki, Maggie *MH, JP*

Dr. Li Huiqun

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

21 June 2023

To the Shareholders,

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference are made to the announcements of the Company dated 25 May 2023 and 9 June 2023 in relation to the renewal of the 2020 Continuing Connected Transactions.

The purpose of this circular is:

- (i) to provide the Shareholders with further details of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps;
- (ii) to set out the opinion of the Independent Financial Adviser on the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps;

* For identification purpose only

LETTER FROM THE BOARD

- (iii) to set out the recommendation of the Independent Board Committee on the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps; and
- (iv) to give the Shareholders notice of the Special General Meeting to consider and, if thought fit, to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps.

RECOVERED PAPER, RECYCLED PULP AND WOODCHIPS AGREEMENT

On 25 May 2023, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Recovered Paper, Recycled Pulp and Woodchips Agreement in relation to the purchase of recovered paper, recycled pulp and woodchips by the Group from ACN, Tianjin ACN and/or Hainan ACN and their respective designated agents from time to time.

(a) Principal terms

The principal terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement are set out below:

Subject: The Group will purchase recovered paper, recycled pulp, woodchips and related products from ACN, Tianjin ACN and/or Hainan ACN and their respective designated agents from time to time.

Term: A term of three financial years ending 30 June 2026.

Price: The purchase prices of the products under the Recovered Paper, Recycled Pulp and Woodchips Agreement will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies of continuing connected transactions of the Group, subject to the following principles of determining the pricing terms for individual orders of recovered paper, recycled pulp and woodchips by reference to:

- (a) the prevailing market price of similar recovered paper and recycled pulp as publicly announced on the public website of www.umpaper.com (the “**Reference Site**”), which is updated weekly. The Reference Site is widely used by paper manufacturers in the world and provides reliable price assessments in the pulp and paper products markets. The Reference Site has been in operation since 1985 and is currently operated by Fastmarkets RISI. Fastmarkets RISI is the world’s leading reporting and market analysis provider for the forest products sector with offices located around the world (including London, Brussels, Shanghai, New York and other major cities). Based on the information available to the Board, Fastmarkets RISI’s clients comprise more than 97% of the world’s forest products sector, including industry end-users, suppliers, investors and financial-service providers. The Reference Site contains pricing information in relation to the current and historical market price of recovered paper and recycled pulp, and collects data from market participants and updates the pricing of recovered paper and recycled pulp. Given the well-established reliable track record, the global reach of the Reference Site, the scale of operations of the Reference Site and the scale of market data coverage used in price assessment, the Board considers that the reliance on the Reference Site as its only source of data is in-line with market practice of the pulp, paper and packaging industry, sufficient, fair and representative;

LETTER FROM THE BOARD

- (b) the prevailing market price of woodchips as published on the Forisk Wood Fiber Review (the “**Wood Fiber Review**”). The Wood Fiber Review is a quarterly market report on the forest industry. It includes pulplog, biomass, and wood chip prices, in addition to market information by region for Canada and the U.S.. Timely knowledge of wood fiber costs and trends remains a cornerstone for strategic planning in the forest product industry. The Wood Fiber Review also offered subscribers the option to receive historic price data; or
- (c) the pricing terms of recovered paper and recycled pulp or woodchips (as the case may be) of comparable quality, specifications, quantities and required time of delivery offered by independent suppliers (the “**Independent Raw Material Pricing Terms**”) to the Group based on the quotations obtained from at least three independent suppliers on the Group’s approved list of suppliers. The procurement department of the Group will compare the prices quoted and ensure that the pricing terms of the recovered paper and recycled pulp or woodchips (as the case may be) are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.

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

Cap Amount:

The transaction amount under the Recovered Paper, Recycled Pulp and Woodchips Agreement for each of three financial years ending 30 June 2026 will not exceed the following annual cap:

	Financial year ending 30 June 2024 RMB’ million	Financial year ending 30 June 2025 RMB’ million	Financial year ending 30 June 2026 RMB’ million
Annual cap	40,000	50,000	60,000

The annual caps under the Recovered Paper, Recycled Pulp and Woodchips Agreement were determined by reference to the historical transaction amount and the expected demand of recovered paper, recycled pulp and woodchips by the Group.

In particular, the Company has considered the increase in the historical amounts of recovered paper, recycled pulp and woodchips purchased by the Group which had been growing successively from the financial year ended 30 June 2020 to the financial year ended 30 June 2022, with an annual growth rate of approximately 44.7% from 2020 to 2021; and approximately 6.3% from 2021 to 2022, averaging to approximately 25.5% (“**Average Historical Surge Rate**”). As for the proposed annual caps for the financial years ending 30 June 2025 and 2026, which represent an increase year-on-year by 25% and 20%, respectively, is

LETTER FROM THE BOARD

also consistent with the Average Historical Surge Rate. Therefore, the Board considers that the proposed annual caps are fair and reasonable taking into account, among other things, such historical transaction amounts.

The historical amount of purchases from ACN, Tianjin ACN and Hainan ACN for the two financial years ended 30 June 2022 and the eleven months ended 31 May 2023 are as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2022	For the period from 1 July 2022 to 31 May 2023
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual cap	63,000	74,000	78,000 ^(Note1)
Actual purchases	30,862	32,818	20,157 ^(Note2)

Notes:

1. The annual cap of RMB78,000 million is for the entire financial year ending 30 June 2023.
2. The unaudited figure for the period from 1 July 2022 and up to 31 May 2023 amounted to RMB20,157 million. The relatively low utilization rate was mainly a result of the drop in market price of raw materials during the financial year ending 30 June 2023, as well as the partial temporary shutdown of the Group's production facilities during the same financial year in alignment with its policy to bring down the inventory level in order to curb costs under the then acute pandemic situation in the PRC.

(b) Reasons for the Recovered Paper, Recycled Pulp and Woodchips Agreement

Recovered paper, recycled pulp and woodchips are the primary raw materials used by the Group in its production operations. ACN is a major supplier of recovered paper, recycled pulp and woodchips in the world, while Tianjin ACN and Hainan ACN and their respective agents are major suppliers of domestic recovered paper, recycled pulp and woodchips in the PRC. The Company has been trading with ACN since the listing of the Shares of the Company on the Stock Exchange in 2006, with Tianjin ACN since its establishment in 2013, and with Hainan ACN since 2021.

As the existing purchase agreement with ACN, Tianjin ACN and Hainan ACN is due to expire on 30 June 2023, the Recovered Paper, Recycled Pulp and Woodchips Agreement is entered into to facilitate the continuous supply of recovered paper, recycled pulp and woodchips to the Group to meet the Group's production requirements.

As the Recovered Paper, Recycled Pulp and Woodchips 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, except the Interested Directors who have abstained from voting for the resolution to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement but including the independent non-executive Directors after taking advice from the Independent Financial Adviser, consider that the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement, including the annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Company considers that there is no undue reliance on ACN, Tianjin ACN and/or Hainan ACN by the Group as a result of its business relationships under the Recovered Paper, Recycled Pulp and Woodchips Agreement for the following reasons:

1. the Group has been sourcing recovered paper, recycled pulp and woodchips from ACN, Tianjin ACN and/or Hainan ACN due to their 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, Tianjin ACN and/or Hainan ACN procure their supplies from major sources globally and have long-term supply agreements with major supply sources. The Group believes that reliability of supply of recovered paper, recycled pulp and woodchips is essential for its production planning, inventory control, pricing and delivery schedules. As the Group is ACN, Tianjin ACN and Hainan ACN's largest customer, ACN, Tianjin ACN and Hainan ACN also give priority to the Group's purchase orders over those from its other customers. In addition, ACN, Tianjin ACN and Hainan ACN's strict control on the quality of recovered paper, recycled pulp and woodchips that it supplies helps ensure that the materials the Group purchases from ACN, Tianjin ACN and/or Hainan ACN's and hence its products are of consistent quality.

Given the Group has various independent suppliers of varying sizes in Europe, China, Japan and Malaysia which are capable of offering recovered paper, recycled pulp and/or woodchips of comparable quality to that offered by ACN, Tianjin ACN and/or Hainan ACN for similar and different product grades, and taking into account of the Group's position as the leading container board manufacturer in China with considerable bargaining power, and that the Group has sufficient manpower, resources and expertise to develop suppliers, the Group believes that it would be able to source from other existing and potential suppliers of recovered paper, recycled pulp and/or woodchips at competitive rates should the circumstances justify so doing;

2. the daily operation of the Group rests primarily with its Board and the senior management, which is separate and independent from the board of directors and management team of ACN, Tianjin ACN and/or Hainan ACN. For the purpose of the listing of the Shares on the Stock Exchange, Ms. Cheung Yan and Mr. Liu Ming Chung resigned from their office as directors of ACN in January 2006. The Company, in managing its business with ACN, Tianjin ACN and/or Hainan ACN, has delegated such management to certain members of the Group's senior management other than Ms. Cheung Yan and Mr. Liu Ming Chung. In addition, Ms. Cheung Yan and Mr. Liu Ming Chung 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, Tianjin ACN and/or Hainan ACN and the Group. The Group has also maintained its own financial team and has capability for independently expanding, operating and sourcing raw materials from independent third parties. There is no management, financial or operational reliance on ACN, Tianjin ACN and/or Hainan ACN; and
3. the mutually beneficial relationship between the Group and ACN, Tianjin ACN and/or Hainan ACN has grown from the application of commercial considerations by the parties as 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. Given that the purchases from ACN, Tianjin ACN and/or Hainan ACN are being carried out under normal commercial terms and on an arm's length basis and that the supplies from ACN, Tianjin ACN and/or Hainan ACN are

LETTER FROM THE BOARD

of consistent and high quality, the Directors consider that purchasing a substantial majority of the Group's recovered paper, recycled pulp and/or woodchips requirements from ACN, Tianjin ACN and/or Hainan 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 Directors also do not see any material red flags indicating any material adverse changes to such established relationship which brings mutual benefits.

(c) Listing Rule Implications

ACN is indirectly wholly-owned by Ms. Cheung Yan and Mr. Liu Ming Chung. Tianjin ACN and Hainan ACN are indirectly owned as to 39.9%, 30.1% and 30% by the Cheung Family, Mr. Liu Bocun and the Company. To the best knowledge, information and belief of the Directors, and having made all reasonable enquiry, Mr. Liu Bocun is a third party independent of the Company and its subsidiaries, and their respective connected persons.

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Lau Chun Shun and Mr. Zhang Lianpeng are Directors and substantial shareholders of the Company. ACN, Tianjin ACN and Hainan ACN are therefore connected persons of the Company and the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios for the annual transaction amount of the Recovered Paper, Recycled Pulp and Woodchips Agreement are over 5%, the Recovered Paper, Recycled Pulp and Woodchips Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION ON THE PARTIES

The Company

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

ACN

ACN is a company established in California, the United States, and is the leading exporter of recovered paper, recycled pulp and woodchips in the United States, Europe and Asia. ACN has a strong and long term relationship and connection with recycled pulp and woodchips major exporter worldwide.

Tianjin ACN

Tianjin ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper, recycled pulp and woodchips in the PRC.

LETTER FROM THE BOARD

Hainan ACN

Hainan ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper, recycled pulp and woodchips in the PRC.

PRICING PRINCIPLES FOR CONTINUING CONNECTED TRANSACTIONS

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

- (i) by reference to the prevailing market price of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality offered by other suppliers;
- (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those 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 purchased by the Group from at least two independent third parties to ensure the prices offered by the Group under its continuing connected transactions are on normal commercial terms comparable to those offered by the relevant party to independent third parties.

In this connection, the purchasing department of the relevant member of the Group would obtain the relevant historical prices as described above and based on which, it would determine the basis of the prices for the relevant products and report to the senior management team (comprising the director, general manager and senior manager of the purchasing department) for approval in accordance with the Group's internal pricing policies for continuing connected transactions.

When determining the prevailing market price described under paragraph (i) above:

- (a) in respect of procurement of recovered paper and recycled pulp or woodchips (as the case may be) under the Recovered Paper, Recycled Pulp and Woodchips Agreement, the Company will strictly apply the pricing policy set out under the paragraph headed "Principal terms" under the section headed "Recovered Paper, Recycled Pulp and Woodchips Agreement"; and
- (b) in respect of procurement of other products from a connected person or his/her associates, the Company will invite quotations from at least 3 independent suppliers to give a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by qualified personnel of the Company to ensure that the products to be procured from a connected person or his/her associates are comparable to the prices for such products being offered by independent third parties.

LETTER FROM THE BOARD

INTERNAL CONTROL POLICIES FOR CONTINUING CONNECTED TRANSACTIONS

To ensure that the actual prices for the continuing connected transactions of the Group are on normal commercial terms and on terms no less favourable to the Group than that available from independent third party suppliers/customers, the relevant personnel from the finance department of the Group and the management of the Group will conduct regular checks on a monthly basis to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

In addition, a designated finance officer (the “**Officer**”) will submit a prescribed monthly report containing the following information to the company secretarial division of the Group within 15 business days after each month ends: (i) the total purchase quantity during the month; (ii) the price comparison of the relevant products during the month; (iii) the supply of products during the month; and (iv) the transaction amount of the continuing connected transactions during the month and the cumulative figures as at the end of the month. The Officer will also prepare a quarterly consolidated report on the continuing connected transactions which will be reviewed by the company secretarial division. The company secretarial division will consolidate all information received from the Officer and report to the Board so that the Board could keep abreast of the continuing connected transactions conducted by the Group (including the utilization rate of the annual caps).

The independent non-executive Directors will review the transactions under the relevant continuing connected transaction and the Company will engage the auditors of the Company to conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement and pricing policies of the Company.

SPECIAL GENERAL MEETING

A notice of the Special General Meeting is set out on pages 30 to 31 of this circular.

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. Ken Liu, Mr. Lau Chun Shun, and Mr. Zhang Lianpeng and their associates are considered to be interested in the Recovered Paper, Recycled Pulp and Woodchips Agreement. As at the Latest Practicable Date, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng, through Best Result Holdings Limited, held in aggregate 2,992,120,000 Shares, representing approximately 63.77% of the issued share capital of the Company. Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu and Mr. Lau Chun Shun also personally hold 90,097,758 Shares, 31,594,184 Shares, 34,399,821 Shares, 1,382,000 Shares and 14,149,000 Shares, representing 1.92%, 0.67%, 0.73%, 0.03% and 0.30% of the issued share capital of the Company, respectively. Accordingly, Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng and their associates will abstain from voting for the resolution proposed at the Special General Meeting to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps.

LETTER FROM THE BOARD

A form of proxy for the Special General Meeting is enclosed herewith. Whether or not you intend to attend and vote at the Special General Meeting in person, you are requested to complete the form of proxy and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjournment thereof should you so wish.

GENERAL

Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun and Mr. Zhang Lianpeng (the "**Interested Directors**") are considered to be interested in the Recovered Paper, Recycled Pulp and Woodchips Agreement, and have abstained from voting for the approval of such agreement at the Board meeting convened for such purposes.

The Interested Directors and their respective Associates will abstain from voting on the resolution to be proposed at the Special General Meeting to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps.

An Independent Board Committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and VBG Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 12 to 13 of this circular which contains its recommendations to the Independent Shareholders in respect of the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps. Your attention is also drawn to the letter of advice from the Independent Financial Adviser which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders. The letter from the Independent Financial Adviser is set out on pages 14 to 23 of this circular.

Your attention is also drawn to the general information set out in the appendix of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and the transactions contemplated thereunder.



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

21 June 2023

To the Independent Shareholders,

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING

We refer to the circular of the Company to the Shareholders dated 21 June 2023 (the “Circular”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from VBG Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps as set out on pages 14 to 23 of the Circular and the letter from the Board as set out on pages 3 to 11 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement and its annual caps are on normal commercial terms, in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the Recovered Paper, Recycled Pulp and Woodchips Agreement and the transactions contemplated thereunder to be proposed at the Special General Meeting.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Nine Dragons Paper (Holdings) Limited
Ng Leung Sing
Lam Yiu Kin
Chen Kefu
Chan Man Ki, Maggie
Li Huiqun
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Recovered Paper, Recycled Pulp and Woodchips Agreement for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

21/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

21 June 2023

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

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 Recovered Paper, Recycled Pulp and Woodchips Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 21 June 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 25 May 2023, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Recovered Paper, Recycled Pulp and Woodchips Agreement, pursuant to which the Group agreed to purchase recovered paper, recycled pulp, woodchips and related products from ACN, Tianjin ACN and/or Hainan ACN and their respective designated agents for a term of three financial years ending on 30 June 2026. The proposed annual caps for the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement are RMB40,000 million, RMB50,000 million and RMB60,000 million for each of the three financial years ending 30 June 2026, respectively.

With reference to the Letter from the Board, the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Mr. Chen Kefu, Ms. Chan Man Ki, Maggie and Dr. Li Huiqun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement 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 resolution to approve the Recovered Paper, Recycled Pulp and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Woodchips Agreement 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.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from (i) having acted as the independent financial adviser of the Company relating to a continuing connected transaction of which a circular dated 30 September 2022 was issued; and (ii) the existing engagement in relation to the Recovered Paper, Recycled Pulp and Woodchips Agreement, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Recovered Paper, Recycled Pulp and Woodchips Agreement.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Recovered Paper, Recycled Pulp and Woodchips Agreement, we have reviewed the annual reports of the Company for each the three financial years ended 30 June 2022, the 2022/23 interim report of the Company, information regarding the PRC's paper industry released by the China Paper Association, around 30 individual agreements governing the historical transactions for the period from 2020 to 2023 between the Group (as purchaser) and ACN or Tianjin ACN or Hainan ACN (as supplier), around 40 agreements governing the historical transactions from 2020 to 2023 between the Group (as purchaser) and independent suppliers of recovered paper, recycled pulp and woodchips, the calculation worksheets for the proposed annual caps prepared by the Company, the Recovered Paper, Recycled Pulp and Woodchips Agreement and the relevant information as contained in the Circular. 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 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 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,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

ACN, Tianjin ACN, Hainan 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 Recovered Paper, Recycled Pulp and Woodchips Agreement. 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 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 did not conduct any independent 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 2026, and they do not represent forecasts of revenues/costs or purchases/sales to be recorded from the Recovered Paper, Recycled Pulp and Woodchips Agreement. Consequently, we express no opinion as to how closely the actual revenues, costs, purchases or sales to be recorded under the Recovered Paper, Recycled Pulp and Woodchips Agreement will correspond with the proposed annual caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Recovered Paper, Recycled Pulp and Woodchips Agreement, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Recovered Paper, Recycled Pulp and Woodchips Agreement

Overview of the Group's business and operation

The Group is engaged in the production and sale of a broad variety of quality packaging paperboard products, including linerboard (kraftlinerboard, testlinerboard, white top linerboard and coated duplex board), high performance corrugating medium, recycled printing and writing paper (including uncoated woodfree paper, copy paper, coated and uncoated freesheet, etc.), specialty paper and pulp. For the financial year ended 30 June 2022, the Group achieved a revenue of approximately RMB64,538.1 million. The major contributor of the Group's revenue was its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 92.8% of the revenue, with the remaining revenue of approximately 7.2% generated from its printing and writing paper, high value specialty paper and pulp products. During the six months ended 31 December 2022, the Group achieved a revenue of approximately RMB31,198.0 million. The major contributor of the Group's revenue was its packaging paper business, including linerboard, high performance corrugating medium and coated duplex board, which accounted for approximately 89.0% of the revenue, with the remaining revenue of approximately 11.0% generated from its printing and writing paper, high value specialty paper and pulp products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2022, the Group's total design production capacity for fibre raw materials amounted to approximately 2.55 million tpa (inclusive of wood pulp of approximately 1.85 million tonnes and recycled pulp of approximately 0.70 million tonnes), and its total design production capacity for paper amounted to approximately 18.77 million tpa. Given the importance of sourcing of quality raw materials and the advantages of vertical supply chain integration, the Group are pressing on several capacity expansion projects by adding approximately 2.22 million tpa of wood pulp, approximately 0.60 million tpa of recycled pulp, and approximately 2.06 million tpa of wood fibre. Upon completion of the above projects, the Group's total design production capacity for fibre raw materials will reach approximately 7.43 million tpa (inclusive of wood pulp of approximately 4.07 million tonnes, recycled pulp of approximately 1.30 million tonnes and wood fibre of approximately 2.06 million tonnes). At the same time, a number of domestic and overseas expansion projects for paper production capacity are underway. These projects, including the production capacity expansion projects for virgin kraftliner and bleached folding boxboard, are expected to add new production capacity of approximately 6.25 million tonnes to the Group upon commencement of production, bringing the total design production capacity for paper manufacturing to over 25.02 million tpa.

Information on ACN, Tianjin ACN and Hainan ACN

As extracted from the Letter from the Board, ACN is a company established in California, the United States and is the leading exporter of recovered paper, recycled pulp and woodchips in the United States, Europe and Asia. ACN has a strong and long term relationship and connection with OCC pulp major exporter worldwide.

As also extracted from the Letter from the Board, each of Tianjin ACN and Hainan ACN is a company established in the PRC and is principally engaged in the business of sourcing of recovered paper, recycled pulp and woodchips in the PRC.

Overview of the paper industry of the PRC

To enrich our understanding of the recent development of the PRC's paper industry, we have researched independently in this regard.

Based on the latest statistics released by the China Paper Association, the operating income and total profit of the PRC's paper industry were approximately RMB1.5 trillion and RMB62.1 billion, respectively, in 2022. In terms of local demand and supply, the nation's aggregate production and consumption volume of paper and cardboard amounted to approximately 124.3 million tonnes and 124.0 million tonnes, respectively, in 2022. From 2013 to 2022, the average annual growth rate of the production and consumption volume of paper and cardboard were approximately 2.3% and 2.7%, respectively.

In 2022, the total consumption volume of pulp in the PRC was approximately 113.0 million tonnes, representing an increase of approximately 2.6% over the prior year. The consumption volume of wood pulp was approximately 43.3 million tonnes, accounting for around 38% of the total consumption volume of pulp, of which imported wood pulp and domestic wood pulp accounted for around 20% and 18% respectively. The total consumption volume of recovered paper pulp was approximately 64.3 million tonnes, accounting for around 57% of the total consumption volume of pulp, of which imported

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

recovered paper pulp and domestic recovered paper pulp accounted for around 3% and around 54% respectively. The total consumption volume of non-wood pulp was approximately 5.4 million tonnes, accounting for the remaining 5% of the total consumption volume of pulp.

In 2022, the export volume of pulp, paper and paper products expanded to approximately 13.8 million tonnes, jumping year-on-year by approximately 38.2%; the export value was approximately US\$34.7 billion, jumping year-on-year by approximately 30.6%.

In December 2021, the China Paper Association announced “The 14th Five-Year Plan of the Paper Industry and the Outline of Medium and Long-Term High-quality Development (《造紙行業「十四五」及中長期高質量發展綱要》)”, under which in order to upgrade the overall development goals of the “14th Five-Year Plan” and anchor the long-term goals of 2035 and the carbon neutral goal of 2060, paper manufacturers are expected to (i) relocate its own competitive advantages; (ii) scientifically formulate industrial routes, guidelines, policies and strategies; (iii) make medium and long-term plans; and (iv) create a low-carbon, environmentally friendly and sustainable green paper industry. In December 2021, the Ministry of Industry and Information Technology of the PRC also implemented “The Standard Conditions on the Waste Paper Processing Industry (《廢紙加工產業規範條件》)” to guide the high-quality development of the recovered paper processing industry and improve the intensive level and processing procedures of recovered paper.

Reasons for the Recovered Paper, Recycled Pulp and Woodchips Agreement

As referred to in the Letter from the Board, recovered paper, recycled pulp and woodchips are the primary raw materials used by the Group in its production operations. ACN is a major supplier of recovered paper, recycled pulp and woodchips in the world, while Tianjin ACN and Hainan ACN and their respective agents are major suppliers of domestic recovered paper, recycled pulp and woodchips in the PRC. The Company has been trading with ACN since the listing of the Shares on the Stock Exchange in 2006, with Tianjin ACN since its establishment in 2013, and with Hainan ACN since 2021.

As the existing purchase agreement with ACN, Tianjin ACN and Hainan ACN is due to expire on 30 June 2023, the Recovered Paper, Recycled Pulp and Woodchips Agreement is entered into to facilitate the continuous supply of recovered paper, recycled pulp and woodchips to the Group to meet the Group’s production requirements.

Having considered the above background of and reasons for the Recovered Paper, Recycled Pulp and Woodchips Agreement, we are of the view that the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(2) Principal terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement

The table below summarises the major terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement dated 25 May 2023 as extracted from the Letter from the Board:

Term:	A term of three financial years ending on 30 June 2026.
Subject:	The Group will purchase recovered paper, recycled pulp and woodchips and related products from ACN, Tianjin ACN and/or Hainan ACN and their respective designated agents from time to time.
Price:	<p>The purchase prices of the products under the Recovered Paper, Recycled Pulp and Woodchips Agreement will be determined with reference to the prevailing market prices in the PRC and overseas markets and in accordance with the pricing policies of continuing connected transactions of the Group, subject to the additional principles of determining the pricing terms for individual orders of recovered paper, recycled pulp and woodchips by reference to:</p> <ul style="list-style-type: none">(a) the prevailing market price of similar recovered paper and recycled pulp as publicly announced on the public website of www.umpaper.com (the “Reference Site”);(b) the prevailing market price of woodchips as published on the Forisk Wood Fibre Review (the “Wood Fibre Review”); or(c) the pricing terms of recovered paper and recycled pulp or woodchips (as the case may be) of comparable quality, specifications, quantities and required time of delivery offered by independent suppliers (the “Independent Raw Material Pricing Terms”) to the Group based on the quotations obtained from at least three independent suppliers on the Group’s approved list of suppliers. The procurement department of the Group will compare the prices quoted and ensure that the pricing terms of the recovered paper and recycled pulp or woodchips (as the case may be) are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.

We understand that the Reference Site is widely used by paper manufacturers in the world and provides reliable price assessments on paper products and pulp markets. The Reference Site has been in operation since 1985 and is currently operated by Fastmarkets RISI, being the world’s leading reporting and market analysis provider for the forest products sector with offices located globally (including London, Brussels, Shanghai, New York and other major cities). Based on the information available to the Board, the Reference Site, which is updated weekly, contains pricing information in relation to the current and historical market price of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

recovered paper and recycled pulp, and collects data from market participants and updates the relevant pricing. On the other hand, the Wood Fibre Review is a quarterly market report on the forest industry. It includes pulplog, biomass, and wood chip prices, in addition to market information by region for Canada and the United States. The Wood Fibre Review also offers subscribers the option to receive historic price data.

Given the well-established track record and the global reach of the Reference Site, as well as the scale of market data coverage of the Wood Fibre Review, we concur with the Directors that the use of the Reference Site and the Wood Fibre Review as reference for the purchase prices of the products under the Recovered Paper, Recycled Pulp and Woodchips Agreement is fair and reasonable.

With regard to the Independent Raw Material Pricing Terms, for our due diligence purpose, we have reviewed (i) around 30 individual agreements (which were picked randomly) governing the historical transactions for the period from 2020 to 2023 between the Group (as purchaser) and ACN or Tianjin ACN or Hainan ACN (as supplier); and (ii) around 40 agreements (which were picked randomly) governing the historical transactions from 2020 to 2023 between the Group (as purchaser) and independent suppliers of recovered paper, recycled pulp and woodchips. For comparable products, we noted that the major terms offered by the independent suppliers to the Group were similar to those offered to the Group by ACN, Tianjin ACN and Hainan ACN.

In light of that (i) it is stipulated under the Recovered Paper, Recycled Pulp and Woodchips Agreement that the prices of the recovered paper, recycled pulp and woodchips will be no less favourable than the prevailing market price based on the Reference Site and the Wood Fibre Review or the Independent Raw Material Pricing Terms available to the Group; and (ii) for comparable products, the terms of the individual agreements governing the historical transactions between the Group and ACN or Tianjin ACN or Hainan ACN were similar to those offered by the independent suppliers to the Group, we concur with the Directors that the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Annual caps under the Recovered Paper, Recycled Pulp and Woodchips Agreement

The below table illustrates (i) the historical amounts of the relevant continuing connected transactions; and (ii) the proposed annual caps for the transactions under the Recovered Paper, Recycled Pulp and Woodchips Agreement:

Historical amounts				The proposed annual caps		
For the financial year ended 30 June			From 1 July 2022 to 31 May 2023	For the financial year ending 30 June		
2020	2021	2022	2023	2024	2025	2026
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
21,334	30,862	32,818	20,157	40,000	50,000	60,000

To assess the fairness and reasonableness of the proposed annual caps for the transactions under the Recovered Paper, Recycled Pulp and Woodchips Agreement, we have discussed with the Directors regarding the basis and assumptions underlying the projections of the proposed annual caps and requested for the relevant supporting information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the calculation worksheets provided by the Company, we noted that the proposed annual caps were determined with reference to (i) the historical transaction amounts of recovered paper, recycled pulp and woodchips; and (ii) the expected demand for recovered paper, recycled pulp and woodchips by the Group.

Given that recovered paper, recycled pulp and woodchips are the primary raw materials used by the Group in its production operations, the Company has estimated its future demand for these raw materials largely based on the Group's expected future production capacity. In this regard, the Group has provided us with the comprehensive rollout plan of the various domestic and overseas capacity expansion projects currently contemplating by the Group. Detailed information such as the scale and design, time schedule and location of each of the expansion projects are indicated in the rollout plan. Upon completion of the various expansion projects, the Group's overall production capacity will be considerably enlarged in the coming few years, thereby triggering higher future demand for recovered paper, recycled pulp and woodchips to fulfill its expected production requirements.

Upon our review of the calculation worksheets provided by the Company, we noted that the expected quantity of recovered paper, recycled pulp and woodchips that the Group will require in the next three financial years were estimated based on the expected consumption rates of these raw materials during the production process of the Group. As confirmed by the Directors, the expected consumption rates adopted in the calculation worksheets are fair and reasonable taking into account the historical actual usage data. Besides, the expected prices of recovered paper, recycled pulp and woodchips in the next three financial years were forecasted based on the historical market price movement of these raw materials in 2022. We noted that the maximum expected price of recovered paper, recycled pulp and woodchips for the financial year ending 30 June 2026 are RMB2,700 per tonne, RMB3,300 per tonne and RMB2,500 per tonne, respectively, which are within the range of their respective market price fluctuation in 2022 (recovered paper: around RMB2,000 per tonne to RMB3,000 per tonne; recycled pulp: around RMB2,300 per tonne to RMB3,300 per tonne; woodchips: around RMB1,700 per tonne to RMB2,600 per tonne). Judging from the above, we consider the basis for determining the proposed annual caps to be fair and reasonable.

As for the historical transaction pattern of recovered paper, recycled pulp and woodchips between the Group and ACN, Tianjin ACN or Hainan ACN, we noted from the earlier table of this section that the historical amounts of recovered paper, recycled pulp and woodchips purchased by the Group had been growing successively from the financial year ended 30 June 2020 to the financial year ended 30 June 2022. The annual growth rate was approximately 44.7% from 2020 to 2021; and approximately 6.3% from 2021 to 2022, averaging to approximately 25.5% (the "**Average Historical Surge Rate**"). Nonetheless, for the 11 months ended 31 May 2023, the actual transaction amount had reduced to approximately RMB20,157 million. We have enquired into the Directors for the reasons leading to the reduction and were advised that the reduction was mainly a result of the drop in market price of these raw materials during the financial year ending 30 June 2023, as well as the partial temporary shut down of the Group's production facilities during the same financial year in alignment with its policy to bring down the inventory level in order to curb costs under the then acute pandemic situation in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Currently, the pandemic situation has already been under control in the PRC. As further demonstrated in the section headed “Overview of the paper industry of the PRC” of this letter of advice, the future prospects of the PRC’s paper industry are likely to be positive. Moreover, to allow the Group to respond promptly to possible market changes and optimize its raw materials mix, it would be in the interest of the Company that the proposed annual caps can provide sufficient flexibility to the Group for the purchase of recovered paper, recycled pulp and woodchips. In this relation, it is noted that the proposed annual caps for the financial years ending 30 June 2025 and 2026 are expected to increase year-on-year by 25% and 20%, respectively. Given the Average Historical Surge Rate of 25.5%, the aforesaid expected increase is justifiable.

In view of all the foregoing, we are of the view that the proposed annual caps under the Recovered Paper, Recycled Pulp and Woodchips Agreement are fair and reasonable.

(4) 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 amounts of the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement must be restricted by the annual caps for the financial years concerned under the Recovered Paper, Recycled Pulp and Woodchips Agreement; (ii) the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement (together with the proposed 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 Recovered Paper, Recycled Pulp and Woodchips Agreement (together with the proposed 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 transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement are carried out in accordance with the pricing policies of the Company, and the proposed annual caps are not being exceeded. In the event that the total amounts of the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement exceed the proposed annual caps, or that there is any material amendment to the terms of the Recovered Paper, Recycled Pulp and Woodchips Agreement, 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 2022 that the Company has been complying with the aforesaid stipulated requirements under the Listing Rules in respect of its historical transactions with ACN, Tianjin ACN and Hainan ACN.

Shareholders may also refer to the sections headed “Pricing principles for continuing connected transactions” and “Internal control policies for continuing connected transactions” in the Letter from the Board with regard to the internal control procedures that the Company has adopted to supervise the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement. We understand that in order to ensure that the continuing connected transactions of the Group are under close supervision, a designated finance officer of the Company will submit monthly reports and quarterly consolidated reports on continuing connected transactions to the company secretarial division, who will then further consolidate all information and report to the Board such that the Board could keep abreast of the continuing connected transactions conducted by the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules and the internal control measures of the Group in place, the Independent Shareholders' interest 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 Recovered Paper, Recycled Pulp and Woodchips Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the transactions contemplated under the Recovered Paper, Recycled Pulp and Woodchips Agreement 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 resolution to be proposed at the Special General Meeting to approve the Recovered Paper, Recycled Pulp and Woodchips Agreement and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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 herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the “**Model Code**”) to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the Company

Long position in the Shares

Name of Directors	Number of Shares held			Total	Approximate percentage of shareholding
	Personal interest	Family interest	Corporate interest (Note 1)		
Cheung Yan	90,097,758	31,594,184	2,992,120,000	3,113,811,942	66.36%
Liu Ming Chung	31,594,184	90,097,758	2,992,120,000	3,113,811,942	66.36%
Zhang Cheng Fei	34,399,821	—	—	34,399,821	0.73%
Ken Liu	1,382,000	—	2,992,120,000	2,993,502,000	63.80%
Lau Chun Shun	14,149,000	—	2,992,120,000	3,006,269,000	64.07%

(ii) Interests in associated corporation of the Company

Long position in the Shares

Name of Directors	Name of associated corporation	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Cheung Yan	Best Result Holdings Limited (“ Best Result ”)	Settlor of The Cheung Family Trust Interest of spouse	37,073 37,053	37.073% 37.053%

Name of Directors	Name of associated corporation	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Liu Ming Chung	Best Result	Settlor of The Liu Family Trust	37,053	37.053%
		Interest of spouse	37,073	37.073%
Zhang Cheng Fei	Best Result	Settlor and beneficiary of The Zhang Family Trust and The Golden Nest Trust	25,874	25.874%
Ken Liu	Best Result	Beneficiary of trusts (Note 4)	90,000	90.000%
Lau Chun Shun	Best Result	Beneficiary of trusts (Note 4)	90,000	90.000%
Zhang Lianpeng	Best Result	Beneficiary of trusts (Note 5)	25,874	25.874%

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 YC 2013 Company Limited which was held by Zedra Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust; (ii) as to approximately 37.053% by Goldnew Limited which was held by Zedra 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 Zedra 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 Zedra Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.
- (2) The Zhang Family Trust is an irrevocable trust. The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust are revocable discretionary trusts.
- (3) Ms. Cheung Yan and Mr. Liu Ming Chung are the settlors of The Cheung Family Trust and The Liu Family Trust respectively. Ms. Cheung Yan is the spouse of Mr. Liu Ming Chung. Each of Ms. Cheung Yan and Mr. Liu Ming Chung 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 and Mr. Ken Liu are two of the beneficiaries of each of The Cheung Family Trust, The Liu Family Trust and The Golden Nest Trust. They are therefore deemed to be interested in the Shares held by Best Result pursuant to Part XV of the SFO.
- (5) Mr. Zhang Lianpeng is a beneficiary of each of The Zhang Family Trust and The Golden Nest Trust.
- (6) BNP Paribas Jersey Trust Corporation Limited was renamed as Zedra Jersey Trust Corporation Limited on 20 September 2022.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which they were 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name of Shareholders	Capacity in which interests were held	Number of Shares	Interests as to % of the total number of Shares in issue as at the Latest Practicable Date
Best Result	Beneficial owner	2,992,120,000	63.77%
YC 2013 Company Limited	Interest of controlled corporation	2,992,120,000	63.77%
Goldnew Limited	Interest of controlled corporation	2,992,120,000	63.77%
Zedra Jersey Trust Corporation Limited	Trustee of The Cheung Family Trust and The Liu Family Trust	2,992,120,000	63.77%

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 YC 2013 Company Limited which was held by Zedra Jersey Trust Corporation Limited as the trustee of The Cheung Family Trust; (ii) as to approximately 37.053% by Goldnew Limited which was held by Zedra 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 Zedra 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 Zedra Jersey Trust Corporation Limited as the trustee of The Golden Nest Trust.
- (2) BNP Paribas Jersey Trust Corporation Limited was renamed as Zedra Jersey Trust Corporation Limited on 20 September 2022.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, each of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei is a director of Best Result, which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in a business that competed or was likely to compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As disclosed in the Company's interim report for the six months ended 31 December 2022, the loss attributable to the equity holders of the Company amounted to approximately RMB1,388.8 million as compared to the profit attributable to the equity holders of the Company of RMB2,774.7 million in the corresponding period last year. Such decrease was mainly attributable to the substantial decrease in gross profit margin while the cost of raw materials and sales volume remained relatively stable.

Save as disclosed above, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 30 June 2022, being the date to which the latest audited financial statements of the Company were made up.

6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. EXPERT'S QUALIFICATION AND CONSENT

As at the date of this circular, VBG Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears. The following expert's statements were issued on the date of this circular and were made for incorporation or reference (as the case may be) in this circular.

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

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

As at the Latest Practicable Date, VBG Capital Limited did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 30 June 2022, being the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not 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.

8. GENERAL

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 30 June 2022, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) Save as disclosed below, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group:
- (i) on 25 May 2023, Dongguan Longteng and the Company entered into a supply agreement, pursuant to which the Company agreed to supply packaging paper to Dongguan Longteng for the Group's production requirements from 1 July 2023 to 30 June 2026. Dongguan Longteng is a company wholly-owned by Mr. Zhang Cheng Ming and his family members. Mr. Zhang Cheng Ming is a brother of Mr. Zhang Cheng Fei and Ms. Cheung Yan, the uncle of Mr. Lau Chun Shun, Mr. Ken Liu and Mr. Zhang Lianpeng;
- (ii) on 25 May 2023, Cheng Ming Group and the Company entered into a purchase agreement, pursuant to which the Group agreed to purchase chemicals from Cheng Ming Group for the Group's production requirements from 1 July 2023 to 30 June 2026. Cheng Ming Group is a company wholly-owned by Mr. Zhang Cheng Ming and his family members; and
- (iii) on 25 May 2023, the Company, ACN, Tianjin ACN and Hainan ACN entered into the Recovered Paper, Recycled Pulp and Woodchips Agreement.

- (c) The company secretary of the Company is Ms. Cheng Wai Chu, Judy, a member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Company's website (www.ndpaper.com) and the HKEXnews website (www.hkexnews.hk) from the date of this circular up to and including the date of the Special General Meeting (being not less than 14 days):

- (a) the written consent referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix; and
- (b) the Recovered Paper, Recycled Pulp and Woodchips Agreement.

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 Studio 1&2, Level 7, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Friday, 21 July 2023 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the Recovered Paper, Recycled Pulp and Woodchips Agreement (the “**Recovered Paper, Recycled Pulp and Woodchips Agreement**”) dated 25 May 2023 entered into amongst the Company, America Chung Nam, Inc., ACN (Tianjin) Resources Co., Ltd. (中南(天津)再生資源有限公司) and Hainan ACN Resources Co., Ltd. (海南中南再生資源有限公司), a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, the terms thereof and the continuing connected transaction contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps as set out in the circular in relation to the Recovered Paper, Recycled Pulp and Woodchips Agreement for the three financial years ending 30 June 2026 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 such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Recovered Paper, Recycled Pulp and Woodchips Agreement.”

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

Hong Kong, 21 June 2023

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

* *For identification purpose only*

NOTICE OF SPECIAL GENERAL MEETING

As at the date of this announcement, the Board of the Company comprises seven Executive Directors, being Ms. Cheung Yan, Mr. Liu Ming Chung, Mr. Zhang Cheng Fei, Mr. Ken Liu, Mr. Lau Chun Shun, Mr. Zhang Lianpeng and Mr. Zhang Yuanfu; and five Independent Non-Executive Directors, being Mr. Ng Leung Sing, Mr. Lam Yiu Kin, Mr. Chen Kefu, Ms. Chan Man Ki, Maggie and Dr. Li Huiqun.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting, or any adjourned meeting thereof (as the case may be).
4. The register of members of the Company will be closed from Tuesday, 18 July 2023 to Friday, 21 July 2023, 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 and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 17 July 2023.
5. Completion and return of the form of proxy shall not preclude members of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
7. The votes at the above mentioned meeting will be taken by poll.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 3 hours before the time of the meeting, the meeting will be postponed. The Company will publish an announcement on the websites of the Company and the Stock Exchange to notify shareholders of the Company of the date, time and venue of the rescheduled meeting.
9. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.