
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in **Nine Dragons Paper (Holdings) Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

FURTHER RENEWAL OF ACN SUPPLY AGREEMENT RENEWAL OF TAICANG PURCHASE AGREEMENT FURTHER RENEWAL OF TAICANG PURCHASE AGREEMENT

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



SOMERLEY LIMITED

A notice convening the special general meeting of Nine Dragons Paper (Holdings) Limited to be held at Harbour Room, 56/F, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 31 July, 2008 at 2:30 p.m. is set out on pages 27 to 28 of this circular. A form of proxy for use by the Shareholders at the Special General Meeting is enclosed.

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

* For identification purposes only

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DEFINITIONS

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

“ACN”	America Chung Nam, Inc., a corporation established with limited liability under the laws of the State of California in the United States. As at the date of this circular, ACN is indirectly wholly owned by Ms. Cheung Yan
“ACN Supply Agreement”	the agreement entered into between the Company and ACN on 12 February 2006 which sets out the terms for the supply of recovered paper from ACN to the Group for the three financial years ended 30 June 2008, the particulars of which were set out in the Prospectus
“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 on 17 August 2005 with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Further Renewed ACN Supply Agreement”	the agreement entered into between the Company and ACN on 30 June 2008 which sets out the terms for the supply of recovered paper by ACN to members of the Group for the period commencing from 1 August 2008 and ending on 30 June 2011
“Further Renewed Taicang Purchase Agreement”	the agreement entered into between the Company and Taicang Packaging on 30 June 2008 which sets out the terms of the purchase of packaging paperboard products by Taicang Packaging from the Group for the period commencing from 1 July 2009 and ending on 30 June 2011
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Directors comprising the independent non-executive Directors formed to advise the Independent Shareholders in respect of the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement and the annual caps of for the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement

DEFINITIONS

“Independent Shareholders”	Shareholders other than Ms. Cheung Yan, Mr. Zhang Cheng Fei and their associates
“Latest Practicable Date”	11 July 2008, being the latest practicable date prior to the printing of the circular
“Listing”	listing of the Shares on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Prospectus”	the prospectus of the Company dated 20 February 2006
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Renewed ACN Supply Agreement”	the agreement entered into between the Company and ACN on 26 June 2008 which sets out the terms for the supply of recovered paper by ACN to members of the Group for the period commencing on 1 July 2008 and ending on 31 July 2008
“Renewed Taicang Purchase Agreement”	the agreement entered into between the Company and Taicang Packaging entered into on 26 June 2008, which sets out the purchase of packaging paperboard products manufactured by the Group to Taicang Packaging for the period commencing on 1 July 2008 and ending on 30 June 2009
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	Ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Special General Meeting”	the forthcoming special general meeting of the Company to be convened to approve, ratify and confirm the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement together with the proposed annual caps for the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taicang Packaging”	Nine Dragons Packaging (Taicang) Company Limited, a wholly foreign-owned enterprise established in the PRC on 9 April 2002. As at the date of this circular, Taicang Packaging is wholly owned by Mr. Zhang Cheng Fei
“Taicang Purchase Agreement”	the agreement entered into between Zhang’s Enterprises and Taicang Packaging on 12 February 2006, which sets out the terms for the purchase of packaging paperboard products by Taicang Packaging from the Group, the particulars of which were set out in the Prospectus
“Zhang’s Enterprises”	Zhang’s Enterprises Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“%”	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 (*Chairlady*)

Mr. Liu Ming Chung

(Deputy Chairman and Chief Executive Officer)

Mr. Zhang Cheng Fei

(Deputy Chief Executive Officer)

Ms. Gao Jing

Non-executive Director:

Mr. Lau Chun Shun

Independent non-executive Directors:

Ms. Tam Wai Chu, Maria

Mr. Chung Shui Ming, Timpson

Dr. Cheng Chi Pang

Mr. Wang Hong Bo

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

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

Room 3129-3140, 31st Floor

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

14 July 2008

To the Shareholders

Dear Sir or Madam,

**FURTHER RENEWAL OF ACN SUPPLY AGREEMENT
RENEWAL OF TAICANG PURCHASE AGREEMENT
FURTHER RENEWAL OF TAICANG PURCHASE AGREEMENT**

1. INTRODUCTION

The Board announced on 26 June 2008 that the Company had entered into (i) the Renewed ACN Supply Agreement in relation to the supply of recovered papers from ACN to members of the Group for the term commencing on 1 July 2008 and ending 31 July 2008; and (ii) the Renewed Taicang Purchase Agreement in relation to the supply of packaging paperboard products manufactured by the Group to Taicang Packaging for the term commencing on 1 July 2008 and ending 30 June 2009.

The Board further announced on 30 June 2008 that the Company had entered into (i) the Further Renewed ACN Supply Agreement in relation to the supply of recovered papers from ACN to members of the Group for the term commencing on 1 August 2008 and ending 30 June 2011; and (ii) the Further Renewed Taicang Purchase Agreement in relation to the supply of packaging paperboard products manufactured by the Group to Taicang Packaging for the term commencing on 1 July 2009 and ending 30 June 2011.

* *For identification purposes only*

LETTER FROM THE BOARD

As each of the applicable percentage ratios for the transactions under the Further Renewed ACN Supply Agreement and the Further Renewed Taicang Purchase Agreement exceeds 2.5%, pursuant to Rule 14.07 of the Listing Rules, the entering into the Further Renewed ACN Supply Agreement and the Further Renewed Taicang Purchase Agreement constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the approval of the Independent Shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

Given that each of the applicable percentage ratios (other than the profit ratio) for the transactions under the Renewed ACN Supply Agreement and the Renewed Taicang Purchase Agreement under Chapter 14 of the Listing Rules on an annual basis is more than 0.1% but less than 2.5%, the transactions contemplated under the Renewed ACN Supply Agreement and the Renewed Taicang Purchase Agreement will be exempt from the Independent Shareholders' approval requirements but subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. As the Further Renewed ACN Supply Agreement and the Further Renewed Taicang Purchase Agreement involve the same parties of the Renewed ACN Supply Agreement and the Renewed Taicang Purchase Agreement, respectively, the respective agreements should be aggregated and subject to the Independent Shareholders' approval under Rule 14A.35 of the Listing Rules. However, as the term of the Renewed ACN Supply Agreement will expire on the day of the Special General Meeting, no Independent Shareholders' approval for entering into the Renewed ACN Supply Agreement will be required.

Accordingly, the Company seeks the Independent Shareholders' approval for entering into the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement and the proposed annual caps thereunder.

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) the terms of the Further Renewed ACN Supply Agreement and the annual caps on such transaction for the period of two years and eleven months commencing on 1 August 2008 and ending on 30 June 2011; and (ii) the terms of the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement and the annual caps on such transactions for the period of three years commencing on 1 July 2008 and ending on 30 June 2011.

The purpose of this circular is to (i) provide you with details of the terms of the Further Renewed ACN Supply Agreement; (ii) provide you with details of the terms of the Renewed Taicang Purchase Agreement; (iii) provide you with details of the terms of the Further Renewed Taicang Purchase Agreement; (iv) set out the opinions and recommendations of the Independent Board Committee and Somerley Limited; and (v) give you notice of the Special General Meeting at which the resolutions set out therein will be proposed. The Special General Meeting will be held on 31 July 2008 for the purpose of, inter alia, obtaining the approvals from the Independent Shareholders for the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement together with the proposed annual caps for the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and for the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, by way of poll.

2. FURTHER RENEWAL OF ACN SUPPLY AGREEMENT

Prior to the Listing, the Company and ACN had entered into the ACN Supply Agreement on 12 February 2006, pursuant to which ACN agreed to supply recovered paper to members of the Group as requested from time to time.

LETTER FROM THE BOARD

ACN is the largest exporter of recovered paper in U.S.A. and is a leading exporter of recovered paper in Europe and Asia. ACN is a major supplier of recovered paper in China. The relationship between the Company and ACN ensures the Company has a stable supply of the recovered paper at a reasonable price.

As disclosed in the Prospectus, the Company had obtained a waiver from the Stock Exchange from strict compliance with the announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the ACN Supply Agreement.

On 26 June 2008, the Company and ACN extended the ACN Supply Agreement for a period of one-month commencing from 1 July 2008 and ending on 31 July 2008. The average sale price of recovered paper under the Renewed ACN Supply Agreement is between approximately US\$240 per tonne to US\$255 per tonne.

In view of the continuous development and expansion of the business and operation of the Group, and based on the internal forecasts of forthcoming demand and operating conditions, on 30 June 2008, the Company has entered into the Further Renewed ACN Supply Agreement to regulate the supply of recovered paper from ACN to members of the Group for a term commencing from 1 August 2008 and ending on 30 June 2011. The terms of the Further Renewed ACN Supply Agreement are similar to those of the Renewed ACN Supply Agreement.

Detail terms for specific transactions such as the individual contract sum, delivery schedule and payment terms would be agreed from time to time by the management of the Company with ACN, following broadly the same basis used for negotiating terms of orders offered placed with independent suppliers.

General Principles and Terms

Pursuant to the Further Renewed ACN Supply Agreement, ACN agreed to supply recovered paper to members of the Group as requested between the period commencing from 1 August 2008 to 30 June 2011. The terms of the Further Renewed ACN Supply Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The sale prices of the recovered paper will be determined with reference to the prevailing market prices in the recovered paper market in the PRC and the quantity of the Group's purchase and will be no less favourable than those offered by independent suppliers of the Group.

Cap Amount

Historical transaction value

The aggregate amount of purchases of recovered paper by the Group from ACN amounted to RMB2,591.0 million and RMB2,922.4 million for the two years ended 30 June 2007, respectively. Based on the information available as at the Latest Practicable Date, for the year ended 30 June 2008, the aggregate amount of such purchases is expected to amount to approximately RMB4,750 million.

Proposed Cap

The Directors anticipate that the actual production capacity of the Group will increase from approximately 3.25 million tonnes for the year ended 30 June 2007, to 4.7 million tonnes, 7.1 million tonnes, 8.6 million tonnes and 10.2 million tonnes for the year ended 30 June 2008, 2009, 2010 and 2011, respectively, as such the need for the continued supply of recovered paper from ACN by members of the Group will continue to grow; and (ii) the prices of raw materials and finished products will increase during the period from 2008 to 2011 due to the increase in demand for such products and the expected inflation. Based on the historical transaction value between ACN and the Company, the Directors expect that the transaction value between ACN and the Company for the eleven months ending 30 June 2009 and the two years ending 30 June 2011 will be approximately RMB11,000 million, RMB13,000 million and RMB16,000 million, respectively.

LETTER FROM THE BOARD

Listing Rule Implications

As at the Latest Practicable Date, ACN is indirectly wholly owned by Ms. Cheung Yan, a Director and a substantial Shareholder. Accordingly, the transactions contemplated under the Further Renewed ACN Supply Agreement will be connected transactions for the Company under Chapter 14A of the Listing Rules.

As the Further Renewed ACN Supply Agreement involves the same parties of the Renewed ACN Supply Agreement, both agreements should be aggregated and subject to the Independent Shareholders' approval under Rule 14A.35 of the Listing Rules. However, as the term of the Renewed ACN Supply Agreement will expire on the day of the Special General Meeting, accordingly no Independent Shareholders' approval for entering into the Renewed ACN Supply Agreement will be required. The Company will continue to monitor the transactions under the Renewed ACN Supply Agreement. Should the amount regarding the Renewed ACN Supply Agreement for the month ending 31 July 2008 exceed the proposed cap, the Company would comply with the requirements under the Listing Rules before such cap is exceeded.

As the applicable percentage ratios for the transactions contemplated under the Further Renewed ACN Supply Agreement on an annual basis exceed 2.5%, the entering into the Further Renewed ACN Supply Agreement constitutes non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, and is subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the approval of the Independent Shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the respective independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Further Renewed ACN Supply Agreement was 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, and the proposed annual caps for the transactions contemplated under the Further Renewed ACN Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. RENEWAL OF TAICANG PURCHASE AGREEMENT

Prior to the Listing, Zhang's Enterprises and Taicang Packaging had entered into the Taicang Purchase Agreement on 12 February 2006, pursuant to which Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time.

As disclosed in the Prospectus, the Company had obtained a waiver from the Stock Exchange from strict compliance with the announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the Taicang Purchase Agreement.

Taicang Packaging is principally engaged in the production of paper packaging containers and processed containerboard products.

On 27 February 2007, a supplemental agreement to the Taicang Purchase Agreement had been entered into between Zhang's Enterprises and Taicang Packaging to increase the annual caps for the two years ended 30 June 2008 due to better-than-expected sales of the Groups' products and the anticipated strong growth in demand for the Group's products.

On 26 June 2008, the Company and Taicang Packaging have entered into the Renewed Taicang Purchase Agreement for a period of one year commencing on 1 July 2008 and ending on 30 June 2009. The average sale price of packaging paperboard products supplied by the Group to Taicang Packaging under the Renewed Taicang Purchase Agreement is between approximately RMB3,100 per tonne and RMB3,500 per tonne.

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Detail terms for specific transactions including the individual contract sum, delivery schedule and payment terms would be agreed at the time when specific transactions are made and they would be set with reference to similar terms offered by the Group to independent purchasers.

General Principles and Terms

Pursuant to the Renewed Taicang Purchase Agreement, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time. The terms of the Renewed Taicang Purchase Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The sale prices of the products will be determined with reference to the prevailing market prices and will be no more favourable than those offered to other purchasers of the Group's products.

Cap Amount

Historical transaction value

The aggregate amount of the products purchased by Taicang Packaging from the Group amounted to RMB78.0 million and RMB193.6 million for the year ended 30 June 2006 and 2007, respectively. Based on the information available as at the Latest Practicable Date, for the year ended 30 June 2008, it is expected to amount to approximately RMB220 million.

Proposed Annual Cap

The Directors anticipate that (i) the business of Taicang Packaging will continue to grow and (ii) the prices of raw materials and finished products will increase during the period from 2008 to 2011 due to the increase in demand for such products and the expected inflation. Based on the historical transaction value between Taicang Packaging and the Group, the Directors expect that the Group's sale of packaging paperboard products to Taicang Packaging for the year ending 30 June 2009 will be approximately RMB241 million pursuant to the Renewed Taicang Packaging Agreement.

Listing Rule Implications

As at the Latest Practicable Date, Taicang Packaging was wholly owned by Mr. Zhang Cheng Fei, a Director and a substantial shareholder of the Company. Therefore, the transactions contemplated under the Renewed Taicang Packaging Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Mr. Zhang Cheng Fei is also the younger brother of Ms. Cheung Yan, a Director and a substantial shareholder of the Company, a brother-in-law of Mr. Liu Ming Chung, a Director and a substantial shareholder of the Company, and an uncle of Mr. Lau Chun Shun, a Director.

The Renewed Taicang Packaging Agreement was entered into on normal commercial terms and the applicable percentage ratios for the transactions under the Renewed Taicang Packaging Agreement on an annual basis will be less than 2.5%. Accordingly, the Renewed Taicang Packaging Agreement is only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules and is exempt from the independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules. As the Further Renewed Taicang Purchase Agreement involves the same parties of the Renewed Taicang Purchase Agreement, the agreements should be aggregated and subject to the Independent Shareholders' approval under Rule 14A.35 of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Renewed Taicang Purchase Agreement was 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

LETTER FROM THE BOARD

terms, and the proposed annual caps for the transactions contemplated under the Renewed Taicang Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. FURTHER RENEWAL OF TAICANG PURCHASE AGREEMENT

In view of the continuous development and expansion of the business and operation of the Group, and the expected completion of a new production line of Taicang Packaging in 2009 with an estimated production capacity of approximately 8,000 tonnes per month and its introduction of new paper packaging products, on 30 June 2008, the Company has entered into the Further Renewed Taicang Purchase Agreement to regulate the supply of packaging paperboard products from the Group to Taicang Packaging for a term of two years commencing from 1 July 2009 and ending on 30 June 2011. The terms of the Further Renewed Taicang Purchase Agreement are similar to the those of the Renewed Taicang Purchase Agreement.

General Principles and Terms

Pursuant to the Further Renewed Taicang Purchase Agreement, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from time to time for the two years ending 30 June 2011. The terms of the Further Renewed Taicang Purchase Agreement were negotiated on an arm's length basis and on normal commercial terms in the parties' ordinary course of business. The sale prices of the products will be determined with reference to the prevailing market prices and will be no more favourable than those offered to other purchasers of the Group's products.

Cap Amount

Historical transaction value

The aggregate amount of the products purchased by Taicang Packaging from the Group amounted to RMB78.0 million and RMB193.6 million for the year ended 30 June 2006 and 2007, respectively. Based on the information available as at the Latest Practicable Date, for the year ended 30 June 2008, it is expected to amount to approximately RMB220 million.

Proposed Annual Cap

The Directors anticipate that (i) the business of Taicang Packaging will continue to grow and (ii) the prices of raw materials and finished products will increase during the period between 2008 to 2011 due to the increase in demand for such products and the expected inflation. Based on the historical transaction value between Taicang Packaging and the Group, the Directors expect that the Group's sale of packaging paperboard products to Taicang Packaging for the two years ending 30 June 2011 will be approximately RMB340 million and RMB390 million, respectively pursuant to the Further Renewed Taicang Packaging Agreement.

Listing Rule Implications

As at the Latest Practicable Date, Taicang Packaging was wholly owned by Mr. Zhang Cheng Fei, a Director and a substantial shareholder of the Company. Therefore, the transactions contemplated under the Further Renewed Taicang Packaging Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Mr. Zhang Cheng Fei is also the younger brother of Ms. Cheung Yan, a Director and a substantial shareholder of the Company, a brother-in-law of Mr. Liu Ming Chung, a Director and a substantial shareholder of the Company, and an uncle of Mr. Lau Chun Shun, a Director.

LETTER FROM THE BOARD

As the Further Renewed Taicang Purchase Agreement involves the same parties of the Renewed Taicang Purchase Agreement, both agreements should be aggregated and subject to the Independent Shareholders' approval under Rule 14A.35 of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Further Renewed Taicang Purchase Agreement was 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, and the proposed annual caps for the transactions contemplated under the Further Renewed Taicang Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. SPECIAL GENERAL MEETING

Set out on pages 27 and 28 of this circular is a notice convening the Special General Meeting to consider the ordinary resolutions relating to the matters as detailed in the above paragraphs.

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

6. VOTES TAKEN ON A POLL AT THE SPECIAL GENERAL MEETING

Pursuant to the Listing Rules, (i) the Further Renewed ACN Supply Agreement, (ii) the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, and (iii) the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and for (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, must be approved by the Independent Shareholders at the Special General Meeting by votes taken on a poll. Ms. Cheung Yan, Mr. Zhang Cheng Fei and their associates who as at the Latest Practicable Date held 3,039,992,427 Shares, representing approximately 70.19% of the total issued Share capital of the Company, shall abstain from voting at the Special General Meeting.

7. RECOMMENDATIONS

The Directors consider that the entering into the Further Renewed ACN Supply Agreement, Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, are 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, and are in the best interests of the Company and its Shareholders as a whole and are fair and reasonable as far as the Independent Shareholders are concerned.

The Board has established an Independent Board Committee comprising four independent non-executive directors to consider and, if appropriate, make recommendations to the Independent Shareholders: (i) as to whether the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011

LETTER FROM THE BOARD

for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (ii) to advise the Independent Shareholders on how to vote, taking into account the recommendations of Somerley Limited, the independent financial adviser, in relation to the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement.

The Company has appointed Somerley Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement.

After taking into account the opinions of Somerley Limited, the Independent Board Committee considers that the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting to approve, ratify and confirm the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement.

The Company will publish an announcement on the results of the Special General Meeting on the business day following the Special General Meeting with respect to whether or not the resolutions set out in this circular have been passed by the Independent Shareholders.

8. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the letter from the Independent Board Committee set out on pages 12 to 13 of this circular, the letter from Somerley Limited sets out on pages 14 to 21 of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



玖龍紙業(控股)有限公司*

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2689)

Independent non-executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Room 3129-3140, 31st Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

14 July 2008

To the Independent Shareholders

Dear Sir or Madam,

**FURTHER RENEWAL OF ACN SUPPLY AGREEMENT
RENEWAL OF TAICANG PURCHASE AGREEMENT
FURTHER RENEWAL OF TAICANG PURCHASE AGREEMENT**

We refer to the circular dated 14 July 2008 issued by the Company (the “**Circular**”) to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to consider the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, and to advise the Independent Shareholders as to the fairness and reasonableness of the same and to recommend how the Independent Shareholders should vote at the Special General Meeting. None of the members of the Independent Board Committee has any direct or indirect interest in the Further Renewed ACN Supply Agreement, Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement. In addition, Somerley Limited has been appointed to advise us, the Independent Board Committee and the Independent Shareholders in relation to the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 11 of the Circular, and the letter from Somerley Limited to us, the independent financial adviser to us, the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement, together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, as set out on pages 14 to 21 of this Circular.

Having taken into account of the principal factors and reasons considered by Somerley Limited and its conclusion and advice, we concur with the views of Somerley Limited and consider that the terms of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement, are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement together with the proposed annual caps for (a) the two years and eleven months ending 30 June 2011 for the Further Renewed ACN Supply Agreement and (b) the three years ending 30 June 2011 for the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement.

Yours faithfully,

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

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

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

Cheng Chi Pang
*Independent
non-executive
Director*

Wang Hong Bo
*Independent
non-executive
Director*

LETTER FROM SOMERLEY LIMITED

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



SOMERLEY LIMITED

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

14 July 2008

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

Dear Sirs,

RENEWAL OF AGREEMENTS AS REGARDS EXISTING CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the continuing connected transactions to be conducted under the Further Renewed ACN Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement (the “Continuing Connected Transactions”). Details of the Continuing Connected Transactions are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 14 July 2008 (the “Circular”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

ACN is indirectly wholly owned by Ms. Cheung Yan, a Director and the controlling Shareholder with an approximate 70% equity interest in the Company. Accordingly, the entering into of the Further Renewed ACN Supply Agreement between the Company and ACN and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Taicang Packaging is held as to 100% by Mr. Zhang Cheng Fei, who is a Director and substantial shareholder of the Company. Mr. Zhang Cheng Fei is also the younger brother of Ms. Cheung Yan. The entering into of the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement between the Company and Taicang Packaging and the transactions contemplated thereunder also constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The entering into of the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement is subject to approval by the Independent Shareholders at the Special General Meeting. Ms. Cheung Yan, Mr. Zhang Cheng Fei and their respective associates, who as at the Latest Practicable Date held in aggregate 3,039,992,427 Shares or, approximately 70.19% of the total issued share capital of the Company, shall abstain from voting on the resolutions concerning the above agreements.

LETTER FROM SOMERLEY LIMITED

The Independent Board Committee, comprising all of the four independent non-executive Directors namely Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo, has been formed to consider the terms of the Continuing Connected Transactions and the proposed caps and to make a recommendation to the Independent Shareholders on how to vote. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background to and reasons for the Continuing Connected Transactions

Introduction

The Group is Asia's number one containerboard manufacturer in terms of design production capacity.

It primarily produces linerboard, including kraftlinerboard, testlinerboard and white top linerboard, high performance corrugating medium and coated duplex board. It also participates in unbleached kraft pulp production.

The manufacturing facility of the Group is principally located in PRC and it also sells substantially all of its products to customers in the PRC.

ACN Supply Agreement

Recovered paper is the Group's principal raw material and it accounts for more than half of the total production cost of the Group. The Group chooses to use recovered paper in production as it is environmental friendly and matches the Group's concept of "No environment, no paper".

Given that recovered paper is a key raw material to the Group's business, prior to Listing, the Company entered into the ACN Supply Agreement with its major recovered paper supplier, ACN, to secure a stable supply of recovered paper to the Group on a priority basis.

LETTER FROM SOMERLEY LIMITED

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

In order to avoid over reliance on ACN, the Group also maintains relationships with other overseas recovered paper suppliers. From late 2006, when the quality of domestic recovered paper improved to an acceptable standard, the Group started buying recovered paper, on a commercial scale, domestically in PRC. However, ACN remains the most important supplier of recovered paper to the Group and the Group finds their services satisfactory and reliable.

The ACN Supply Agreement commenced on 3 March 2006, when shares of the Company were listed on the Stock Exchange, and expired on 30 June 2008. On 26 June 2008, the Company and ACN entered into the Renewed ACN Supply Agreement whereby ACN agreed to supply recovered paper to the Group for a further one month period expiring on 31 July 2008. The expected value of transactions under the Renewed ACN Supply Agreement is estimated to amount to less than 2.5% of the applicable percentage ratios. Accordingly, the Renewed ACN Supply Agreement is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

To regulate the future transactions between the Group and ACN and to be able to continue to enjoy the services of ACN as a reliable supplier, on 30 June 2008, the Company and ACN entered into the Further Renewed ACN Supply Agreement for a term commencing from 1 August 2008 and ending on 30 June 2011.

The Further Renewed ACN Supply Agreement is a master contract which sets out the principal terms for the Continuing Connected Transactions, including the ACN Annual Caps (as defined below) and the pricing basis. Detail terms for specific transactions such as the individual contract sum, delivery schedule and payment terms would be agreed from time to time by the management of the Company with ACN, following broadly the same basis used for negotiating terms of orders placed with independent suppliers.

Taicang Purchase Agreement

Taicang Packaging was established in April 2002 by Mr. Zhang Cheng Fei. Taicang Packaging is principally engaged in the production of paper packaging containers and processed containerboard products, using raw materials including packaging paperboard sourced from the Group. Taicang Packaging is the Group's long-term customer and transactions with the Group were conducted pursuant to the terms of the Taicang Purchase Agreement. The Taicang Purchase Agreement, as amended by a supplemental agreement dated 27 February 2007, had a term up to 30 June 2008.

On 26 June 2008, the Company and Taicang Packaging entered into the Renewed Taicang Purchase Agreement whereby the Group agreed to continue to supply packaging paperboard to Taicang Packaging for a further term of one year expiring on 30 June 2009. The expected value of transactions under the Taicang Purchase Agreement is estimated to amount to less than 2.5% of the applicable percentage ratios.

To regulate the transactions with Taicang Packaging to be conducted after 30 June 2009, the Company has, on 30 June 2008, entered into the Further Renewed Taicang Purchase Agreement with Taicang Packaging. The Further Renewed Taicang Purchase Agreement has a term of two years commencing from 1 July 2009 and ending on 30 June 2011. Both the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement are subject to Independent Shareholders' approval.

LETTER FROM SOMERLEY LIMITED

Same as the Further Renewed ACN Supply Agreement, the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement are master contracts which set out the principal terms for the Continuing Connected Transactions, including the Taicang Annual Caps (as defined below) and the pricing basis. Detail terms for specific transactions including the individual contract sum, delivery schedule and payment terms would be agreed at the time when specific transactions are made and they would be set with reference to similar terms offered by the Group to independent purchasers.

Given that the Continuing Connected Transactions would be entered into in the Group's ordinary course of business, we agree with the Directors that it is in the interest of the Company to enter into the Further Renewed ACN Supply Agreement, Renewed Taicang Purchase Agreement and Further Renewed Taicang Purchase Agreement so as to maintain the Group's ongoing operation. This is particularly so in the case of the Further Renewed ACN Supply Agreement, which serves to ensure a consistent supply, on a priority basis, of the key raw material to support the Group's operation. The Group is not committed to a fixed contract sum under each of the Further Renewed ACN Supply Agreement, Renewed Taicang Purchase Agreement and Further Renewed Taicang Purchase Agreement. Therefore, the entering into of the above agreements is conducive to the Group's conduct of business, while allowing it to maintain operational flexibility, which we consider to be in the interest of the Company.

2. Pricing basis for the Continuing Connected Transactions

Further Renewed ACN Supply Agreement

The purchase prices of the recovered paper will be determined from time to time when specific transactions are made in accordance with the following criteria:

- (i) with reference to the prevailing market prices for imported recovered paper to PRC;
- (ii) the quantity of the Group's purchase; and
- (iii) at a price no less favourable than those offered by ACN to its other customers.

Renewed Taicang Purchase Agreement and Further Renewed Taicang Purchase Agreement

The selling prices of products to be sold by the Group to Taicang Packaging pursuant to the Renewed Taicang Purchase Agreement and Further Renewed Taicang Purchase Agreement will be determined with reference to the prevailing market prices and will be no more favourable than those offered to other purchasers of the Group's products.

We consider the above pricing basis, which is based on market prices, is fair and reasonable.

LETTER FROM SOMERLEY LIMITED

3. The proposed annual caps for the Continuing Connected Transactions

Set out below are the historical purchases of recovered paper from ACN for the three years ended 30 June 2008, the estimated purchases for the three years ending 30 June 2011 and the proposed annual caps for the 11 months ending 30 June 2009 and the two years ending 30 June 2011 as set out in the Further Renewed ACN Supply Agreement (“ACN Annual Caps”), together with the key factors contributing to the fixing of the ACN Annual Caps:

	For the year ended 30 June 2006 <i>tpa</i>	For the year ended 30 June 2007 <i>tpa</i>	For the year ended 30 June 2008 <i>tpa</i>	For the year ending 30 June 2009 <i>tpa</i>	For the year ending 30 June 2010 <i>tpa</i>	For the year ending 30 June 2011 <i>tpa</i>
Actual/expected design production capacity as at the end of the respective financial year	3,300,000	4,500,000	7,050,000	7,850,000	10,650,000	10,650,000
Actual/expected production volume	2,710,000	3,250,000	4,700,000	7,100,000	8,600,000	10,200,000
<i>Contribution rate of production capacity</i>	82%	72%	67%	90%	81%	96%
Actual/expected volume of purchase of recovered paper to meet the production target	3,100,000	3,760,000	5,350,000	8,080,000	9,790,000	11,610,000
Actual/expected purchase from ACN (% of total purchases)	2,450,000 (79%)	2,530,000 (67%)	3,160,000 (59%)	5,660,000 (70%)	6,850,000 (70%)	8,130,000 (70%)
Actual/expected average price per tonne	RMB1,058	RMB1,155	RMB1,503	RMB1,860	RMB1,894	RMB1,894
Monetary value of actual/expected purchases from ACN	RMB 2,591 million	RMB 2,922.4 million	RMB 4,750 million	RMB 11,000 million	RMB 13,000 million	RMB 16,000 million
Annual caps	RMB 3,099 million	RMB 4,024 million	RMB 5,092 million	RMB 11,241 million	RMB 13,000 million	RMB 16,000 million
				<i>(Note)</i>		

Note: This comprise the proposed cap of RMB241 million for the purchases from ACN in the month of 31 July 2008 and the proposed cap of RMB11,000 million for the purchases from ACN for the 11 months ending 30 June 2009.

LETTER FROM SOMERLEY LIMITED

As illustrated above, the ACN Annual Caps are set principally with reference to design production capacity, contribution rate of production plants, percentage of raw material being purchased from ACN and estimated prices of recovered paper.

Production capacity

The Group's production base is originally based in Dongguan in Pearl River Delta region and Taicang in Yangtze River Delta region. The Group aims to sustain its leading position in PRC and increase economies of scale. To achieve these and to tap the increasing demand from customers, the Group continuously expands its geographical coverage in PRC as well as its design production capacity in Dongguan and Taicang.

As advised by the management of the Company, China's containerboard consumption has increased at double digit growth rates over the past few years and is expected to maintain fast growth in at least the next four years. Meanwhile, a number of small producers have closed down since 2007 due to increased competition in the market and government's latest environmental regulatory requirements. Such market consolidation is expected to continue in the next two years. In light of the expected growth in demand for containerboard products in the future and the opportunity to capture more business as a result of market consolidation, the Group has been expanding its design production capacity in Dongguan and Taicang. As at 30 June 2008, the annual design production capacities in Dongguan and Taicang were 4,450,000 tonnes and 2,500,000 tonnes respectively.

Besides expanding its existing production base, the Group is also expanding its geographical coverage in PRC. This would allow the Group to better serve its customers and save transportation cost as its finished products are bulky in size. The Group established its third production base in Chongqing which has an initial annual design production capacity of 800,000 tonnes and is expected to commence production in August 2008. In September 2007, the Group started to build its fourth base in the Ninghe Economic Development Zone in Tianjin. The establishment of its fourth base in PRC would enable the Group to capture the demand in the north and north-eastern regions in PRC. The fourth production base is planned to have an initial annual design production capacity of 800,000 tonnes and would commence production before the end of 2009. The annual design production capacity of the Chongqing and Tianjin production bases can be expanded to 5 and 4 million tonnes respectively.

Contribution rate

The contribution rate is calculated based on the actual production volume during the year divided by the design production capacity as at the end of respective year. The Group aims to maintain the contribution rate of the production plant at a certain level so as to achieve a reasonable level of operational efficiency. The Group had relatively low contribution rates for the two years ended 30 June 2007 and 2008. This was because new production facilities at Dongguan and/or Taicang were established in the middle or towards the end of the respective financial years.

For each of the three years ending 30 June 2011, the contribution rate is estimated to be approximately 90%.

Percentage of raw material purchase from ACN

For the two recent financial years, the purchases made by the Group from ACN were maintained at approximately 79% of the Group's total purchases of recovered paper. We are informed that, in order to avoid over-reliance on ACN, the Group currently adopts an internal control guideline which requires that not less than approximately 30% of recovered paper is sourced from independent suppliers.

LETTER FROM SOMERLEY LIMITED

Estimated prices of purchases

We are informed by the management of the Company that the prices of purchases from ACN are estimated on the basis of the purchase prices of recovered paper bought by the Group from ACN and other independent suppliers in March and April of 2008.

Taicang Annual Caps

Set out below are the sales of products to Taicang Packaging by the Group for each of the three years ended 30 June 2008 and the Taicang Annual Caps (as defined below) for each of the three years ending 30 June 2011:

Sales	For year ended 30 June 2006	For year ended 30 June 2007	For year ended 30 June 2008	For year ending 30 June 2009	For year ending 30 June 2010	For year ending 30 June 2011
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Actual/expected sales of packaging paperboard products to Taicang Packaging	78	193.6	220	241	340	390
Annual caps granted by the Stock Exchange and Taicang Annual Caps	88.2	200 <i>(Note)</i>	220 <i>(Note)</i>	241	340	390

Note: The annual caps originally granted by the Stock Exchange for each of the two years ended 30 June 2008 were RMB114.3 million and RMB133.3 million. On 27 February 2007, Zhang's Enterprises and Taicang Packaging entered into a supplemental agreement to increase the annual caps for the purchases under the Taicang Purchase Agreement to RMB200 million for the year ended 30 June 2007 and RMB220 million for the year ended 30 June 2008.

The proposed annual caps under the Renewed Taicang Purchase Agreement and Further Renewed Taicang Purchase Agreement ("Taicang Annual Caps") are principally set with reference to the business projection provided by Taicang Packaging. Taicang Packaging would introduce new paper packaging products to the market in the future. Taicang Packaging has a current production capacity of 6,120 tonnes per month and it would complete the installation of a new production line with a production capacity of approximately 8,000 tonnes per month in June 2009. This would significantly enhance the production capacity of Taicang Packaging, hence bringing an increase in demand for the Group's products which are used by Taicang Packaging as raw materials.

Generally speaking, in our opinion, it is in the interest of the Group for the proposed annual caps to be as accommodating to the Group as possible (within reason). Provided that the pricing for the Continuing Connected Transactions is fair and reasonable and the conduct of the relevant transactions is subject to annual review by independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the proposed annual caps are tailored to future business growth. This is particular so for transactions conducted under the Further Renewed ACN Supply Agreement as recovered paper is the key raw material to the operation of the Group. Overall, we consider that the ACN Annual Caps and Taicang Annual Caps have been set by the Company with due care and are fair and reasonable.

LETTER FROM SOMERLEY LIMITED

4. Annual review of the Continuing Connected Transactions

The procedures to be put in place for the annual review of the Continuing Connected Transactions as set out in the Listing Rules are as follows:

- (i) The independent non-executive Directors will review the Continuing Connected Transactions and comment in the annual report and accounts of the Company;
- (ii) the auditors of the Company will review the Continuing Connected Transactions and issue a confirmation letter to the Board;
- (iii) the Board will state in the annual report whether the auditors have made such confirmation in relation to the Continuing Connected Transactions; and
- (iv) the Company will promptly notify the Stock Exchange and publish an announcement if it believes that the independent non-executive Directors and/or the auditors will not be able to issue the aforesaid confirmation.

The independent non-executive Directors and the auditors of the Company have reviewed the continuing connected transactions of the Group conducted during the two years ended 30 June 2007 and have provided the above confirmations as required under the Listing Rules, details of which are contained in the Company's annual reports for the years of 2006 and 2007. The required confirmations in respect of continuing connected transactions conducted during the financial year of 2008 would be included in the Company's 2008 annual report, which would be despatched by the Company to the Shareholders by the end of October 2008.

RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Continuing Connected Transactions would be conducted in the ordinary and usual course of business of the Group and are in the interests of the Company. In our view, the Continuing Connected Transactions are on normal commercial terms which are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Special General Meeting.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Company. The information contained herein relating to the Company has been supplied by the Directors, who collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading insofar as it relates to the Company.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

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

(A) Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the Company as at the Latest Practicable Date.

Name of Directors	Number of Shares held			Number of underlying Shares (in respect of share options) held			Approximate percentage of shareholdings
	Personal Interests	Family Interests	Corporate Interests (Note 1)	Personal Interests	Family Interests	Total	
Ms. Cheung Yan	22,883,663	13,562,836	2,990,520,000	46,738,652	46,731,348	3,120,436,499	72.05%
Mr. Liu Ming Chung	13,562,836	22,883,663	2,990,520,000	46,731,348	46,738,652	3,120,436,499	72.05%
Mr. Zhang Cheng Fei	13,025,928	-	-	40,288,893	-	53,314,821	1.23%
Ms. Gao Jing	200,000	467,000	-	300,000	1,200,000	2,167,000	0.05%
Ms. Tam Wai Chu, Maria	516,668	-	-	700,002	-	1,216,670	0.03%
Mr. Chung Shui Ming, Timpson	403,668	-	-	700,002	-	1,103,670	0.03%
Dr. Cheng Chi Pang	318,668	-	-	700,002	-	1,018,670	0.02%

Notes:

(1) Best Result Holdings Limited directly held 2,990,520,000 Shares. The issued share capital of Best Result Holdings Limited is held as to approximately 29.706% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, as to approximately 7.367% by Ms. Cheung Yan and as to approximately 37.053% by Ms. Cheung Yan and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust. Each of Ms. Cheung Yan and Mr. Liu Ming Chung is therefore deemed to be interested in the shares held by Best Result Holdings Limited by virtue of her or his interests in Best Result pursuant to Part XV of the SFO.

(2) Details of the share options are set out in Part (B) below.

(B) the Underlying Shares

Details of the outstanding options granted to the Directors as at the Latest Practicable Date were as follows:

Grantees	Nature of Interest	Number of share options			Approximate percentage of shareholding
		Pre-IPO Share Options (Note 1)	2006 Share Options (Note 2)	Total	
Ms. Cheung Yan (Note 3)	Beneficial owner	13,538,652	33,200,000	46,738,652	1.079%
Mr. Liu Ming Chung (Note 3)	Beneficial owner	13,531,348	33,200,000	46,731,348	1.079%
Mr. Zhang Cheng Fei	Beneficial owner	7,088,893	33,200,000	40,288,893	0.930%
Ms. Gao Jing	Beneficial owner	300,000	–	300,000	0.007%
Ms. Tam Wai Chu, Maria	Beneficial owner	700,002	–	700,002	0.016%
Mr. Chung Shui Ming, Timpson	Beneficial owner	700,002	–	700,002	0.016%
Dr. Cheng Chi Pang	Beneficial owner	700,002	–	700,002	0.016%
Total:		<u>36,558,899</u>	<u>99,600,000</u>	<u>136,158,899</u>	<u>3.143%</u>

Notes:

- (1) All options under the Pre-IPO Share Option Scheme were granted on 1 January 2006 at an exercise price of HK\$3.06 per Share.
- (2) The exercise price of the options under the 2006 Share Option Scheme was HK\$9.8365 per Share.
- (3) Mr. Liu Ming Chung is the spouse of Ms. Cheung Yan. Therefore, Ms. Cheung Yan is deemed to be interested in the Shares subject to the share options granted to Mr. Liu Ming Chung and Mr. Liu Ming Chung is deemed to be interested in the Shares subject to the share options granted to Ms. Cheung Yan.

Save as disclosed above, no option was granted, cancelled or lapsed under the Pre-IPO Share Option Scheme and 2006 Share Options as at the Latest Practicable Date.

(C) Interests in Associated Corporation – Best Result Holdings Limited

Name of director	Capacity	No. of issued shares held in Best Result Holdings Limited	Approximate percentage of shareholding
Ms. Cheung Yan	Beneficiary of a trust	29,706	29.706%
	Beneficial owner	7,367	7.367%
Mr. Liu Ming Chung	Beneficiary of a trust	37,053	37.053%
Mr. Zhang Cheng Fei	Beneficiary of a trust	25,874	25.874%

All the interests disclosed in sections (A), (B) and (C) above represent long positions in the shares of the Company or the associated corporation.

Save as disclosed above, none of the directors or chief executive of the Company or any of their associates (within the meaning of Part XV of SFO) had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as at the Latest Practicable Date, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, the following are details of the persons (other than a director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name of Shareholder	Capacity	Number of Shares held <i>(Note 1)</i>	Approximate percentage of total issued Shares
Best Result Holdings Limited <i>(Note 2)</i>	Beneficial Owner	2,990,520,000	69.05%
HSBC Bank USA, National Association	Trustee of YC2006 QuickGRAT	2,990,520,000	69.05%
Bank of the West <i>(Note 2)</i>	Trustee of MCL Living Trust	2,990,520,000	69.05%

Notes:

- (1) All of the above interests are long positions.
- (2) Best Result Holdings Limited directly held 2,990,520,000 Shares. The issued share capital of Best Result Holdings Limited is held as to approximately 29.706% by Ms. Cheung Yan as the trustee and HSBC Bank USA, National Association as the administrative trustee of YC 2006 QuickGRAT, and as to approximately 7.367% by Ms. Cheung Yan and as to approximately 37.053% by Ms. Cheung Yan and her spouse, Mr. Liu Ming Chung, as the trustees and the special trustees and Bank of The West as a trustee of MCL Living Trust.

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

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2007, the date to which the latest audited financial statements of the Group were made up.

5. LITIGATION

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

6. SERVICE CONTRACT

As at the Latest Practicable Date, each of Ms. Cheung Yan, Mr. Liu Ming Chung and Mr. Zhang Cheng Fei had entered into a service contract with the Company for a period of three years commencing on 3 March 2006, which may be terminated by either party upon six months' notice.

Each of Mr. Lau Chun Shun and Ms. Gao Jing had entered into a service contract with the Company for a period of one year commencing on 3 March 2008 and 6 July 2008 respectively, which may be terminated by either party upon three months' notice

Each of independent non-executive Directors namely, Ms. Tam Wai Chu, Maria, Mr. Chung Shui Ming, Timpson, Dr. Cheng Chi Pang and Mr. Wang Hong Bo, had entered into a letter of agreement with the Company for a period of one year commencing on 3 March 2008, which may be terminated according to the Bye-Laws of the Company.

7. MATERIAL INTEREST

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

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

8. COMPETING INTEREST

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

9. CONSENT OF EXPERT

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

Name	Qualification
Somerley Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

To the best knowledge of the Directors, Somerley Limited is not beneficially interested in the share capital of any member of the Group nor do they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best knowledge of the Directors, as at the Latest Practicable Date, Somerley Limited was not interested, directly or indirectly, in any assets which had since 30 June 2007, being the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at Room 3129-3140, 31st Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (c) The qualified accountant of the Company is Mr. Law Wang Chak, Waltery who is a fellow member of both the Association of Chartered Certified Accountants and of Hong Kong Institute of Certified Public Accountants and an associated member of the Institute of Chartered Accountants in England and Wales.
- (d) The company secretary of the Company is Ms. Cheng Wai Chu, Judy, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) The registered office of Somerley Limited is situated at 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.
- (g) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the Hong Kong office of the Company, at Room 3129, 31/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 31 July 2008 and at the Special General Meeting:

- (a) the Further Renewed ACN Supply Agreement;
- (b) the Further Renewed Taicang Purchase Agreement;
- (c) the Renewed Taicang Purchase Agreement;
- (d) the service contracts of the Directors as set out in this circular;
- (e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (f) the letter of advice from Somerley Limited as set out in this circular; and
- (g) the written consent from Somerley Limited referred to in the paragraph headed "Consent of Expert" of this appendix.

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 Harbour Room, 56/F, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 31 July 2008 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Further Renewed ACN Supply Agreement dated 30 June 2008 (copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the non-exempt connected transaction contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) the proposed annual caps as set out in the Circular in relation to the Further Renewed ACN Supply Agreement for the two years and eleven months ending 30 June 2011 be and are hereby approved;

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all other acts or things deemed by him/ her to be incidental, ancillary to or in connection with the Further Renewed ACN Supply Agreement, the transactions contemplated thereunder and the proposed annual caps for the two years and eleven months ending 30 June 2011.”

2. “**THAT:**

- (a) the Renewed Taicang Purchase Agreement dated 26 June 2008 (copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the non-exempt connected transaction contemplated thereunder be and are hereby approved, ratified and confirmed);
- (b) the Further Renewed Taicang Purchase Agreement dated 30 June 2008 (copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purposes), the terms thereof and the non-exempt connected transaction contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (c) the proposed annual caps as set out in the Circular in relation to the Renewed Taicang Purchase Agreement and the Further Renewed Taicang Purchase Agreement for the three years ending 30 June 2011 be and are hereby approved;

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all documents, instruments and agreements and to do all other acts or things deemed by him/ her to be incidental, ancillary to or in connection with the Renewed Taicang Purchase Agreement, the Further Renewed Taicang Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps for the three years ending 30 June 2011.”

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

Hong Kong, 14 July 2008

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business

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

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority shall be deposited at the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument proposes to vote.

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

This circular (in both English and Chinese versions) (“Circular”) has been posted on the Company's website at <http://www.ndpaper.com>. Shareholders who have chosen to rely on copies of the Company's Corporate Communication (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), posted on the Company's website in lieu of the printed copies thereof may request the printed copy of the Circular. Shareholders who have chosen to receive the Corporate Communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Circular posted on the Company's website will promptly upon request be sent the Circular in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's Corporate Communication by notice in writing to the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.