

During FY2007 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be connected transactions and continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

### (1) Exempt Connected Transaction

On 18 May 2007, Sky Dragon Paper Industries (HK) Co., Limited, an indirect wholly owned subsidiary of the Company, entered into an acquisition agreement with Mr. Zhang, to acquire from Mr. Zhang the entire issued share capital of Sky Dragon Paper Industries Co., Ltd. which indirectly holds the parcel of land of approximately 659,118 sq.m. in Dongguan (“Dongguan Land”) for a cash consideration of RMB1.00 (the “Acquisition”). After completion of the Acquisition, the Group assumed the net outstanding obligation of RMB151,928,060 representing the transfer price of the Dongguan Land, other relevant fees payable to the government authorities for obtaining the title of the Dongguan Land and the loans borrowed by Dongguan Sky Dragon Paper Industries Co., Ltd. (東莞天龍紙業有限公司) for acquisition of the Dongguan Land.

The transaction under the Acquisition constitutes an exempted connected transaction of the Company under Rule 14A.32 of the Listing Rules and is thus exempt from independent Shareholders’ approval requirement but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

### (2) Exempt Continuing Connected Transactions

The transactions set out in (i), (ii) and (iii) below are each of sizes that exceed HK\$1,000,000 and less than 2.5% of each of the percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, and constitute continuing connected transactions exempt from the independent shareholders’ approval requirement but subject to the reporting and announcement requirements of the Listing Rules.

Before listing on the Stock Exchange, the Group has been granted conditional waivers from strict compliance with the disclosure requirements for the period from 3 March 2006 to 30 June 2008 for these transactions. Due to better-than-expected sales of the Group’s products and the anticipated strong growth in demand for the Group’s products, the Group has been further granted conditional waiver to increase the annual caps for the Longteng Purchase Agreement, the Longteng Supply Agreement, the Forestry Supply Agreement and the Taicang Purchase Agreement on 27 February 2007.



## Connected Transactions

(i) **Purchase agreement with Dongguan Longteng Paper Co., Ltd. (東莞龍騰紙業有限公司) (“Dongguan Longteng”) (the “Longteng Purchase Agreement”)**

Zhang’s Enterprises Company Limited (“Zhang’s”), an indirect subsidiary of the Company, and Dongguan Longteng entered into the Longteng Purchase Agreements dated 12 February 2006 and 27 February 2007. Pursuant to the Longteng Purchase Agreements, Dongguan Longteng agreed to purchase packaging paperboard products manufactured by the Group from 3 March 2006 to 30 June 2008. Dongguan Longteng is a company which is held as to 70% by Zhang Cheng Ming, a brother of Mr. Zhang and Ms. Cheung.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange in respect of the annual cap (net of tax) were RMB116.1 million and RMB120 million respectively.

(ii) **Supply agreement with Dongguan Longteng (the “Longteng Supply Agreement”)**

Pursuant to the Longteng Supply Agreements entered into between Zhang’s and Dongguan Longteng dated 12 February 2006 and 27 February 2007, Dongguan Longteng agreed to supply packaging materials and chemicals for production of paperboard products to members of the Group from 3 March 2006 to 30 June 2008.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB45.7 million and RMB50.0 million respectively.

(iii) **Supply agreement with China Inner Mongolia Forestry Industry Co., Ltd. (中國內蒙古森林工業集團有限責任公司) (“Forestry Industry Group”) (the “Forestry Supply Agreement”)**

Nine Dragons Xing An Paper Industries (Inner Mongolia) Co., Ltd. (玖龍興安漿紙(內蒙古)有限公司 (“ND Xing An”) is owned as to 55% by the Company and 45% owned by Forestry Industry Group. On 12 February 2006 and 27 February 2007, ND Xing An and Forestry Industry Group, which is a substantial shareholder of ND Xing An, entered into the Forestry Supply Agreement whereby Forestry Industry Group agreed to procure its wholly owned subsidiaries to supply wood logs and wood chips to members of the Group from 3 March 2006 to 30 June 2008.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB108.1 million and RMB130.0 million respectively.

**(3) Non-exempt Continuing Connection Transactions**

**(i) Purchase agreement with Nine Dragons Packaging (Taicang) Company Limited (玖龍包裝(太倉)有限公司) (“Taicang Packaging”) (the “Taicang Purchase Agreement”)**

Pursuant to the Taicang Purchase Agreements entered into between Zhang’s and Taicang Packaging dated 12 February 2006 and 27 February 2007, Taicang Packaging agreed to purchase packaging paperboard products manufactured by the Group from 3 March 2006 to 30 June 2007. Taicang Packaging is a company which is held as to 100% by Mr. Zhang.

During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB193.6 million and RMB200.0 million respectively.

**(ii) Supply Agreement with ACN (the “ACN Supply Agreement”)**

Pursuant to the ACN Supply Agreement entered into between the Company and ACN dated 12 February 2006, ACN agreed to supply recovered paper to members of the Group from 3 March 2006 to 30 June 2008.

The Company has also been granted an option to renew the ACN Supply Agreement for a further term of three years, and for each exercise of a renewal option by the Company, ACN will be deemed to have granted a new option for a further extension of three years, on terms to be negotiated between the parties on a fair and reasonable basis and subject to compliance with the disclosure and/or other requirements under the Listing Rules then in force. As the Group is ACN’s largest customer, ACN agreed to supply recovered paper to members of the Group on a priority basis.

The Group will purchase not less than 20% of its requirements of recovered paper in terms of aggregate value from suppliers other than the ACN Group. During the year ended 30 June 2007, the actual amount of transactions and the waiver granted by the Stock Exchange (net of tax) were RMB2,922.4 million and RMB4,024million respectively.

Pursuant to the conditions of the waiver granted by the Stock Exchange in relation to the ACN Supply Agreement, the INEDs of the Company have reviewed the above continuing connected transactions and confirmed that:

- (i) the prices and terms offered by ACN to the Group are no less favourable than those offered to other customers of ACN in respect of the same period and for the same product type; and



## Connected Transactions

- (ii) the Group sourced not less than 20% of its recovered paper in terms of aggregate value of its purchases of recovered paper from suppliers other than ACN for the year ended 30 June 2007.

For the purposes of the conditions of the waiver granted by the Stock Exchange in relation to the ACN Supply Agreement, the auditor of the Company have performed certain agreed-upon procedures on the above continuing connected transactions for the year ended 30 June 2007 in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The transactions under the Taicang Purchase Agreement and the ACN Supply Agreement constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and will normally be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders’ approval requirement set out in Rule 14A.48 of the Listing Rules. Conditional waivers have been granted by the Stock Exchange to the Company from strict compliance with the disclosure and independent shareholders’ approval requirements under the Listing Rules for the period from 3 March 2006 to 30 June 2008 for these transactions.

The connected transaction mentioned in (1) above and the continuing connected transactions mentioned in (2) and (3) above have been reviewed by the Board, including the INEDs. The INEDs have confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions; and
- (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has performed certain agreed-upon procedures in respect of the continuing connected transactions mentioned in (2) to (3) above, and on a sample basis with respect to items (ii) and (iii) below in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the HKICPA. The auditor has, based on the work performed, provided a letter to the Board stating that the continuing connected transactions:

- (i) have been approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the continuing connected transactions involve provision of goods or services by the Group;
- (iii) were entered into in accordance with the relevant agreements governing the continuing connected transactions; and
- (iv) did not exceed the respective annual caps for the relevant continuing connected transactions disclosed in the IPO Prospectus dated 20 February 2006 and an announcement dated 27 February 2007.