

**NINE DRAGONS PAPER (HOLDINGS) LTD:**  
**THIS COMPANY NEEDED MONEY IN A HURRY !**

Within a period of 11 years, Nine Dragons Paper (Holdings) Ltd (()) (Code: 2689, Main Board, The Stock Exchange of Hongkong Ltd) has become the largest producer of containerboard products in the People's Republic of China (PRC) and one of the largest such companies in the world, today.

Started in 1995, Nine Dragons Paper can boast of an Annual Turnover of more than 4.83 billion renminbi (about \$HK4.64 billion) and a Bottom Line of being in excess of 317.91 million renminbi (about \$HK305.68 million) (based on the 2005 Annual Results, ended June 30, 2005).

The Company is a success story, without question, but Management must, prior to its flotation on the Main Board of The Stock Exchange of Hongkong, have been concerned about its mounting debt obligations.

Nine Dragon Paper was founded in 1995 by Mr and Mrs Liu Ming Chung – Mr Liu Ming Chung () and Ms Cheung Yan () – and the younger brother of Ms Cheng Yan, Mr Zhang Cheng Fei (), according to the Global Offering Prospectus, dated February 20, 2006.

Of course, the Liu Ming Chung Family is close to the Government of the PRC, Mrs Liu Ming Chung, being a member of the National Committee of the Chinese People's Political Consultative Conference, among other things.

This is to be expected, of course, because in order to get things done in the PRC, one has to have high-ranking contacts in order to oil the bureaucratic wheels of the very dictatorial PRC Government where, if one is not loved at the top echelons of power, one may expect not to succeed in any meaningful endeavour.

**The Flotation**

Nine Dragons Paper went public in the Hongkong Special Administrative Region (HKSAR) of the PRC on February 20, 2006, when it raised, in total, about \$HK3,688,000,000 by Offering 1.15 billion, 10-cent (Hongkong) Shares at \$HK3.40 per Share (500 million Public Offer Shares, 500 million International Offer Shares and 150 million Shares in an Over-Allotment Share Option, exercised by BNP Paribas Peregrine Capital Ltd () and Merrill Lynch Far East Ltd ()).

The Public Offer tranche (originally, it was intended that it would only be for 100 million Shares, but it had to be enlarged to 500 million Shares due to the number of valid applications for Shares, received) was over-subscribed some 578 times – that is, for more than 52 billion Shares.

At Page 205 of the Prospectus, it is stated that the net proceeds of the cash-raising exercise would be used as follows:

1. About 55 percent to enlarge the Company's production facilities;
2. About 35 percent to retire some of the Company's debts; and,
3. About 10 percent to be used as additional Working Capital.

About the debts of Nine Dragons Paper, it is stated at Appendix I-30 that total borrowings have been mounting steadily over the 39 months to September 30, 2005: \_

### **Borrowings**

	Financial Year, Ended June 30			Three Months Ended September
	2003	2004	2005	2005
	<b>All Figures Are Denominated In Renminbi</b>			
<u><b>Non-Current**</b></u>	1,080,946	1,725,482	3,817,280	5,073,060
<b>Current:</b> Short-Term Current Portion of Long-Term Bank Borrowings	1,124,260 Nil	1,236,764 Nil	1,767,563 664,008	273,430 657,453
<b>TOTAL BORROWINGS</b>	<b>2,205,206</b>	<b>2,962,246</b>	<b>6,248,851</b>	<b>6,003,953</b>

\* \$HK1.00 = 1.04 renminbi

\*\* Repayment after one year

The above **TARGET** () table would suggest a rather, high-leveraged position (Total Borrowings divided into Total Assets) of about 50.97 percent (6,003,955,000 renminbi divided into 11,779,825,000 renminbi).

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