

**SHANDONG CHENMING PAPER HOLDINGS LTD:  
HERE ARE THE REASONS THAT THIS COMPANY IS A DAMP SQUIB**

The share price of Shandong Chenming Paper Holdings Ltd ( ) (Code: 1812, Main Board, The Stock Exchange of Hongkong Ltd) is about \$HK6.35, today, which is down about 30 percent from the Offer Price of \$HK9.00 at the time of the Company's Initial Public Offering (IPO) of June 4, 2008, with dealings in the shares, having commenced on Wednesday, June 18, 2008.

Investors may be wondering as to the reason for this very material fall in this Company's share price since its listing in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

It may be telling that the Sole Global Coordinator of the IPO, Guotai Junan Securities (Hongkong) Ltd ( ) declined to exercise the Over-Allotment Option of 53,355,000 Shares, granted to it by the Company at the time of its listing.

Obviously, Guotai Junan Securities (Hongkong) Ltd had been unable to locate qualified International Investors, willing to buy into this Company within the allotted time frame, which lapsed on July 10, 2008.

The shares of Shandong Chenming Paper are, also, listed on The Shenzhen Stock Exchange of the PRC and, since trading on this equity market has been very volatile, during the past few months, with the key indices, dropping like the proverbial rock thrown into a deep well, one may appreciate that many unsophisticated Chinese investors might well have determined to unload their shares in this Company in view of the uncertainty of the situation, from their prospective, that is.

But, regardless of the apparent reasons behind the rather large fall in the price of the shares of Shandong Chenming Paper on the Main Board of The Stock Exchange of Hongkong Ltd, it is a given that the flotation, when all is said and done, was a bit of a flop.

It is highly unlikely that Shandong Chenming Paper will ever find its way into becoming a constituent stock of The Hang Seng Index.

**The Flotation**

At the time of launching its IPO, Shandong Chenming Paper made a Global Offering of 335.70 million, one-renminbi Shares at a (ambitious and somewhat mystifying) maximum Offer Price of \$HK11.80 per Share.

The Hongkong Offer tranche was 35.57 million Shares and the International Offer Shares numbered 320.13 million.

When all of the valid applications for shares was tallied, it was shown that 5,019 valid applications had been received for a total of 50,659,500 shares, equivalent to an over-subscription of about 1.42 times of the number of shares in the Hongkong Offer tranche.

As for the International Offer tranche, one was told that they had been '*moderately over-subscribed*'.

In short, the flotation was a damp squib.

The business of Shandong Chenming Paper is explained in some detail at Page 110 of the Global Offering Prospectus as follows:

*'We were the largest paper producer in China in terms of annual sales revenue from 2004 to*

2007, based on data from the China Paper Association. With an annual paper production capacity of more than 3 million tonnes, we were the fourth largest paper producer in China and the twenty-fifth largest paper producer in the world in terms of annual production capacity, and either the largest or the second largest in China in certain segments of the paper market, based on the first quarter data for 2008 from Pöyry\*. We offer a wide range of paper products including art paper, light weight coated paper, white paper board, duplex press paper, writing paper, news press paper and paperboard.

‘Our revenue attributable to the sale of paper products has increased significantly from approximately RMB8,958.4 million in 2005 to approximately RMB13,837.8 million in 2007, representing a compound annual growth rate of approximately 24.3%. Our profit attributable to the equity holders of the Company (including the discontinued operation of our paper making machinery business) amounted to RMB640.8 million, RMB400.6 million and RMB994.0 million, respectively, for each of the three years ended December 31, 2007.

‘We have expanded our sales network in China, particularly in certain major cities where our customers are based. Our products are sold to customers in the PRC and overseas primarily through our centralized sales system including regional sales offices located in certain major cities where our customers are based in the PRC and overseas sales offices in Japan and South Korea and our subsidiary Chenming HK [Chenming (HK) Ltd (□)]. In addition to China, our products are sold in more than 30 other countries and regions, including the U.S., Canada, the United Kingdom, Germany, Italy, Russia, Japan, South Korea, the United Arab Emirates, India, Turkey and Australia. Our customers are principally publishing companies and manufacturers of consumer products. As at the Latest Practicable Date, we had a total customer base of over 5,000 companies. We have maintained long term relationships of three years or more with certain customers. Sales to our five largest customers for each of the three years ended December 31, 2007 were approximately RMB980.2 million, RMB1,165.3 million and RMB1,041.7 million, respectively, accounting for approximately 10.2%, 9.9% and 7.0% of our total revenue for each of the corresponding years, respectively.’

\* Pöyry (Beijing) Consulting Company Ltd (□), a subsidiary of Pöyry plc, which is a global consulting and engineering firm, focusing on the energy and the forest industries and the infrastructure and the environmental sectors (Prospectus at Page 19)

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