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RAYMOND INDUSTRIAL LTD : LAST YEAR WAS GOOD, BUT IT IS UNLIKELY TO BE REPEATED

For what reason a publicly listed company should lend money, interest-free, to a minority shareholder, no matter how much money it may be, is always a conundrum to TARGET's financial analysts.

But, when a publicly listed company lends out a sizeable amount of money to an unidentified minority shareholder, without a reasonable explanation, then it becomes an even bigger mystery.

In the case of Raymond Industrial Ltd, this manufacturer of electrical home appliances and cigarette paper lent $HK11,622,774 to a minority shareholder during the past Financial Year.

This 1999 sum of money represented an increase of $HK9,123,347 of the amount of money that Raymond Industrial lent to a minority shareholder in the 1998 Financial Year, ended December 31, 1998.

Whether or not this Company had lent this not inconsiderable sum of money to the same party for 2 Years in a row is unknown, but if that is the case, then the minority shareholders of Raymond Industrial may feel more than a little uncomfortable at the situation.

According to Note Number 2 at Page 30 of the 1999 Annual Report, it is stated, inter alia:

> *' All outstanding balances with a …minority shareholder were unsecured, interest-free and had no fixed terms of repayment …'.*

The identity of the minority shareholder is not given, but it must be a member(s) of one of 2 subsidiaries: Appliance Science Corporation, which is owned as to 83.51 percent by Raymond Industrial; or, Victory Will Ltd, which is owned as to 63.35 percent by Raymond Industrial.

In respect of the last-named company, Victory Will Ltd, on February 10, 2000, Raymond Industrial's Management announced that it was the intention of Management to seek a separate listing of that subsidiary on The Stock Exchange of Hongkong Ltd.

The reason for the separate listing, it was stated, was to enable the Raymond Industrial Group of Companies to raise more capital in order to meet future needs for expansion.

Perhaps, if Management were not so generous in lending out so much money to a certain, unnamed minority shareholder, interest-free, with no repayment terms, Management would not have to go begging for more fresh cash.

Whatever may be the reason for the interest-free loan, it would be nice for minority shareholders of Raymond Industrial to be informed of the matter in the normal manner, with Chairman Wilson Wong Kin Lae, making a full and frank disclosure.

Having said all that, it is interesting to note that, for Raymond Industrial, it enjoyed its best year in 1999, in terms of profitability, for at least the previous 5 Financial Years.

In the Financial Year, ended December 31, 1999, Raymond Industrial logged in a Profit Attributable to Shareholders of about $HK41.63 million.

This Bottom Line compared with the 1998 figure of a negative $HK645,000.

In the 1998 Year, the Company worked on a Gross Operating Profit Margin of about 23.71 percent.

In the 1999 Year, this Gross Operating Profit Margin rose to about 33.33 percent.

Clearly, the Group of Companies within the Raymond Industrial Group had become more efficient in the 1999 Year than in the previous Financial Year.

Chairman Wilson Wong made this statement with regard to profits:

> *' ...The satisfactory results achieved in 1999 by our group are due to two main factors.*
>
> *'Firstly, for the Electric Appliance Group, even though sales increase was 13%, profit was HK$28,153,725. The increase was primarily due to a change of products mix, with greater volume in electric shavers and air cleaners.*
>
> *'Secondly, for JinFeng, sales increased by 68% (from HK$83.6 million to HK$140.3 million) while profit attributable to Victory Will increased by 89% (from HK$11.2 million to HK$21.2 million).'*

The reference to *'JinFeng'* must refer to Sichuan Jinfeng Paper Company Ltd, a company, which is listed as a subsidiary of Raymond Industrial, but in which Raymond Industrial appears to hold only a 38.01-percent indirect holding, according to Page 40 of the 1999 Annual Report.

This company is in the business of manufacturing and selling cigarette papers and is domiciled in the People's Republic of China (PRC).

From the Chairman's Statement, it is easy to isolate the important profit centres of this Company, during the 1999 Financial Year:

1. About 30 percent of the Profit Attributable to Shareholders was derived from the manufacture and sales of cigarette paper; and,

2. About 70 percent of the Profit Attributable to Shareholders was derived from the manufacture and sales of electrical home appliances -- electric shavers, etc -- and interest income from cash and bank balances.

<u>Dependence</u>

Raymond Industrial is heavily dependent on just one customer, which is responsible for about 45 percent of total sales.

In respect of Total Sales, 62 percent goes to just 5 customers.

To say that the Group was vulnerable would be to state the obvious.

Further, with the PRC about to enter the World Trade Organisation (WTO), the situation can only get worse as that country opens up to international competition.

Since Raymond Industrial is so dependent on so few customers, with all of the cigarette papers, being produced and sold in the PRC, and since the Company only produces a limited number of home appliances on its assembly lines, diversification of markets and products is essential in the short term if it is to survive in the long term.

The 1999 Annual Report indicates that 39 percent of the Company's home appliances are sold to the US, with Europe, taking up about 30 percent of all production of home appliances, manufactured in the Company's factories.

These 2 areas, accounting for about $HK297.68 million, represents about 85 percent of all sales, on elimination of sales of cigarette papers, amounting to about $HK140.26 million.

In summary, this Company needs to get the lead out -- very quickly.

In regard to funding for any diversification plans, it is noted that Raymond Industrial is flush with cash, having about $HK88.86 million as at December 31, 1999.

This wad of money compares with about $HK62.48 million, which the Company had on hand as at the 1998 Balance Sheet Date.

At the same time, however, it is noted that the Group is mounting up short-term debts in a big hurry.

As at the 1999 Balance Sheet Date, the Company had Current Loans -- which are repayable in the Current Year, ending December 31, 2000 -- of about $HK264.40 million.

And this not inconsiderable sum of money may be compared to $HK134.19 million, listed as being Current Liabilities, as at the 1998 Balance Sheet Date.

Total Indebtedness of the Group is given at Page 44 of the 1999 Annual Report and indicates that the figure is just a tad shy of $HK300 million.

In the 1999 Year, the Company shifted long-term loans into the Current Liabilities Schedule, for reasons known best to Management.

Total Indebtedness is on the increase, to be sure, but Management ...