

**SOLUTECK HOLDINGS LTD:  
COME SEE THE SMALLEST FLOTATION IN THE WORLD !**

It had to have been one of the smallest flotations in the history of the world!

Certainly, it was the smallest flotation, ever, in the history of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

Soluteck Holdings Ltd, Code 8111, The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd, went to the marketplace with Adjusted Net Tangible Assets of just about \$HK40.49 million, of which figure, \$HK15.30 million represented the net proceeds from its flotation.

Soluteck put out its Prospectus just 3 days before Christmas day, when it placed a total of 90 million, 10-cent shares at a Premium of 30 cents per share.

Of the entire float, one third (30 million shares) formerly belonged to the Founding Family, Mr Chung Lok Fai et alii, and so about \$HK12 million, gross, went right into his bank account.

Soluteck describes itself as being '*one of the leading banking and postal information technology solution providers in the PRC.*' (Page One of the Prospectus)

Translating the above statement, it is a vendor of computer hardware for ATM machines (Automatic Teller Machines) as well as electronic automatic postal machines.

While this Company may sound like a hi-tech enterprise, it makes most of its money by flogging equipment of NCR (Hongkong) Ltd and Pitney Bowes Asian Operations, according to the Prospectus at Page 152.

But, giving credit where it is due, Soluteck, and the Chung Lok Fai Dynasty, of course, have done very nicely during the 27 months, ended June 30, 2000, as the following table indicates:

|                                     | All Figures are Denominated in \$HK'000 |   |                                  |
|-------------------------------------|---|---|----------------------------------|
|                                     | 1999 – Financial Year<br>ended March 31 | 2000 – Financial Year<br>ended March 31 | Three Months to<br>June 30, 2000 |
| Turnover                            | 234,805                                 | 212,774                                 | 96,062                           |
| Cost of Sales                       | (188,414)                               | (170,543)                               | (74,991)                         |
| Gross Profit                        | 46,391                                  | 42,231                                  | 21,071                           |
| Gross Profit Margin                 | 19.76 percent                           | 19.85 percent                           | 21.93 percent                    |
| Other Revenue                       | 3,441                                   | 3,859                                   | 1,058                            |
| Selling Expenses                    | (5,050)                                 | (5,217)                                 | (1,076)                          |
| Administrative Expenses             | (14,750)                                | (13,226)                                | (3,368)                          |
| Profit from Operations              | 30,032                                  | 27,647                                  | 17,685                           |
| Finance Costs                       | (1,032)                                 | (122)                                   | Nil                              |
| Profit before Taxation              | 29,000                                  | 27,525                                  | 17,685                           |
| Taxation                            | (3,587)                                 | (4,534)                                 | (2,405)                          |
| Profit Attributable to Shareholders | 25,413                                  | 22,991                                  | 15,280                           |
| Net Profit Margin                   | 10.82 percent                           | 10.81 percent                           | 15.91 percent                    |

Throughout the above track period, the Company declared and paid dividends, with \$HK1.80 million, paid in the 1999 Financial Year, rising to about \$HK60 million in the 2000 Year, and, then, for the 3 months to June 30, 2000, it paid out another \$HK30 million.

In fact, it would be fair to state that Management cleaned the cash cupboard, to a state that it was, just about, bare.

According to the Prospectus, at Page 157, there was, as at June 30, 2000, about \$HK63.68 million, being bank balances and cash.

Clearly, that money has nearly all gone into the pockets of the Directors, led by paterfamilias Chung Lok Fai.

(TARGET notes that this type of thing is happening more and more, of late, almost as though Management fears that, once a company reverts to a public status, the cash in the company's 'kitty' will, suddenly, disappear in a puff of smoke.)

Another aspect of the Turnover was that the lion's share of the revenue, for the 27-month period to June 30, 2000, came from the commissions and/or mark-ups that Soluteck has been receiving from NCR, Pitney Bowes and its customers.

The following little table, of the Total Revenue for the 27-month period under the microscope, spells it out, very clearly:

#### **TOTAL REVENUE ANALYSIS**

|                      | 1999 – Financial Year ended<br>March 31 | 2000 – Financial Year<br>ended March 31 | Three Months to<br>June 30, 2000 |
|----------------------|---|---|----------------------------------|
|                      | All Figures are Denominated in \$HK'000 |   |                                  |
| Sales of Goods       | 201,032                                 | 180,755                                 | 85,375                           |
| Rendering Services   | 33,773                                  | 32,019                                  | 10,687                           |
| Interest Income      | 3,441                                   | 3,859                                   | 1,058                            |
| <b>TOTAL REVENUE</b> | <b>238,246</b>                          | <b>216,633</b>                          | <b>97,120</b>                    |

#### **The Offer**

The Company received about \$HK15.30 million, being the net proceeds from the Placement of 60 million shares at 40 cents per share.

That money, Soluteck states at Page 109 of the Prospectus, will be used as follows:

1. \$HK5.80 million to go into research and development;
2. \$HK2.50 million to expand its distribution network in the PRC;
3. \$HK1 million to establish customer service centres in the PRC;
4. \$HK2 million to be used for investment purposes; and,
5. \$HK4 million to be put into the General Working Capital Account.

As is only too clear, by innuendo, the above reasons for going public are, mostly, nonsense because, had not the Directors/Principal Shareholders taken out most of the cash from the Company's 'kitty', the above reasons could, easily, have been funded out of internal resources.

In fact, even without the surplus cash, Soluteck could fund all of the above from internal resources.

Another aspect of the alleged reasons for this cash-raising exercise is that full implementation of the above business plan will not be executed until March 31, 2003 – if at all.

There is a nice little ditty, contained on Page 110 of the Prospectus. It states:

*'In the event that any part of the business objectives and the implementation plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate such change in circumstances, if any, and may reallocate the intended funding out of the net proceeds from the*

*New Issue to other business plans and/or to new projects of the Group and/or to place such funds on short-term deposits with banks or financial institutions so long as the Directors consider such action to be in the best interest (sic) of the Company and its shareholders as a whole....'.*

The history of this Company goes back to 1993, but the paterfamilias' and his kin's involvement with computers go back another decade, the Prospectus states at Page 67.

Over the past 19 years, it is stated, paterfamilias Chung Lok Fai built up '*a long term business relationship with a number of commercial banks and postal bureaus in the PRC.*'

That makes a great deal of sense because that is the method of doing business in the greatest democracy of the world.

It is noted that, during the 2 Financial Years, ended March 31, 2000, and for the 3 months, ended June 30, 2000, the 5 largest customers, in aggregate, accounted for about 92 percent, 84.20 percent and 74.40 percent, respectively, of the Turnover of Soluteck.

It would be difficult for TARGET to believe that this Company has a very extensive spread of customers.

### **The Family That Stays Together, Gets Paid Together**

Paterfamilias Chung Lok Fai has a great number of his family members in his Board of Directors. In fact, they number 5 Directors out of 6 Directors.

They are:

|  |                          |
|--|--------------------------|
| Chairman                               | Mr Chung Lok Fai         |
| Director of Sales and Marketing        | Mr Eddie Hou Hsiao Wen   |
| Director of Business Development       | Mr Hou Hsiao Bing        |
| Director of Finance and Administration | Ms Yvonne Chung Yuk Hung |
| Director of Information Technology     | Mr Kevin Chung Yuk Man   |

The Hous are nephews of the Chairman while the remainder of the Directors, listed above, are the direct result of the seeds, planted by the Chairman, some 40-odd years ago.

The only other Director of the Company is Mr Tom Tam Wing Chit, who joined Soluteck in October, last year. He is in charge of one of the subsidiaries.

As for salaries, the paterfamilias has not been too stingy with his family and has given each and every one of them a 3-year service contract, effective ... [CLICK TO ORDER FULL ARTICLE](#)

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