

**GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LTD :
A CRACKERJACK OF A COMPANY, HEADED FOR THE BIG TIME**

For a company, which has only been in business since 1994, but only really got cracking in 1997, Global Bio-chem Technology Group Company Ltd (Code: 809, Main Board, The Stock Exchange of Hongkong Ltd) is setting a scorching pace.

Global Bio-chem is the latest listing on the Main Board and, by the look of it, on paper at least, it is a crackerjack of a company.

The Company is a manufacturer of corn refined and corn-based biochemical products. It is based in the People's Republic of China (PRC).

The Group's products comprise corn starch, corn gluten, corn oil and feed. (Page One of the Prospectus)

It is one of the top 3 companies of its kind in the PRC, in terms of corn processing capacity in 1999.

It is coming to the market in order to raise about \$HK278 million, net, by Placing 288 million, 10-cent shares at a Premium of 92 cents per share. It is, also, Issuing another tranche of 32 million New Shares, on the same basis.

The money is required, and shall be used as follows:

1. \$HK140 million *'for the purchase and installation of production equipment and facilities at a new production plant in the PRC'*;
2. \$HK60 million *'for early repayment of bank borrowings'*;
3. \$HK50 million *'for the research and development of new products'*;
4. \$HK6 million *'for the expansion of the distribution and sales network of the Group'*; and,
5. \$HK22 million *'as general working capital'*.

Global Bio-chem, as at January 31, 2001, had outstanding borrowings of about \$HK613 million. The composition of these borrowings were:

1. Short-term Bank Loans	\$HK243 million
2. Secured, Long-Term Bank Loans	\$HK297 million
3. Unsecured Loans to a Minority Shareholder	<u>\$HK 73 million</u>
TOTAL	<u>\$HK613 MILLION</u>

This Company owns factory property in the PRC with a capital value in its existing state of about \$HK197.95 million. (Page 143).

It, also, had cash and bank balances, as at September 30, 2000, of about \$HK120.95 million, with Net Tangible Assets, as at that date, of about \$HK306.36 million.

The Ratio of Creditors' Equity to Total Assets (Total Liabilities divided by Total Assets), as at September 30, 2000, appeared to be about 2.23 times – which may be considered acceptable to many a lending institution.

However, as the Company approached the end of January, this year, it becomes very apparent that '*Interest-bearing Bank of Other Loans*' ballooned from the September 30, 2000 figure of \$HK296.73 million to \$HK613 million.

This put the Ratio of Creditors' Equity to Total Assets at about 1.24 times.

Thus, the call to arms on The Stock Exchange of Hongkong Ltd.

The Track Record

TARGET started this report by stating that Global Bio-chem appears to be a crackerjack Company, at least on paper.

TARGET justifies its statement, simply by producing its track record for the past 44 months:

	Financial Year ended December 31			Nine Months to September 30
	1997	1998	1999	2000
	All Figures are Denominated in \$HK'000			
Turnover	172,443	534,413	1,046,910	882,848
Cost of Sales	(147,520)	(451,797)	(794,751)	(582,411)
Gross Profit	24,923	82,616	252,159	300,437
Gross Profit Margin	14.45 percent	15.46 percent	24.09 percent	34.03 percent
Other Revenue	130	761	1,206	4,515
Selling and Distribution Expenses	(5,431)	(9,293)	(31,687)	(31,780)
Administrative Expenses	(5,151)	(8,591)	(26,264)	(24,420)
Other Operating Expenses	Nil	(1,722)	(29,713)	(8,977)
Profit from Operating Activities	14,471	63,771	165,701	239,775
Finance Costs	(82)	(12,246)	(23,812)	(25,404)
Share of Profit/(Loss) of an Associate	(461)	1,517	5,526	Nil
Profit before Taxation	13,928	53,042	147,415	214,371
Taxation	Nil	(2,338)	(174)	(10,723)
Profit before Minority Interests	13,928	50,704	147,241	203,648
Minority Interests	Nil	(8,520)	(34,483)	(28,010)
Net Profit Attributable to Shareholders	13,928	42,184	112,758	175,638

What is very apparent by this track record is that the amount of tax, paid by Global Bio-chem, during the track-record period, has been rather low, relative to profits.

In the 1998 Financial Year, the tax rate appeared to be about 4.41 percent, falling to 0.12 percent in the 1999 Year, and rising to 5 percent for the 9 months to September 30, 2000.

The reason for this seeming anomaly is given in the Prospectus at Page 20:

'In accordance with the Income Tax Law of the PRC, all of the Company's PRC subsidiaries, which are either wholly foreign owned enterprises or Sino-foreign joint venture enterprises engaged in the manufacture of corn refined and corn based biochemical products, have obtained the approvals from the tax authorities for a 100% exemption from PRC corporate income tax for two years commencing from the first profitable year of operations and a 50% relief for the following three years. The Company's PRC subsidiaries are currently entitled to these exemptions and relief but when these exemptions and relief expire, the after tax profit of the individual subsidiaries concerned and of the Group as a whole will be adversely affected.'

For the Financial Year, ended December 31, 2000, Management of Global Bio-chem is forecasting a Net Profit Attributable to Shareholders of not less than ... [CLICK TO ORDER FULL ARTICLE](#)

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