

**LUEN TAI GROUP LTD :
PLEASE SAY 'THANK YOU' TO CHAIRMAN KWOK
FOR THE CHEAP MONEY**

As is very common in respect of companies, founded in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), companies in which control is vested in one party or 2 persons/parties/entities, those companies are, more often than not, treated as the private serfdoms of the controller(s).

This is very apparent in the case of Luen Tai Group Ltd, last Friday's candidate to the rolls of the Main Board of The Stock Exchange of Hongkong Ltd, to be designated, Code: 346.

According to the Prospectus of Luen Tai Group, for the past 31 months, at least, the Chairman and Founder of the Company, Mr Kwok Tat Kwong, had been, personally, funding his Company to the extent of not less than \$HK47.72 million.

Prior to 1999, he was borrowing money from the Company.

The Prospectus of the Company shows that, in the 1998 Financial Year, he borrowed not less than \$HK4.36 million.

Pages 108 and 109 of the Prospectus state the following, under Note (d):

Due from/to Directors

'Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Balance at 31 st March, 1998	Maximum amount outstanding during the year	Balance at 1 st April, 1997
All Figures are Denominated in \$HK'000			
Mr. Kwok Tat Kwong	4,361	9,034	6,497

'The amounts due to the directors were attributed to the financial support given by the directors to the operations of the Group.

'The balances with the directors were unsecured and bore interest at rates which were determined based on the prevailing lending rates offered by the banks to the Group. The amounts due to the directors as at 31st August, 2000 were fully settled in cash subsequent to 31st August, 2000.'

According to the Combined Consolidated Balance Sheets of the Luen Tai Group for the 41 months to August 31, 2000, Chairman Kwok Tat Kwong had lent the Company:

1999

\$HK7.87 million

2000

\$HK24.94 million

Five Months to August 31, 2000

\$HK14.91 million

It seems only too clear that, for the past 31 months, Chairman Kwok Tat Kwong has made it possible for his Company, a distributor of polyurethane (PU) materials and a manufacturer and vendor of PU foam and PU foam products, to achieve its not unimpressive results, as are shown at Page 98 of the Prospectus:

TABLE A

	Financial Year ended March 31			Five Months to August 31
	1998	1999	2000	2000
	All Figures are Denominated in \$HK'000 (unless otherwise stated)			
Turnover	241,209	306,242	483,605	253,829
Cost of Sales	(217,088)	(273,370)	(433,655)	(229,614)
Gross Profit	24,121	32,872	49,950	24,215
Other Revenue	945	272	517	515
Selling and Distribution Costs	(2,832)	(3,705)	(6,048)	(3,150)
Administrative Expenses	(2,975)	(4,706)	(7,567)	(3,928)
Profit from Operating Activities	19,259	24,733	36,852	17,652
Finance Costs	(871)	(479)	(1,302)	(773)
Profit before Taxation	18,388	24,254	35,550	16,879
Taxation	(2,995)	(4,043)	(6,114)	(2,653)
Net Profit Attributable to Shareholders from Ordinary Activities	15,393	20,211	29,436	14,226
Dividends	Nil	15,000	23,000	Nil
Earnings Per Share (Basic, Hongkong Cents)	10.30	13.50	19.60	9.50

The interest, paid to banks, from 1999 to and including the 5 months, ended August 31, 2000, amounted to \$HK941,000.

This compares with interest-bearing loans, during those 29 months of:

1999	\$HK12,636,000 (to March 31)
2000	\$HK13,540,000 (to March 31)
Five Months to August 31, 2000	\$HK25,380,000

The total indebtedness of Luen Tai Group, as at January 31, 2001, stood at about \$HK19.70 million.

These loans comprised secured trust receipt loans of about \$HK18.90 million and obligations under finance lease contracts of about \$HK800,000.

TARGET is not criticising Chairman Kwok Tat Kwong for his affording his Company very cheap money, but it is noted, that, without this financial support, the figures, relating to the Bottom Line, would have been very different for the track period since 1999.

The Float

Luen Tai Group is Placing 30 million of its 10-cent shares at a Premium of 90 cents per share and, at the same time, it is Offering another tranche of 20 million shares on the same basis.

At the end of the day, the Company estimates that it will have about \$HK35.50 million, remaining, after all expenses have been retired.

This money is earmarked for the following purposes:

1. \$HK20 million to buy a piece of land in the PRC and for the construction of a new facility, thereupon;
2. \$HK6 million to buy machinery for the new facility, once it is bought;
3. \$HK6 million to be used for marketing activities; and,
4. \$HK3.50 million for Working Capital Purposes.

The Adjusted Net Tangible Assets of this Company, taking into account the estimated net proceeds from this cash-raising exercise, will be about \$HK85.60 million.

Page 66 of the Prospectus gives the following calculation:

	<u>\$HK'000</u>
Audited Combined Net Tangible Assets of the Group as at August 31, 2000	44,638
Unaudited Combined Profit after Taxation of the Group for the Five Months ended January 31, 2001, based on Unaudited Management Accounts	22,961
Special Dividends Paid on March 15, 2001 and March 19, 2001	(17,500)
Estimated Net Proceeds of the Issue of the Offer Shares under the Offer	<u>35,500</u>
Adjusted Net Tangible Assets	<u>85,599</u>

From **Table A**, one notes that, for the 5 months from March 31, 2000 to August 31, 2000, Luen Tai Group had a Net Profit Attributable to Shareholders of \$HK14,226,000.

The entry at Page 66 of the Prospectus, in respect of the calculation of the Adjusted Net Tangible Assets of the Company, states that, for the period, August 31, 2000 to January 31, 2001, the Company had recorded ... [CLICK TO ORDER FULL ARTICLE](#)

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