

**SUNLORD CHEMICAL GROUP LTD :  
IS THERE AN UNSTATED AGENDA TO THIS FLOTATION ?**

One has to ask oneself, on reading the Prospectus of new listing candidate, Sunlord Chemical Group Ltd: For what reason is this Company going to the market to raise a seemingly, measly, \$HK30.20 million?

The Company had no debt, as at January 31, 2001; it had about \$HK6.02 million in cash and bank balances, as at September 30, 2000; it had trade receivables of about \$HK27.55 million, and inventories of just a tad shy of \$HK16 million, as at September 30, 2000; it is forecasting what appears to be a record Net Profit for the Financial Year, ending June 30, 2001; and, lastly, the reasons for the Share Offer make very little sense, all things considered.

Of course, it is true that 2 of the major shareholders are selling part of their shareholdings, taking about \$HK20 million to the bank for themselves, but TARGET is ruling out that as the rationale for the flotation: That would be much too a nefarious and cynical thought, even for this analyst.

Sunlord Chemical, Stock Code 362, Main Board, The Stock Exchange of Hongkong Ltd, is a Company, which claims to be: '*... principally engaged in the manufacture and sale of petroleum refined products, namely:*

- (a) lubricating oil and lubricating grease for industrial usage;*
- (b) anti-corrosive coating for a variety of applications included the exterior and interior of water tanks and water, petroleum and gas pipelines, and the surface of highways, roads, and vessels; and*
- (c) composite additive for diesel engine oil.*' (Page One of the Prospectus)

Its history goes all the way back, just 9 years, to November 1992 when Daqing Black Bird Company Ltd was established as a Sino-Foreign Equity Joint Venture, with a Registered Capital Base of 5 million renminbi (about \$HK4.65 million).

Daqing Black Bird was founded and managed by Mr Wang Hai Lou, the 50-year-old Managing Director of what is, today, Sunlord Chemical Group Ltd.

For the 39 months to September 30, 2000, this Company has not set the world on fire with its growth in profits, not by a long shot, but it has managed to make some headway as the following table, taken from the Accountants' Report, at Page 106 of the Prospectus, indicates:

|                                   | Financial Year ended June 30            |          |          | Three Months to<br>September 30 |
|-----------------------------------|---|----------|----------|---------------------------------|
|                                   | 1998                                    | 1999     | 2000     | 2000                            |
|                                   | All Figures are Denominated in \$HK'000 |          |          |                                 |
| Turnover                          | 85,516                                  | 92,076   | 106,998  | 37,996                          |
| Cost of Sales                     | (53,740)                                | (56,941) | (65,022) | (22,205)                        |
| Gross Profit                      | 31,776                                  | 35,135   | 41,976   | 15,791                          |
| Other Revenue                     | 45                                      | 31       | 71       | 22                              |
| Selling and Distributing Expenses | (3,005)                                 | (3,270)  | (3,583)  | (1,094)                         |
| Administrative Expenses           | (3,402)                                 | (3,629)  | (3,917)  | (1,233)                         |
| Other Operating Expenses          | (956)                                   | (949)    | (986)    | (268)                           |
| Profit from Operating Activities  | 24,458                                  | 27,318   | 33,561   | 13,218                          |
| Financing Costs                   | Nil                                     | Nil      | Nil      | Nil                             |
| Profit before Taxation            | 24,458                                  | 27,318   | 33,561   | 13,218                          |

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Taxation                                | (2,957)       | (3,215)       | (4,064)       | (1,538)       |
| Profit before Minority Interests        | 21,501        | 24,103        | 29,497        | 11,680        |
| Minority Interests                      | (1,094)       | (1,268)       | (1,537)       | (648)         |
| Net Profit Attributable to Shareholders | 20,407        | 22,835        | 27,960        | 11,032        |
| Net Profit Margin                       | 23.86 percent | 24.80 percent | 26.13 percent | 29.03 percent |

For the Financial Year, ending June 30, 2001, Management is forecasting a Net Profit of about \$HK38 million.

The Consolidated Balance Sheet of Sunlord Chemical does not go back further than May 30, 1998 so that TARGET cannot tell whether or not a certain Company Director – assumed by TARGET to be the Founder and Managing Director, Mr Wang Hai Lou – had been lending substantial sums of money to the Company, prior to the advent of the 1998 Financial Year.

But, according to the Consolidated Balance Sheet for the 1998 Financial Year, a Director was owed about \$HK14 million which, according to Note (f) at Page 112 of the Prospectus: *‘The amount due to a director was unsecured, interest-free and was fully settled before 30<sup>th</sup> June, 1999.’*

That is the reason, no doubt, that this Company has not had to incur any financing costs, during the 39 months to September 30, 2000.

This fact may well indicate a very frugal business philosophy by Management.

Looking at the Turnover, only, Page 53 of the Prospectus gives a breakdown of sales as follows:

|   | Financial Year ended June 30            |               |               |               |                |               | Three Months to September 30 |               |
|---|---|---------------|---------------|---------------|----------------|---------------|------------------------------|---------------|
|   | 1998                                    | Percent       | 1999          | Percent       | 2000           | Percent       | 2000                         | Percent       |
|   | All Figures are Denominated in \$HK'000 |               |               |               |                |               |                              |               |
| Exports                                       | 50,316                                  | 58.80         | 54,197        | 58.90         | 65,480         | 61.20         | 23,367                       | 61.50         |
| Sales in the People's Republic of China (PRC) | 35,200                                  | 41.20         | 37,879        | 41.10         | 41,518         | 38.80         | 14,629                       | 38.50         |
| <b>TOTAL</b>                                  | <b>85,516</b>                           | <b>100.00</b> | <b>92,076</b> | <b>100.00</b> | <b>106,998</b> | <b>100.00</b> | <b>37,996</b>                | <b>100.00</b> |

Throughout the Track Record Period, sales of Anti-Corrosive Coatings – brand-named, ‘H88’ -- have constituted about 27 percent of the Turnover.

About 80 percent of all sales have been conducted directly with customers, while the remaining 20 percent of sales has been conducted through distributors.

But the Company only employs 13 workers in its Sales and Marketing Division, and all are employed in the PRC.

The Sales and Marketing Division constitutes about 11.40 percent of the total workforce of 114 workers, as at January 31, 2001, Page 68 of the Prospectus indicates.

For a Company, whose products are sold as to about 60 percent overseas and 40 percent in the PRC, it appears to be odd that more emphasis is not placed on building up an international selling organisation.

Or is that, once more, an indication of the frugality of Management?

### **The Flotation**

Last Wednesday, Sunlord Chemical launched its Prospectus, Placing 160 million, one-cent shares at a Premium of 24 cents per share and Offering ... [CLICK TO ORDER FULL ARTICLE](#)

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