

SINOTRONICS HOLDINGS LTD : IT HAS BEEN A WINNER, THUS FAR

The most striking aspect of one of the 2, latest candidates for a listing on The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd is its relatively heavy debt load.

And that may well be the major reason that Sinotronics Holdings Ltd (Code: 8115) has gone to The GEM in an attempt to raise \$HK60.75 million, gross, coming down to about \$HK47.60 million, at the end of the day, that is after everybody gets his/her pound of flesh, so to speak.

Sinotronics, as at March 31, 2001, *'had aggregate outstanding borrowings of approximately HK\$62,540,000'*, the Placing Prospectus of the Company states, at Page 108.

While that sum of money may not appear to be very important to an entity, such as HSBC Holdings plc (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd), the largest financial/banking institution in Europe, in terms of its assets, one has to bear in mind that the Net Assets of Sinotronics, as at November 30, 2000, were just about \$HK72.39 million.

'Tight' takes on a new meaning when describing the cash situation at this *'electronic manufacturing services provider in the PRC (People's Republic of China), offering a full range of solutions to electronics ODMs (Original Design Manufacturers) and CEMs (Contract Manufacturer, also known as Contract Electronics Manufacturers) throughout the production cycle of PCBs (Printed Circuit Boards) ...'* (Page One)

A breakdown of outstanding borrowings, amounting to about \$HK62.54 million, as at March 31, 2001, is:

Short-term Bank Borrowings	\$HK 23,585,000
Trust Receipt Loans	\$HK 5,499,000
Due to a Minority Shareholder of a Subsidiary	\$HK 2,885,000
Due to Mr Lin Wan Qaing, Chairman and Controlling Shareholders of the Company	\$HK 4,514,000
Loan from a Related Company	\$HK 1,476,000
Long-term Bank Borrowings	\$HK 16,038,000
Loan from a Minority Shareholder of a Subsidiary *	\$HK 8,543,000
TOTAL	<u>\$HK 62,540,000</u>

* The loan is from Fujian Furi Electronics Company Ltd, a PRC, State-owned enterprise, which is listed on The Shanghai Stock Exchange. It, in turn, is owned as to 72.70 percent by the Government of the PRC. The loan is unsecured and bears interest at the rate of 0.531 percent per month. The Principal Sum is repayable in May 2002.

The Flotation

Sinotronics is Placing 67.50 million, 10-cent shares at a Premium of 80 cents to share.

The net proceeds, amounting to about \$HK47.60 million, after all expenses, relating to this flotation, have been met, are to be used as follows:

1. \$HK30 million to expand the Company's PCB fabrication plant;
2. \$HK10 million for the development of electronic manufacturing services and the purchase of related equipment;
3. \$HK4 million for the construction of an automated manufacturing process for PCB assembly and testing;

4. \$HK3.30 million for the purchase of testing equipment; and,
5. \$HK300,000 for the establishment of a joint engineering design centre.

Nowhere in the Prospectus does it appear that Management is concerned over its seemingly heavy debt burden in spite of the fact that the Chairman has had to front up with his personal guarantee with regard to certain bank loans.

Not a penny of the net proceeds from this flotation will be used to retire debt.

In view of the facts that TARGET has, already, produced on Page One of this report, should there be any hiccoughs in respect of profit forecasts, there could be further news from this little Company.

Insofar as the trading results of this Company are concerned, over the past 29 months, to November 30, 2000, they must be considered impressive, as the following table illustrates:

	Financial Year ended June 30		Five Months to November 30
	1999	2000	2000
	All Figures are Denominated in \$HK'000		
Turnover	37,827	81,846	62,394
Cost of Sales	(23,335)	(45,109)	(30,645)
Gross Profit	14,492	36,737	31,749
Distribution and Selling Expenses	(1,178)	(2,577)	(1,583)
General and Administrative Expenses	(7,231)	(10,183)	(3,054)
Profit from Operations	6,083	23,977	27,112
Subsidy *	187	377	377
Interest Income	2,404	360	19
Financing Costs	(5,107)	(8,215)	(2,560)
Profit before Taxation	3,567	16,499	24,948
Taxation *	Nil	Nil	Nil
Minority Interests	(1,784)	(7,885)	(2,495)
Profit Attributable to Shareholders	1,783	8,614	22,453

* The subsidy represents grants received from the PRC's Provincial Government Committee in respect of high technology product development projects, carried out by Fujian Fuqiang Delicate Circuit Plate Company Ltd, a subsidiary of Sinotronics. This company became profitable for the first time in January 1999. Under PRC tax laws, this company is exempted from tax for 2 years, starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50-percent reduction for the following 3 Financial Years.

While it is not shown in the above table, for the 1999 Financial ... [CLICK TO ORDER FULL ARTICLE](#)

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