

**SINOTRANS LTD :
THE PRC GOVERNMENT CALLS IN ITS MARKER**

The principal problem for investors, when buying shares of publicly listed companies that, ultimately, are controlled by the Government of the People's Republic of China (PRC), is that the requirements of the PRC State are quite likely to supersede the requirements of the company, which is partially owned by the investing public.

TARGET sees the above as being the major drawback in respect of Sinotrans Ltd, a Company, which went public on the Main Board of The Stock Exchange of Hongkong Ltd on January 29, 2003.

Sinotrans Ltd (Code: 598) is owned as to 61.50 percent by Sinotrans Group Company, which, in turn, is owned and controlled by the PRC State.

(Sinotrans Group Company's full name is China National Foreign Trade Transportation (Group) Corporation)

The investing public owns the remaining 38.50 percent of the Issued and Fully Paid-Up Share Capital of the Company.

Sinotrans Ltd engaged some of the biggest names in merchant banking in the world in order to pitch an Initial Public Offering so that it could float the Company on The Stock Exchange of Hongkong Ltd.

In a Global Offering, the Company made available 1,554,267,000 Shares (Par Value: One renminbi) at a price of not less than \$HK1.67 per Share and not higher than \$HK2.29 per Share.

The Offer Price, based on a Prospective Price-Earnings Ratio on a Pro-Forma basis, ranged between a low of 12.60 times and a high of 17.30 times.

Which, in the current state of the world's equity markets, must be considered pricey, no matter how one cuts it.

The business of Sinotrans Ltd is given at Page 65 of the Prospectus, which states:

'We are a leading provider of logistics services in China with access to a nationwide service network and an overseas agency network. With sea, air, rail and road freight forwarding, express services and shipping agency services being our core services, and storage and terminal services, trucking and marine transportation services being our support services, we are capable of providing our customers integrated logistics services.'

This Company was only recently incorporated – actually it was incorporated on November 20, 2002 – as a wholly owned subsidiary of Sinotrans Group Company.

Sinotrans Group Company, then, transferred *'a substantial portion of its business located in the fast-growing coastal regions of China and in certain other strategic regions throughout China,'* this section of the Prospectus continues.

Today, Sinotrans Group Company claims to be the largest international freight forwarder in the PRC, along with its 270 subsidiaries.

In 2001 (before this Company was incorporated), it is claimed that Sinotrans Group Company had a market share of 40 percent in the PRC.

Of course, it could be commented, at this point, that, when one has Beijing, looking after one's rear, it is difficult to fail.

The Use Of The Proceeds

Sinotrans Ltd went to the market in order to raise about \$HK2,597.70 million, according to Page 161 of the Prospectus.

This money is earmarked for the following purposes:

1. About 30 percent (\$HK779.31 million) *'to fund our capital expenditure program'*;
2. About 20 percent (\$HK519.54 million) *'to finance the construction, development and upgrade of key assets used in our freight forwarding operations'*;
3. About 10 percent (\$HK259.77 million) *'to fund the capital requirements for the development of advanced IT (Information Technology) systems'*; and,
4. About 40 percent (\$HK1,039.08 million) *'to be used as working capital and other general corporate purposes'*.

TARGET has a little difficulty with the above because, at Page 197 of the Prospectus, it is shown that, as at June 30, 2002, this Company had cash and cash equivalents of about 2.25 billion renminbi (\$HK1 = 1.06 renminbi).

This Company, also, had about 633.21 million renminbi, termed as being *'term deposits with initial term of over three months.'*

And, in addition to those wads of cash, there was another item, termed, *'Pledged deposits'*, amounting to about 28.83 million renminbi.

Adding up these 3 items comes to not less than 2.91 billion renminbi,

Which is a little bit more than the amount of money, raised in this call for international cash from worldwide investors, who, clearly, want to be loved by the Government of the PRC.

The Combined Financial Statements, located at Page 196, is produced here, but one must bear in mind that the below-stated table is created on the basis of **Generally Accepted Accounting Principles** of the PRC (PRC GAAP), which are bound to differ from International Accounting Principles, or Hongkong Generally Accepted Accounting Principles:

	For the year ended 31 December			For the six months ended 30 June	
	1999	2000	2001	2001	2002
	In Thousands of Renminbi, except for Per Share and Number of Shares Data				
Turnover	7,792,650	9,968,878	11,049,805	5,270,581	5,953,486
Other Revenues	55,149	34,963	32,279	14,349	19,693
Total Turnover	7,847,799	10,003,841	11,082,084	5,284,930	5,973,179
Transportation and Related Charges	(5,918,689)	(7,496,017)	(8,085,125)	(3,887,595)	(4,403,054)

Staff Costs (including Directors' Emoluments)	(671,160)	(737,115)	(856,244)	(377,185)	(436,837)
Depreciation and Amortisation	(118,871)	(137,293)	(152,756)	(68,473)	(81,926)
Repairs and Maintenance	(48,985)	(54,360)	(69,251)	(25,932)	(31,175)
Fuel	(49,179)	(100,372)	(155,937)	(67,328)	(62,434)
Travel and Promotional Expenses	(105,925)	(124,972)	(147,199)	(63,698)	(66,864)
Office and Communications Expenses	(85,834)	(95,957)	(101,108)	(46,851)	(51,672)
Rental Expenses	(217,122)	(391,786)	(525,680)	(269,398)	(266,429)
Other Operating Expenses	(232,548)	(273,014)	(265,727)	(114,868)	(119,953)
Operating Profit	399,486	592,955	723,057	363,602	452,835
Finance Income, Net	18,368	27,384	31,039	19,040	11,600
Gross Profit	417,854	620,339	754,096	382,642	464,435
Share of Results of Associates Before Taxation	18,058	16,862	11,021	5,420	4,998
Gain on Deemed Disposal of Interest in a Subsidiary	Nil	603,087	Nil	Nil	Nil
Profit before Taxation	435,912	1,240,288	765,117	388,062	469,433
Taxation	(157,831)	(159,039)	(207,291)	(105,890)	(120,805)
Profit after Taxation	278,081	1,081,279	557,826	282,172	348,628
Minority Interests	(19,894)	(47,241)	(105,523)	(46,698)	(55,244)
Profit for the Year/Period	258,187	1,034,008	452,303	235,474	293,384
Profit Distribution	(170,047)	(57,993)	(74,647)	(792)	Nil
Earnings per Share (Renminbi)	0.10	0.39	0.17	0.09	0.11

The accounting firm of PricewaterhouseCoopers, in its statement ... [CLICK TO ORDER FULL ARTICLE](#)

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.

