

**CHINA LIANSU GROUP HOLDINGS LTD:  
THE MOMMA-AND-PAPA SHOP OF MR AND MRS WONG**

**But It's A Winning Combination, Nevertheless**

One aspect with regard to the stated business of China Liansu Group Holdings Ltd () (Code: 2128, Main Board, The Stock Exchange of Hongkong Ltd) that does not appear to make much sense is the very low margins of profit that Management has been willing to accept up to the beginning of 2009 Financial Year.

Considering that this Company is 14 years old and considering that it is, still, what **TARGET** () would describe as a momma-and-papa shop – momma, sitting at the cash register, counting the money, coming in, while papa takes care of the existing businesses and tries to obtain new business and please the customers – there seems to be something very odd about the modus operandi of the husband-and-wife team of Mr and Mrs Wong Luen Hei ().

Also, another aspect that may be worrying to some people is the rather material increase in the Company's debt load in respect of the 4 months, ended April 30, 2010.

About these matters, this medium will cover them in more detail later on in this analysis.

**The Flotation**

China Liansu Group Holdings Ltd Offered 750,000,000, 5-cent Shares at a Share Price Offer Range of between \$HK2.60 and \$HK3.50.

The investing public of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) was Offered 75,000,000 Shares and International Investors were Offered 675,000,000 Shares.

The Global Offering Prospectus stated that Management was desirous of obtaining some '*free cash*' in order to assist in the expansion of the Company's business as well as retiring some loans to its bankers.

(**TARGET**'s definition of '*free cash*' is money that does not have to be returned and on which there is no interest factor, attached.)

On the assumption that the Offer Price would be at about the midway point of the Share Price Offer Range – \$HK3.05 – the Company estimates that it would net about \$HK2,166.90 million.

That money will be utilised, one is told, as follows:

- About 55 percent of the net proceeds of the **Initial Public Offering (IPO)**, amounting to about \$HK1,191.80 million, to expand the Company's existing production facilities – purchasing land use rights in the PRC, proper, being distinct and separate from the HKSAR, paying for the construction of new production facilities, and purchasing some new machinery;
- About 15 percent of the net proceeds of the IPO, amounting to about \$HK325 million, to be used to acquire other corporate entities with growth potential and reputable, plastic-pipe operations;

- About 15 percent of the net proceeds of the IPO, amounting to about \$HK325 million, to repay some debts to the Company's bankers;
- About 5 percent of the net proceeds of the IPO, amounting to about \$HK108.40 million, to be used in research and development; and,
- About 10 percent of the net proceeds of the IPO, amounting to about \$HK216.70 million, to be used as Working Capital.

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