

China Lumena Major Shareholder and CEO Disappear

The weibo (a Chinese twitter) [Blue Whale Financial Journalists Platform](#) has revealed on May 5, 2014 that China Lumena's (0067.HK) major shareholder Li Yan (aka Suo Lang Duo Ji, with 33.5% in the company as at June 30, 2013) and chairman Zhang Zhigang have vanished.

The company's public relations agency issued a statement on May 6 saying Zhang said Li had not disappeared, but the statement was not issued by order of the board of directors.

A whole month has gone by since the company's [April 3, 2014 announcement](#) that promised to respond to our [report dated April 1](#). We have yet to hear anything from the company, except for this strange statement that the company has contacted a person reported to be missing, who claimed he had contacted another person said to be missing.

It is probably safe to assume that Li Yan/Suo Lang Duo Ji's empire has collapsed, having been sustained mostly by the money siphoned from China Lumena. We believe there is now little doubt that our investigation and analysis into China Lumena was substantially accurate – that it was a sand castle built with fraud.

As we have said in our report, we sent additional evidence to the Securities and Futures Commission (SFC) of Hong Kong at the same time that we published the report. We have since forwarded SFC emails that we received from an American business consulting firm specializing in the chemicals and building materials industries. We have the consultants' consent to forward the emails to SFC, but will not publish the whole email here without their specific consent, yet we believe it is worthwhile to quote this part:

“... once you scrutinize the numbers put out by China Lumena, they did not add up simply because if all of their production was being absorbed in China, the American and Japanese companies selling in China will be out (but they have confirmed to us that they are doing just fine) and polymer prices would have dropped (the global demand simply cannot absorb the supply if we take Lumena's numbers).”

We very much look forward to Lumena's “clarification”, as we have further evidence that we can supply to the SFC.

We call on the SFC to take strict and firm actions against all parties involved. We are talking about not just the ultimate controller (though there is probably very little SFC can do even if Li Yan/Suo Long Duo Ji were one day apprehended by the Chinese

authorities) and company executives. We are talking about the professional advisers (auditors, bankers, lawyers, stockbrokers etc) who had neglected their duties if not actually participated in the fraud.

In particular, we expect the SFC to investigate into the due diligence work performed by the bankers – BOC International, Credit Suisse and Macquarie for the June 2009 IPO and Bocom International for the November 2010 acquisition of the PPS business. The auditors BDO (apparently the same team of people who did the IPO audit while they were at Grant Thornton) should also be looked into.

And where are all the directors, especially the independent non-executive directors? Were they aware of the PR statement “denying” that Zhang and Li have disappeared? Is this “normal”?

We also take this opportunity to thank our team of investigators who spent months in field under very difficult conditions gathering evidence. We are convinced that the conspirators (Li Yan/Suo Lang Duo Ji, Zhang Zhigang, and perhaps others) have given up on their attempts to refute our evidence and simply vanished.

A final comment: while we have all along been convinced that China Lumena is totally worthless, and that the rest of Li Yan/Suo Lang Duo Ji’s empire may not stand on very firm ground, it does surprise us that his collapse is leaving behind more than Rmb10bn (US\$1.6bn) in bad debts, including some Rmb2bn of “private” loans and the bulk in bank financing. The group’s bankers are said to include the Agricultural Bank of China, Industrial and Commercial Bank of China, Chongqing Bank and Standard Chartered.

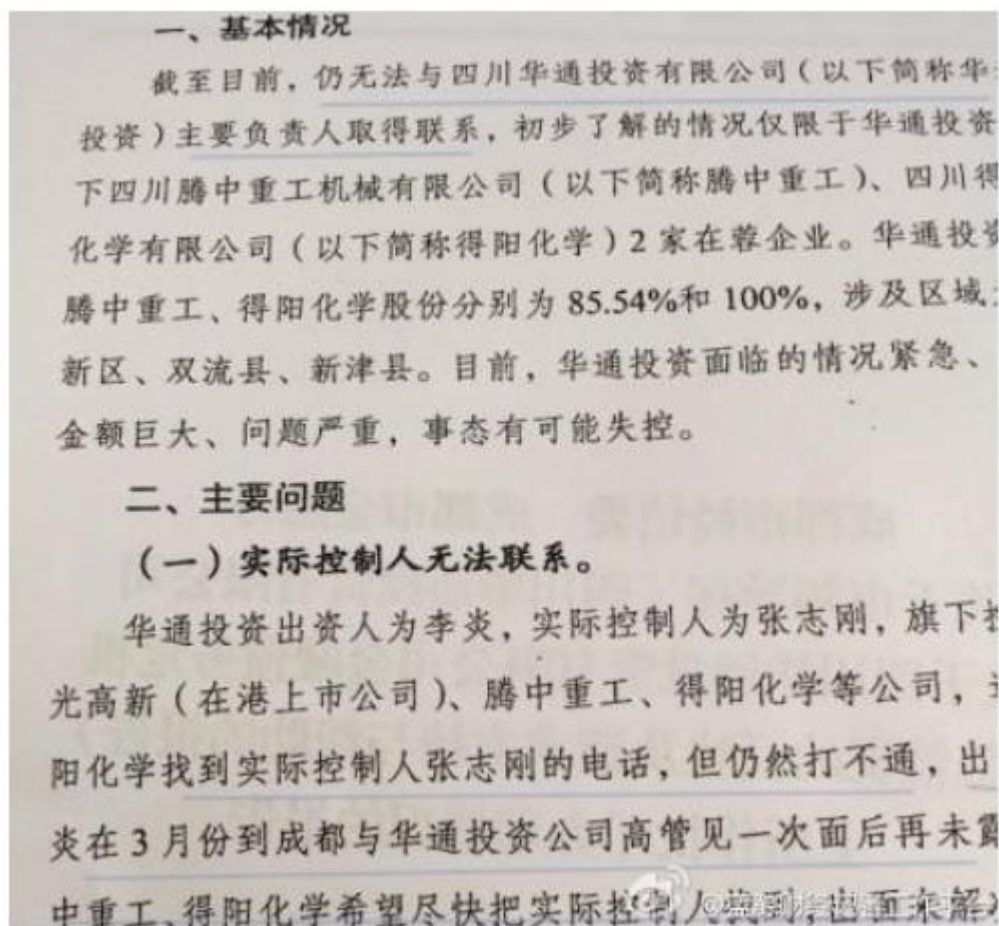
PRC media updates

Now, according to the weibo, a special task force led by the Sichuan Public Security Bureau has taken control of the group of companies controlled by Li. These include not just China Lumena but Huatong (which rented its land to China Lumena to build its plants) and Tengzhong Heavy Machinery. (Tengzhong achieved brief fame when it sought to buy the Hummer jeep operation from General Motors in the aftermath of the 2008 global financial meltdown).

China Lumena’s [statement](#) says that the company had got in touch with chairman Zhang, who said he had been in touch with Suo Lang Duo Ji, who in turn said everything was “at normal track”, without further elaboration.

In response, the weibo published the following document, purportedly issued jointly by the Sichuan Economic and Informatization Commission and the Sichuan Finance Office. According to the document, “Up till now, no contact can be established with the key executives of Sichuan Huatong Investment ...” (the first two lines in the

document attached below). The document further says that “At present, Huatong Investment is facing an emergency, the amount of money involved is huge, the problems serious, and the situation could get out of control” (last two lines in the first paragraph).



The document goes on in the second paragraph: “Huatong Investment’s capital provider is Li Yan and the actual controller is Zhang Zhigang. Its subsidiary companies include ... China Lumena New Materials (listed in Hong Kong), Tengzhong Heavy Machinery ... Deyang Chemical found the telephone number of Zhang but still could not get through ... Yan was not seen again after a meeting with Huatong Investment management in Chengdu in March ...”.

We can only guess if Zhang and Li consider this “at normal track”.

Here is another sign that the implosion has taken place for some time. On April 22, the Agricultural Bank of China obtained court order to seize the assets of Huatong Museum, which apparently houses Li Yan/Suo Lang Duo Ji’s private collection worth an estimated Rmb400m (US\$64m).

成都市中级人民法院 查封公告

(2014)成民保字第296-2、297-2、298-2号

本院依据(2014)成民保字第296-2、297-2、298-2号裁定书,查封了成都华通博物馆的所有藏品,查封期限自2014年4月22日至2015年4月21日止。在上述期限内,非经本院同意,任何单位和个人不得对被查封的藏品有转移、隐匿、毁损、变卖、转让、典当、质押、赠送等处分行为,否则,本院将依法追究其法律责任。

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