

**BEA securities**

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HONG KONG RESEARCH**25th October 2005****Main Board Listing - Research**

中國海升果汁控股有限公司

China Haisheng Juice Holdings Co., Ltd. [Stock Code: 359]

Sponsor : VC Capital Limited
Global Co-ordinator, Bookrunner and Lead Manager : VC Brokerage Limited
Sector : Consumer staples
Business : Manufacture and distribution of fruit juice concentrate products

<p>Total share offer: 305,550,000 shares (25% of the enlarged share capital)</p> <p>Public Offer: 30,584,000 shares (10%)</p> <p>Placing: 274,966,000 shares (90%)</p>	<p><u>Business of China Haisheng Juice ("the Group")</u></p> <p>The Group is principally engaged in the manufacture and distribution of fruit juice concentrate products (apple and pear juice) and fruit juice concentrate related products (apple aroma and de-ionized apple juice concentrate).</p> <p>The Group was the top exporter of apple juice concentrate in the PRC in terms of export volume in 2004. Its sales accounted for 7.8%, 9.9% and 17.4% of PRC's apple juice concentrate export from 2002 – 2004. For each of the three years ended 31st December 2004 and the four months ended 30th April 2005, approximately 90.8%, 89.7% and 93.6% and 90.6% respectively of the Group's turnover was derived from the export of its products to overseas markets, with the remaining portion representing sales in the PRC domestic market.</p> <p>Its existing production base and offices are strategically located at Shaanxi, Liaoning and Shangdong provinces in the PRC and the average utilization rate of its plants in 2004 was 73%.</p>
<p>Price: HK\$0.82 – HK\$1.02 per share</p> <p>Market Cap.: HK\$1,002 million – HK\$1,247 million</p> <p>Fully diluted FY2005 P/E: 8.45x – 10.52x</p> <p>Adjusted NTA per share: HK\$0.42 – HK\$0.46</p> <p>Staffing: 794</p>	
<p>HK Public Offer period: 25th October 2005 – 28th October 2005</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 4th November 2005</p>	

Major Shareholders after Listing

*Think Honour (BVI)	47.2%
**Raise Sharp (BVI)	7.8%
***Goldman Sachs	20.0%
	<u>75.00%</u>

*Think Honour is 80% owned by Mr. Gao Liang (Chairman), 10% owned by Mr. Liang Yi (Vice-chairman) and 10% owned by Mr. You Yong (Vice-general manager). Among the 10% stake of Mr. You, 9% is held on trust by Mr. You for senior management of the Group.

** The entire issued capital of Raise Sharp is held by Mr. Liang Yi (Vice-chairman) on trust for 1,130 individuals.

*** Goldman Sachs holds 20% of the Group through different investment funds under its discretionary management.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$207 million.

(Assuming an issue price of HK\$0.92 per share, which is the mid-point of the indicative price range)

	HK\$ million
For the construction of a new juice concentrate processing plant in Shanxi province	160
For expanding and enhancing existing production facilities	40
For working capital	7
Total	207

Financial Highlights

	Year ended 31 st December			4 months ended 30 th April	
	2002	2003	2004	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Turnover	129,488	238,164	550,323	178,661	197,496
Gross profit	37,402	91,077	185,522	57,158	70,883
Operating profit	24,054	58,674	126,647	41,726	50,364
Net profit	20,850	51,597	107,961	34,000	37,408
EPS (RMB)	2.13	5.28	11.04	3.48	3.83

Strengths/Opportunities

- ✓ According to the US Department of Agriculture, the global apple juice market is expected to grow 5% - 10% per annum in the medium term. China's market share is currently over 40% and is expected to expand to 60% by 2007 due to abundant supply of quality apples and costs advantage over major competitors such as Poland, Argentina and Chile. As one of the top three producers in China, Haisheng is expected to be a major beneficiary of this trend.
- ✓ China Haisheng is one of the five apple juice concentrate manufacturers in the PRC that is exempted from the US anti-dumping duty by the US Government. It thus enjoys a competitive advantage over those PRC producers that are still subject to the anti-dumping duties.
- ✓ Pricing of this IPO, i.e. FY2005E PER of 8.45-10.52x, is not demanding when compares with the industry's average of 12.43x and an estimated net profit growth of 21% per annum in the next two years.

Weaknesses/Threats

- × The Group's debt level is relatively high. Current ratio and total debt/ equity ratio are 0.94 and 1.45 respectively as of 30th April 2005.
- × The Group's operating activities did not generate net cash inflows in FY 2002, FY2003 and the first four months of FY2005. At the same time, investment in plant and equipment had been increased from RMB87.6 million in FY2002 to RMB306.8 million in FY2004. If the situation continues, another cash call could be likely in the future.

Recommendation: Trading Buy