

**Analyst: Paul Sham**

## Main Board Listing – Research

泛亞環保集團有限公司

Pan Asia Environmental Protection Group Limited [Stock Code: 0556]

**Sponsor** : Taifook Capital Limited  
**Sole Bookrunner and Sole Lead Manager** : Taifook Securities Company Limited  
**Sector** : Capital Goods  
**Business** : Sale of environmental protection products and equipment

<b>Total share offer:</b> *200,000,000 shares <b>(25% of the enlarged share capital)</b>  <b>Public Offer:</b> 20,000,000 shares (10%) <b>Placing:</b> 180,000,000 shares (90%) <b>Greenshoe:</b> 30,000,000 shares <i>*All 200,000,000 shares are New Shares</i>	<b><u>Business of Pan Asia Environmental Protection Group</u></b>  The Group is principally engaged in the sale of pipes, water treatment and flue gas treatment products and equipment, as well as undertaking of environmental protection (“EP”) construction engineering projects in the PRC.  During the period of three and half years beginning on 1 <sup>st</sup> January 2004, the Group has completed 68 contracts for the sale of products and equipment, among which, about 53 contracts were related to water treatment, about 9 contracts were related to pipes and about 6 contracts were related to flue gas treatment.  The Group’s customers are located in different regions in the PRC, including Fujian, Guangdong, Hebei, Heilongjiang, Henan, Jiangsu, Liaoning, Shanxi, Shandong, Sichuan, Zhejiang provinces, Beijing, Shanghai, Inner Mongolia and Xinjiang.  The Group currently holds 27 uncompleted contracts for the sale of EP products & equipment and 3 uncompleted EP construction engineering projects, with an aggregate contract sum of RMB979 million.
<b>Price:</b> HK\$2.40 – HK\$3.00 per share  <b>Market Cap:</b> HK\$1,920 million– HK\$2,400 million  <b>FY2006 PER:</b> 11.3X – 14.1X  <b>Adjusted NTA per share:</b> HK\$1.048 – HK\$1.195  <b>Staffing:</b> 249 (as of 30 <sup>th</sup> November 2007)	
<b>HK Public Offer period:</b> 10 <sup>th</sup> December 2007 – 13 <sup>th</sup> December 2007  <b>Receiving banks:</b> Hang Seng Bank Limited  <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 21 <sup>st</sup> December 2007	

### **Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Praise Fortune – a limited liability company held as to:	
49.9% by Mr. Jiang Lei, an executive Director of the Group. He is also the son of Mr. Jiang Quanlong, the chairman and the executive Director of the Group;	75%
49.9% by Mr. Jiang Xin, the son of Mr. Jiang Quanlong;	
0.2% by Ms. Qian Yuanying, the wife of Mr. Jiang Quanlong	
Public Investors	25%
	100%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$491 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.70 each, being the midpoint of the indicative price range)

	HK\$ million
For the Group's expansion strategy through setting up new production facilities	228
For the acquisition and/or establishment of EP related business or investment targets	119
For the enhancement of research and development capability	45
For establishing simulated control facilities for flue gas treatment	25
For establishing sales and support centres in different locations in the PRC	25
For general working capital	49

**Financial Highlights**

	Year ended 31 <sup>st</sup> December			Six months ended June 30	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	144,330	395,973	508,628	161,718	235,429
Gross profit	51,048	151,277	209,330	69,161	90,122
Operating profit	42,901	135,747	187,827	62,167	80,727
<b>Attributable profit</b>	<b>35,643</b>	<b>118,018</b>	<b>165,273</b>	<b>54,705</b>	<b>61,414</b>
Gross margin	35.4%	38.2%	41.2%	42.8%	38.3%
Operating margin	29.7%	34.3%	36.9%	38.4%	34.3%
Net margin	24.7%	29.8%	32.5%	33.8%	26.1%

**Revenue Breakdown (% of Total Revenues)**

	Year ended 31 <sup>st</sup> December						For the six months ended June 30			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sale of EP products and equipment	144,330	100	375,530	94.8	343,838	67.6	144,065	89.1	161,877	68.8
Revenue from EP construction engineering projects	-	-	20,443	5.2	164,616	32.4	17,653	10.9	72,499	30.8
Revenue from professional services	-	-	-	-	174	-	-	-	1,053	0.4
<b>Total</b>	<b>144,330</b>	<b>100</b>	<b>395,973</b>	<b>100</b>	<b>508,628</b>	<b>100</b>	<b>161,718</b>	<b>100</b>	<b>235,429</b>	<b>100</b>

**Strengths/Opportunities**

- ✓ **Favouring government policies on EP** One of the goal set forth in the Eleventh Five-Year Plan of the PRC government is to achieve pollution control target, e.g. increasing urban wastewater treatment rate to over 70% and reducing the emission of sulphur dioxide by 10% in 2010, compared to the level in 2005. In addition, the CAGR of the investment for EP treatment in China was about 26.6% between 2002 and 2006, indicating that the pollution treatment has been more emphasized in the recent year.
- ✓ **Promising growth in revenue in FY2008** The Group reported that it has an aggregate contract sum of RMB979 million which are expected to be completed in Dec 2007 & 2008, representing 192% of the revenue in FY2006. Given that the profit margin in 1H07 could be maintained and the RMB979-million revenue is proportionally recognized in 2008, the expected earnings per share in FY2008 will be equal to RMB0.294. This translates to a lower FY2008E PER of 9.18X.



**Weaknesses/Threats**

- × **Limited information for industry analysis** Many industry-related information such as market share of the Group and the size of the industry, are unavailable in the prospectus. Coupled with the fact that there is no HK-listed rivals who do the same businesses as the Group, industry analysis become difficult for this company.
- × **Non-recurring nature of business** The Group offers customized products & equipment and its customers are mostly one-off customers. This kind of non-recurring business implies the risk that the rapid growth of revenue in the reported period may not be sustainable in the future.

**Recommendation:     Hit and run**

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