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HONG KONG RESEARCH**24th January 2005**

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Main Board Listing - Research

信義玻璃控股有限公司

Xinyi Glass Holdings Limited [Stock Code: 0868]**Sponsor, Global Coordinator, and Bookrunner** : Kingsway**Joint Lead Managers** : Kingsway DBS Asia**Sector** : Consumer Discretionary**Business** : Manufacture and Sale of Automobile Glass and Construction Glass Products**Total share offer:** 375,000,000 shares
(25% of the enlarged share capital)**Public Offer:** 37,500,000 shares (10%)
Placing: 337,500,000 shares (90%)**Greenshoe:** 56,250,000 shares**Price:** HK\$1.69 – HK\$2.04 per share
Market Cap.: HK\$2.535 billion – HK\$3.060 billion**Forecast FY2004 P/E:** 10.8x – 13.0x
(On a pro forma basis)**Adjusted NTA per share:** HK\$0.89 – HK\$0.98**Staffing:** 3,531 (as of 16th January 2005)**HK Public Offer period:**
24th January 2005 - 27th January 2005**Receiving bank:** Hang Seng Bank**Share registrar:** Computershare Hong Kong
Investor Service Limited**Listing date:** 3rd February 2005**Business of Xinyi Glass**

Since its establishment in 1998, Xinyi Glass has been the second largest auto glass producer in China in terms of sales revenue, and is also the largest exporter of auto glass in China in terms of volume in 1H2004 (accounted for some 30% of the market). The company is mainly engaged in the production of a variety of glass products for applications in automobiles, construction and household. For auto glass, the company mainly serves the after-market.

Products of Xinyi Glass can be categorised into two key areas – auto glass and construction glass. Auto glass products include windshields and side and rear windows. Construction and related glass products include glass for building and furniture uses. During the 8 months ended August 2004, auto glass accounted for 75% of revenue while the remaining came from sales of construction glass and related activities. In geographical terms, China is the company's largest sale market, followed by the U.S., its largest export market.

Xinyi Glass now operates 5 factory plants in its production complex in Shenzhen. It is also building new production facilities in Dongguan and Wuhu, which will provide additional production capacity and 2 production lines of float glass, a major raw material in the production of Xinyi's glass products.

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

| | |
|---|---------------|
| Mr. LEE Yin Yee, the Group's founder, chairman and executive director | 26.97% |
| Mr. Tung Ching Bor, the chief purchasing officer, and Mr. Tung Ching Sai, the CEO | 19.85%* |
| Other Directors | 26.68% |
| The Strategic Investor | 1.50%^ |
| | 75.00% |

*Each holds a stake of 9.9225% following the completion of the Share Offer.

^Kingsway SBF – the Strategic Investor – will hold a stake of 1.5% on the Listing Date upon exercising the conversion rights of a convertible note issued by Xinyi Glass on 13th December 2004.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$664.4 million

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.865 each, which is the mid-point of the indicative price range)

| | HK\$ million |
|--|--------------|
| For upstream vertical integration by the establishment of two float glass production lines at the Company's Dongguan Production Complex. | 440 |
| To purchase machinery and equipment at Dongguan Production Complex for automobile and construction glass production. | 65 |
| For the expansion of production facilities for automobile rubber and plastic components at the Company's Shenzhen Production Complex. | 10 |
| For installation of three new automobile glass production lines at Shenzhen Production Complex. | 18 |
| For research and development for glass products such as low-e and OEM automobile glass products | 10 |
| For enhancing sales and marketing activities | 10 |
| For repayment of a term loan facilities | 50 |
| Remaining balance for general capital | 61.4 |

Financial Highlights

| | Year ended 31 st December | | 2003 | 8 months ended 31 st August 2004 |
|---------------------------|--------------------------------------|----------------|----------------|---|
| | 2001 | 2002 | | |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| Turnover | 466,718 | 596,558 | 800,835 | 628,442 |
| Operating profit / (loss) | 135,467 | 173,592 | 195,649 | 168,861 |
| Net profit / (loss) | 121,362 | 152,150 | 185,421 | 157,463 |

Remarks: The Prospectus does not present historic EPS data due to reorganisation over the years.

Breakdown of Turnover by Products

| | Year ended 31 st December | | | | | | 8 months ended 31 st August 2004 | |
|-------------------------------|--------------------------------------|--------------|---------------------|--------------|---------------------|--------------|---|--------------|
| | 2001 | | 2002 | | 2003 | | | |
| | HK\$ in million | % | HK\$ in million | % | HK\$ in million | % | HK\$ in million | % |
| Automobile glass products | 357.9 | 76.7 | 465.0 | 77.9 | 536.0 | 66.9 | 472.2 | 75.1 |
| Construction glass products | 104.9 | 22.5 | 119.8 | 20.1 | 235.4 | 29.4 | 147.4 | 23.5 |
| Construction contract revenue | 3.9 | 0.8 | 11.8 | 2.0 | 29.4 | 3.7 | 8.8 | 1.4 |
| Turnover | <u>466.7</u> | 100.0 | <u>596.6</u> | 100.0 | <u>800.8</u> | 100.0 | <u>628.4</u> | 100.0 |

Breakdown of Revenue by Geographical Segments

| | Year ended 31 st December | | | | | | 8 months ended 31 st August 2004 | |
|-------------|--------------------------------------|--------------|---------------------|--------------|---------------------|--------------|---|--------------|
| | 2001 | | 2002 | | 2003 | | | |
| | HK\$ in million | % | HK\$ in million | % | HK\$ in million | % | HK\$ in million | % |
| China | 208.4 | 44.7 | 242.7 | 40.7 | 361.6 | 45.2 | 246.9 | 39.3 |
| U.S. | 160.1 | 34.3 | 195.0 | 32.7 | 156.5 | 19.5 | 147.7 | 23.5 |
| Hong Kong | 23.3 | 5.0 | 24.3 | 4.0 | 36.7 | 4.6 | 20.0 | 3.2 |
| Middle East | 22.8 | 4.9 | 33.9 | 5.7 | 43.6 | 5.4 | 31.9 | 5.1 |
| Canada | 9.9 | 2.1 | 35.1 | 5.9 | 45.4 | 5.7 | 32.2 | 5.1 |
| Europe | 2.6 | 0.5 | 10.4 | 1.7 | 18.1 | 2.3 | 31.5 | 5.0 |
| Others | 39.6 | 8.5 | 55.2 | 9.3 | 138.9 | 17.3 | 118.2 | 18.8 |
| Turnover | <u>466.7</u> | 100.0 | <u>596.6</u> | 100.0 | <u>800.8</u> | 100.0 | <u>628.4</u> | 100.0 |

Strengths/Opportunities

- ✓ Xinyi Glass is one of the leading players in the Chinese automobile glass market. It ranked the second largest exporter of auto glass products in 2003 in China and has become the top player in the first half of 2004, in terms of export volume.
- ✓ Xinyi Glass has achieved a good track record of profit margin during the last couple of years, despite rising electricity costs. For the first eight months of 2004, GPM was 37.47% while NPM stood at 25.06%.
- ✓ The Group's auto glass products have been focusing on the aftermarket, i.e. replacement market. After securing a key global glass producer in the US as a new customer last year, Xinyi Glass would be able to explore the OEM market and diversify its sales into the segment. Besides, it could further enhance Xinyi's presence in the export market, diversifying the risk of a possible slowdown in the China's auto market.
- ✓ Sales in the US showed a decent growth for the eight months in 2004 amid an economic recovery at the Xinyi's largest export market. Other overseas segments also reported encouraging development, especially in Europe, as the Company has established reputations as well as strong client base within these markets. A strengthening presence in the export market should help Xinyi Glass diversify its business and weather a possible slowdown in the mainland's automobile market.
- ✓ Shares of Xinyi Glass are priced at 10.8x-13.0x FY2004E P/E, of which the valuations are in line with global peers but significantly higher when compared with local peer Zhejiang Glass (0739) (5.8x FY2004E P/E). Nonetheless, the valuations are not demanding given Xinyi Glass's much stronger global presence as well as its leading role in the mainland's automobile glass market.

Weaknesses/Threats

- × The Group plans to set up float glass production lines in its Dongguan production complex in order to self-supply float glass, so as to lower the overall production cost by reducing the portion of outsourcing. However, as Xinyi is inexperienced in the production of float glass, it is expected to take some time before the float glass segment could be able to deliver synergies in the production process.
- × China has introduced austerity measures since late 2003 in order to cool down over-heated sectors, including the construction industry. Fewer property projects are expected to commence in 2005, which may in turn weaken the demand for construction glass products.
- × It has been a consensus forecast that growth in the mainland's automobile sector had peak in 2003 and would slow down this year, amid saturating demand and tightening car loans under government's austerity measures. Car manufacturers may have to cut prices in order to boost sales, heating up competitions in the industry. Comparative figures showed Xinyi's sales growth in the mainland rose 2.79% y-o-y during the first eight months in 2004, much lower than the full-year growth in 2003 (+49% y-o-y) and 2002 (+16% y-o-y).
- × The Company's gearing ratio rose to 48.14% as of 31st August 2004 from 43.84% as of 31st December 2003. The level of gearing is expected to stay at high level, as the Company will continue to roll out fixed asset investment at its Dongguan Production Complex.

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