

## **Main-Board Listing - Research**

中怡精細化工集團有限公司

**EcoGreen Fine Chemicals Group Limited [Stock Code: 2341]**

**Sponsor** : Goldbond Capital (Asia) Limited

**Sole Bookrunner and Lead Underwriter** : Goldbond Securities Limited

**Sector** : Chemicals

**Business** : R&D, production and sale of fine-chemical products

<p><b>Total share offer:</b> <u>100,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>IPO:</b> 10,000,000 shares (10%)</p> <p><b>Placement:</b> 90,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 15,000,000 shares</p>	<p><b><u>Business of EcoGreen</u></b></p> <p>EcoGreen is principally engaged in the R&amp;D, production and sale of over 20 types of fine-chemical products, which are ultimately sold to industrial users in the PRC and exported to overseas markets, including Hong Kong, Japan, the US, Singapore, the UK and Spain. For the 8 months ended 31<sup>st</sup> August 2003, the PRC, Hong Kong and other countries accounted for 79.3%, 12.6% and 8.1% of its total turnover respectively.</p> <p>The Company's products can be categorized into 3 groups: (i) aroma chemicals (芳香化學品), (ii) natural pharmaceutical raw materials (天然藥物原料) as well as (iii) chiral pharmaceuticals raw materials and pharmaceutical intermediates (手性藥物原料及醫藥中間體). These products are widely applicable in a number of industries, including pharmaceutical, healthcare, cosmetics, personal care, household and hygiene products.</p> <p>The Company's existing production facilities are located on a 27,000-m<sup>2</sup> site with a GFA of 8,400 m<sup>2</sup> in Haicang Industrial Zone, Xiamen, Fujian province. With a utilization rate of 91%, the Company has an annual processing volume of 9,500 metric tonnes of botanic essential oils.</p> <p>In addition to its own production, the Company also engages subcontractors to manufacture products, which require basic and simple production. For the 8 months ended 31<sup>st</sup> August 2003, 31.8% of the Company's products were sub-contracted.</p>
<p><b>Price:</b> HK\$1.38 per share</p> <p><b>Market Cap. :</b> HK\$552 million</p> <p><b>Prospective 2003 P/E:</b> 11x (fully diluted)</p> <p><b>Adjusted NTA per share:</b> HK\$0.51 (before over-allotment option is exercised)</p> <p><b>Staffing:</b> 212</p>	
<p><b>IPO commences:</b> 27<sup>th</sup> February, 2004</p> <p><b>IPO closes:</b> 3<sup>rd</sup> March, 2004</p> <p><b>Receiving bank:</b> Standard Chartered Bank</p> <p><b>Share registrar:</b> Tengis Limited</p> <p><b>Listing date:</b> 9<sup>th</sup> March, 2004</p>	

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

Mr. YANG Yirong (aged 42; chairman, president and an executive director of the Company)	48.32%
^New Margin Venture Capital (a strategic investor in the Company)	5.33%
*Mr. HO Kwong Ming (a brother of HO Wan Ming, an executive director of the Company)	3.95%
Mr. YANG Chiming (a non-executive director of the Company and a cousin of the chairman)	3.55%
Mr. SHI Jinlei (aged 32; a senior management of the Company)	3.55%
Mr. GONG Xionghui (aged 40; a senior management and an executive director of the Company)	2.84%
Ms. LU Jiahua (aged 37; a senior management and an executive director of the Company)	2.13%
Mr. HO Wan Ming (aged 43; an executive director of the Company)	1.78%
Ms. CHEN Hua (aged 32; a senior management of the Company)	1.42%
Mr. LIN Zhigang (aged 33; a senior management and an executive director of the Company)	1.42%
Mr. LIN Weiqing (aged 33; a senior management of the Company)	0.71%
	<u>75.00%</u>

^ -indirectly-owned by an investment vehicle of Shanghai Municipal Government

\* -subject to a 6-month lock-up period after listing

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$119.5 million.

*(Assuming the over-allotment option is not exercised)*

	<b>RMB million</b>
To expand the Company's existing production capacity	5.0
To construct and install machineries and equipment in the new plant	69.6
To establish representative offices in the PRC and overseas	3.0
To enhance R&D capability of new products and new technologies	12.5
To serve as the Company's general working capital	29.4

**Financial Highlights**

	<b>8 months ended 31<sup>st</sup> August 2003 RMB '000</b>	<b>Year ended 31<sup>st</sup> December 2002 RMB '000</b>	<b>2001 RMB '000</b>	<b>2000 RMB '000</b>
Turnover				
<i>Aroma chemicals</i>	80,276	97,322	66,140	48,735
<i>Natural pharmaceutical raw materials</i>	39,966	42,712	44,733	21,885
<i>Chiral pharmaceuticals raw materials and pharmaceutical intermediates</i>	<u>9,712</u>	<u>6,727</u>	<u>3,386</u>	<u>4,641</u>
	<u>129,954</u>	<u>146,761</u>	<u>114,259</u>	<u>75,261</u>
Operating profit	<u>32,944</u>	<u>41,974</u>	<u>26,984</u>	<u>19,768</u>
Net profit	<u>28,562</u>	<u>33,926</u>	<u>20,805</u>	<u>15,520</u>
Dividend	7,600	23,750	14,250	1,900
EPS – basic	<u>HK¢9.52</u>	<u>HK¢11.31</u>	<u>HK¢6.94</u>	<u>HK¢5.17</u>



## **Strengths**

- ✓ The Company has effectively combined its self-developed production technology with fine-chemicals production techniques, which can be classified into 3 types: Modern Separation Technology, Fine Organic Synthesis Techniques as well as Chiral Resolution and Synthesis Techniques, the research project with which had been accredited as “High Technology Industrialization Model Project of the State” in 2002 by the State Development and Planning Commission.
- ✓ The Company has established a solid and diversified customer base with over 100 customers, including trading companies and manufacturers which use its products as raw materials in their manufacturing process.
- ✓ The Company has obtained certifications ISO9001:2000 for its quality-management system and ISO14001:1996 for its environment-management system in 2003.

## **Weaknesses**

- × The Company has made patent applications to register certain proprietary technologies in the manufacture of its products and relies on the trade-secret protection conferred by the existing PRC laws. However, these measures may not be adequate to deter 3<sup>rd</sup> parties from unauthorized disclosure, misappropriation or unauthorized use of these technologies that would have a negative impact on its operations and prospects.
- × As of 31<sup>st</sup> December 2003, the Company had total borrowings of RMB126.8 million (including short-term secured borrowings of RMB54.6 million and short-term portion of other borrowings of RMB38.9 million) and convertible bonds of RMB37.2 million, with its debt-to-equity ratio being high at 187.58%, while cash on hand only amounted to RMB63.9 million. However, over the 3 years and 8 months ended 31<sup>st</sup> August 2003, the Company has declared and paid total dividends of RMB47.5 million. The financial position of the Company should be a concern.
- × The PRC fine-chemicals industry is highly fragmented, with a significant number of companies offering similar products to those of the Company. Moreover, the PRC’s accession into the WTO results in cheaper imported fine-chemical products due to lower import tax. Thus, we are sceptical about whether the Company can sustain its 39.6% CAGR in turnover and 47.9% CAGR in net profit recorded during 2000-2003 as it faces intensifying competitions

**Recommendation: Unappealing**