

## **Main Board Listing - Research**

中國玻璃控股有限公司

China Glass Holdings Limited [Stock Code: 3300]

**Sponsor** : Guotai Junan Capital Limited  
**Global Coordinator, Bookrunner and Lead Manager** : Guotai Junan Securities (Hong Kong) Limited  
**Co-Lead Manager** : First Shanghai Securities Limited  
**Sector** : Materials  
**Business** : Production of float glass mainly for the construction industry

<b>Total share offer:</b> <u>90,000,000</u> shares <b>(25% of the enlarged share capital)</b> <b>Public Offer:</b> 9,000,000 shares (10%) <b>Placing:</b> 81,000,000 shares (90%) <b>Greenshoe:</b> 13,500,000 shares (15%)	<b><u>Business of China Glass ("The Group")</u></b> <p>The Group is one of the longest established producers of float glass in the PRC. It has two float glass production lines that operate a daily melting capacity of approximately 900 tons in a variety of colours and ranging in thickness from 3mm to 12 mm.</p> <p>The Group markets its products under the "Subo" brand name primarily to downstream glass product manufacturers, customers in the construction industry and glass distributors. Over the course of 35 years of production, the Group has developed a broad network of sales channels throughout China, particularly in Jiangsu and in over 20 countries including South Korea, Egypt, Brazil and Greece. Overseas sales comprised 21.3% of the Group's total turnover in 2004.</p> <p>The Group's production facilities are located in Suqian city, Jiangsu province, situated adjacent to the Beijing – Hangzhou grand canal and high speed expressways.</p> <p>For the three years ended 31<sup>st</sup> December 2004, profit attributable to shareholders amounted to RMB3.81 million, RMB38.37 million and RMB64.82 respectively.</p>
<b>Price:</b> HK\$1.50 – HK\$2.30 per share <b>Market Cap.:</b> HK\$540 million – HK\$828 million <b>Historical FY 2004 P/E:</b> 8.83 – 13.50x <b>Adjusted NTA per share:</b> HK\$0.69 – HK\$0.88 <b>Staffing:</b> 1,374	
<b>HK Public Offer period:</b> 13 <sup>th</sup> June 2005 – 16 <sup>th</sup> June 2005 <b>Receiving bank:</b> Standard Chartered Bank <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 23 <sup>rd</sup> June 2005	

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

Legend Holdings Limited, holding company of Lenovo Group	25.02%
Related parties from Legend Holdings Limited [interest via First Fortune BVI]	37.54%
Mr. Zhou Cheng, Chief Executive Officer and Mr. Li Ping, Senior Vice President [interest via Swift Glory (BVI)]	8.78%
Mr. Zhou Cheng, Chief Executive Officer and Mr. Li Ping, Senior Vice President and other senior management of China Glass [interest via Ample Best (BVI)]	3.66%
	<hr/> 75.0%

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$155 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.90 each, which is the mid-point of the indicative price range)

	HK\$ million
Purchase plant and machinery for the third production line	113
Construct factory building	28
Use as construction line design fee	4
General working capital	10

### Financial Highlights

	Year ended 31 <sup>st</sup> March		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover	216,715	351,386	429,738
Gross profit	32,143	82,847	126,269
Operating profit	10,549	56,472	91,538
<b>Net profit</b>	<b>3,805</b>	<b>38,374</b>	<b>64,816</b>
<b>Basic EPS (RMB)</b>	<b>N.A.</b>	<b>N.A.</b>	<b>0.24</b>

### Strengths/Opportunities

- ✓ Pilkington PLC, the fifth largest glass manufacturer in the world, is going to be a strategic investor by buying 9.9% stake of the Group in this IPO. Pilkington's technical know how and its expertise in international market should help China Glass enhance its product quality and developing overseas markets.
- ✓ The Group production facilities are strategically located in Suqian City, Northern Jiangsu, where labour and utilities are relatively cheaper. They are close to expressway to the international port of Lianyungang where the products are exported overseas. As a result, the counter was ranked first in terms of return on assets out of all PRC's float glass producers in 2003.

### Weaknesses/Threats

- × As prices of raw materials like soda ash had surged more than 10% in the first quarter of 2005, gross margin of the Group had been squeezed accordingly. Furthermore, rising electricity tariffs in the PRC will be a major concern as the Group needs to consume quite a substantial amount of electricity for production.
- × As float glass produced by the Group are mainly used in the building industry, recent measures against real estates speculation should undoubtedly affect the demand of the Group's product, particularly in Jiangsu where accounts for 40% of the Group's local sales.
- × Priced at 8.83x – 13.5x FY2004 PER, valuation of China Glass is not particularly attractive when compares with peers like Xinyi glass (0868) and Luyang Glass (1108) that are trading at some 10x FY2004 PER and around 6x FY2004 PER of Zhejiang Glass (0739).
- × The Group does not provide guidance for its FY2005 earnings.

**Recommendation: Unexciting**