

Analyst: Sam Ho

GEM Board H-share Listing- Research

上海青浦消防器材股份有限公司

Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. - [Stock Code: 8115]

Sponsor and Lead Manager : Shenyin Wanguo Capital (H.K.) Limited

Sector : Security

Business : R&D, manufacture and sale of fire-fighting equipment products in the PRC

Total share offer: <u>55,560,000</u> H shares (29.64% of the enlarged share capital) Placement: 50,004,000 H shares (90%) IPO: 5,556,000 H shares (10%)	<u>Business of Qingpu Fire-Fighting Equipment</u> The Company is principally engaged in the R&D, manufacture and sale of fire-fighting equipment in the PRC. Its major fire-fighting equipment products include 3 main types, namely (1) fire extinguishers, (2) fire-extinguisher cylinders; and (3) fire-fighting accessory equipment. It also manufactures and sells pressure cylinders that are used by its customers for non-fire fighting purposes. Moreover, it provides processing services, which include phosphoric-acid cleaning for pressure cylinders. The Company owns 2 production facilities, one of which is located at Zhonggu Town, Qingpu District, Shanghai with a total GFA of 8,742.73 m ² for the production of fire extinguishers, fire-fighting accessory equipment and carbonate steel cylinders. The other one is located at Hua Xin Town, Qingpu District, Shanghai with a total GFA of 4,562 m ² for the production of aluminum and alloy-steel cylinders.
Price: HK\$0.54 per share H-share market cap: HK\$30 million Staffing: 224 Historical 2003 P/E: 12.4x Adjusted NAV per share: RMB0.22	
IPO commences: 18 th June 2004 IPO ends: 24 th June 2004 Share registrar: Computershare Hong Kong Investor Services Limited Receiving bank: Standard Chartered Bank Listing date: 30 th June 2004	

Major Shareholders after Listing

* Jiang Zi Qiang, the chairman and an executive director of the Company	30.0553%
Wang Zhi Yu, an executive director of the Company	7.5100%
Jiang Zhou, an non-executive director of the Company	7.0400%
* Shanghai APEX Venture Capital Management Co., Ltd	6.7300%
Wang Liang Fa, an executive director of the Company	6.3300%
* Shanghai Qingpu Industrial United Society	3.7147%
* Chen Zhen Qiang, a non-executive director of the Company	3.5920%
Zhao Shu Guang, a non-executive director of the Company	1.5715%
* Gao Quan Jian	1.1225%
* Sun Jiang Qing	1.1225%
* Lin Chen	0.8980%
* Lin Bei De	0.6735%
	<u>70.3600%</u>

*- these shareholders are subject to a 12-month lock-up period

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$20.0 million

	HK\$ million
To purchase new production facilities for alloy steel cylinders with capacities between 10L and 20L	10.0
To conduct R&D and procurement of production facilities for auto fire-extinguishing system	2.0
To purchase DOT ("Department of transportation, US") testing equipment	1.0
To expand its distribution network in the PRC and overseas	1.4
To set up an office in Hong Kong	0.2
To expand production for fire-fighting equipment and cylinders	4.0
To serve as general working capital	1.4

Financial Highlights

	Year ended 31 st December	
	2003 RMB'000	2002 RMB'000
Turnover		
<i>Fire-extinguishing products:</i>		
<i>Fire extinguishers</i>	16,658	17,895
<i>Fire-extinguisher cylinders</i>	25,678	20,796
<i>Fire-fighting accessory equipment</i>	570	540
<i>Other products/services:</i>		
<i>Other cylinders</i>	2,557	1,550
<i>Processing services</i>	2,909	4,527
	<u>48,372</u>	<u>45,308</u>
Operating profit	8,628	13,622
Net profit	<u>6,024</u>	<u>8,690</u>
EPS- basic	<u>RMB0.046</u>	<u>RMB0.066</u>

Strengths/ Opportunities

- ✓ The Company was granted ISO9001:2000 as well as New and Advanced Technology Enterprises of Shanghai Municipality in 2003 and 2000 respectively.
- ✓ Most of the major shareholders are subject to a 12-month lock-up period after the listing.

Weaknesses/ Threats

- × Competition in the PRC's fire-fighting equipment market is intense, as the entry barrier is low.
- × Profitability of the Company noted a decline in 2003, as it faced the problem of a drop in selling price of its products and the increase in the cost of carbonate steel and alloy. In fact, gross-profit margin dropped from 35.3% in 2002 to 32.5%.
- × Debtors' turnover period and inventory turnover period increased from 119 days and 43 days in 2002 to 131 days and 60 days in 2003, respectively.
- × With shares priced at a historical P/E of 12.4x, valuation of Qingpu Fire-Fighting Equipment is demanding, when compared with similar peer China Fire Safety (*stock code: 8201*)'s 2003 P/E of 7.83x.
- × Liquidity of the Company's shares should be extremely small after listing, given that its H-share market capitalization was only HK\$30 million.

Recommendation: Unappealing