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GEM-Board Listing - Research

世紀陽光生態科技控股有限公司

Century Sunshine Ecological Technology Holdings Limited [Stock Code: 8276]

Sponsor : CSC Asia Limited
Financial Adviser, Bookrunner and Joint Lead Manager : Watterson Asia Limited
Joint Lead Manager : Partners Capital International Limited
Sector : Agricultural
Business : R&D, manufacture and sale of microbial organic fertilizer products in the PRC

Total share offer: <u>96,000,000</u> shares (30% of the enlarged share capital) IPO: 9,600,000 shares (10%) Placement: 86,400,000 shares (90%) - 70,400,000 new shares - 16,000,000 sale shares	<u>Business of Century Sunshine</u> Based in Fujian province, Century Sunshine is principally engaged in the research and development, production and sale of microbial compound fertilizer, organic compound fertilizer products for different agricultural applications, especially tea, in the PRC. The Company's microbial compound fertilizer and organic fertilizer products can be used in organic farming of tea, orchards and vegetables as well as other organic agricultural products, such as peanuts and rice. Its organic compound fertilizer products may be used to produce pollution-free agricultural products. All of the Company's products are marketed under the "LU DI" (綠滴) brand name. The Company's 14,600-m ² production facilities are located in Youxi, Fujian province. During the track record period, the Company produces all of its microbial compound fertilizer and organic fertilizer products by itself, but it relied on subcontractors to produce all of its organic compound fertilizer products. Currently, the Company's annual production capacity for microbial compound fertilizer is 3,000 tonnes and that for organic fertilizer is 20,000 tonnes, while it engages only 1 subcontractor in Luoyuan, Fujian province to produce its organic compound fertilizer products.
Price: HK\$0.55 per share Market Cap.: HK\$176 million Estimated 2003 P/E: 9.5x (pro forma fully diluted) Adjusted NTA per share: HK\$0.20 Staffing: 103	
IPO commences: 5 th February, 2004 IPO closes: 10 th January, 2004 Receiving bank: Hang Seng Bank Share registrar: Tricor Investor Services Limited Listing date: 17 th February, 2004	

Major Shareholder after Listing

Mr. CHI Wen Fu (aged 41; Chairman, CEO and an executive director of the Company)	48.424%
Ms. ZOU Li (aged: 36; a non-executive director of the Company)	12.106%
Mr. SHUM Sai Chit (aged 46; Vice President, COO and an executive director of the Company)	4.735%
Ms. Wong May Yuk (aged 61; a non-executive director of the Company)	4.735%
	<u>70.000%</u>

- The above shareholders are subject to a 12-month lock-up period after listing.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$33.0 million.

	HK\$ million
To construct a new 20,000-tonne organic-fertilizer plant in Jianou, Fujian province	7.0
To construct a new 20,000-tonne organic-fertilizer plant in Anxi, Fujian province	7.0
To construct a new 20,000-tonne organic-fertilizer plant in Wuyuan, Jiangxi province	7.0
To fund R&D of new organic fertilizers and biological insecticides	4.0
To fund marketing and advertizing of its "LU DI" fertilizer products	1.6
To install a new computer system linking the Company's head office, production facilities and sales agents	0.4
To serve as general working capital	6.0

Financial Highlights

	8 months ended 31 st August 2003 RMB '000	Year ended 31 st December 2002 RMB '000	2001 RMB '000
Turnover			
<i>Microbial compound fertilizers</i>	9,629	18,121	3,854
<i>Organic tea fertilizers</i>	8,323	14,231	1,622
<i>Premium organic fertilizers</i>	1,031	1,119	48
<i>Organic compound fertilizers</i>	<u>6,233</u>	<u>9,159</u>	<u>399</u>
	<u>25,216</u>	<u>42,630</u>	<u>5,923</u>
Operating profit	<u>9,603</u>	<u>13,431</u>	<u>542</u>
Net profit/(loss)	<u>9,383</u>	<u>13,416</u>	<u>(231)</u>
Earnings/(Loss) per share – basic	<u>RMB3.91 cents</u>	<u>RMB5.59 cents</u>	<u>(RMB0.096 cents)</u>

Strengths

- ✓ The annual production of green-food products in the PRC jumped from 15 million tonnes in 2000 to 25 million tonnes in 2002, while the Ministry of Agriculture has set an output target of 45 million tonnes in 2005. Thus, demand for the Company's organic fertilizer products should be growing rapidly.
- ✓ The Company's products have received various national and international accreditations, including its microbial compound fertilizer (1 of the 12 such products registered with the Ministry of Agriculture of the PRC), organic tea fertilizer (1 of the 4 such products approved by OTRDC (Organic Tea Research and Development Centre of the Tea Research Institute) of Chinese Academy of Agricultural Sciences and the only product in the PRC certified by BCS (a EU-accredited inspection and certification body) for its compliance with requirements of the European Union). Its premium organic fertilizer and organic compound fertilizer have also been registered with the Agriculture Bureau of Fujian province.

Weaknesses

- × The market for organic fertilizer and organic compound fertilizer products in the PRC is increasingly competitive. As at 31st March 2003, there were 8 organic fertilizer producers and 5 organic compound fertilizer producers registered with the Agriculture Bureau of Fujian province, without accounting for other producers in other provinces of the PRC. Moreover, there are over 200 registrations of different types of organic fertilizer products registered with the Ministry of Agriculture of the PRC.
- × Currently, the Company relies on 1 subcontractor to produce all of its organic compound fertilizer products, which accounted for 24.7% of its overall turnover of the 8 months ended 31st August 2003. In the event that there is any disruption in the subcontractor's production, the Company's performance could be adversely affected. However, the Company is indeed capable of producing the product itself.
- × Shares of Century Sunshine are priced at an estimated FY2003 P/E of 9.5x on a pro-forma fully-diluted basis, which does not look attractive when compared with China Agrotech (*Stock code: 1073*)'s historical 2002/2003 P/E of 9.5x and the 2003-listed Ko Yo Ecological Agrotech (*Stock code: 8042*)'s estimated FY2003 P/E of 6.4x.

Recommendation: Unexciting