

Analyst: Stanley Lau

GEM Board Listing – Research

錦恒汽車安全技術控股有限公司

JinHeng Automotive Safety Technology Holdings Limited [Stock Code: 8293]

Sponsor & Lead Manager : VC Capital Limited
Financial Adviser : WAG Financial Services Group Limited
Co-Lead Underwriters : **The Bank of East Asia, Limited**
China Merchants Securities (HK) Co. Ltd.

Sector : Automobiles & Components

Business : Manufacture and sale of automotive safety systems

Total share offer: <u>95,970,000</u> shares (25.19% of the enlarged share capital) Public Offer: 9,598,000 shares (10%) Placing: 86,372,000 shares (90%)	<u>Business of JinHeng</u> The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety systems. Currently, the Group's major products are safety airbag systems used in automobiles. The Group's production and processing facilities are located at Jinzhou Economics and Technological Development Zone in Liaoning Province, which currently have annual production capacity of over 107,000 sets of electronic and mechanical safety airbag systems. The Group has developed safety airbag systems for over 30 different models of automobiles. The customers of the Group are mainly automobile manufacturers in the PRC such as Dongfeng Peugeot Citroen Automobile, Hafei Motor, FAW Car Company, Zhengzhou Nissan Automobile , and Chongqing Changan Automobile. China National Accreditation Board of Laboratories has certified the Group as being compliance with 2003 Accreditation Criteria for Testing and Calibration Laboratories.
Price: HK\$1.18 per share Market Cap.: HK\$450 million Forecast FY2004 P/E: 9.0x (Pro Forma Fully Diluted) Adjusted NTA per share: HK\$0.371 Staffing: 231	
Book opens: 19 th November 2004 Book closes: 24 th November 2004 HK Public Offer period: 30 th November 2004 – 3 rd December 2004 Receiving bank: The Bank of East Asia Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 9 th December 2004	

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

Applaud Group* – owned by initial management shareholders	62.63%
Direct Sino	9.82%
WAG (Greater China)	2.36%
	74.81%

* The controlling shareholders of the Applaud Group are as follows:

Li Feng (22.86%), Xing Zhanwu (12.81%), Xu Jianzhong (7.19%), Li Hong (6.16%), Yang Donglin (5.65%)

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$81.70 million.

	HK\$' million
Expansion of production facilities	19.31
Localisation and self-production of key components	27.70
Enhancement of research and development capacity	9.94
Formulation of new strategic alliances	17.65
Additional general working capital	7.10

Financial Highlights

	5 months ended 31 st May		Year ended 31 st December	
	2004	2003	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	85,007	60,242	189,731	93,162
Operating profit	31,688	10,322	49,989	19,167
Net profit	23,260	5,299	27,467	7,916
EPS	HK¢7.75	HK¢1.77	HK¢9.16	HK¢2.64

Strengths/Opportunities

- ✓ Automobile safety airbag business is at its early stage of development in China – the use of airbag was not regulated until 2000. The increasing awareness of automobile safety in China, along with the continued growth of the vehicle industry, should offer high growth potential for the business. According to the State Council research, the vehicle industry is estimated to have an annual production capacity of 9 million vehicles by 2010, of which 60% will be subject to the safety regulations. The Group, being one of the earliest domestic participants, should benefit from the high growth stage of the industry life cycle.
- ✓ The Group is the leading domestic player in the medium-to-low end automobiles and has established a solid customer base that includes brand name automobile manufacturers such as FAW, Dongfeng Peugeot Citreon, Hafei Motor and etc. The aggregate output of automobiles from its customer base accounted for more than 70% of the total output of automobiles in the PRC in 2002.
- ✓ The Group is in collaboration with internationally established strategic partners Key Safety System (KSS), a globally reputable airbag module/component supplier in the US. The alliance allows the Group to keep abreast of global industry's trend and latest technology.
- ✓ The valuation of the Group at 9.00x 04E P/E seems fair.

Weaknesses/Threats

- × The China's accession into WTO has lowered entry barriers to overseas participants, the Group is likely to face competition from overseas, and in particular, when the tariffs on automotive spare parts are reduced from 35.7% to 10% by 1st July 2006. Currently, the Sino-foreign joint-venture players account for 56% of the safety airbag systems market in China, targeting for medium-to-high end automobiles.
- × Since the business cycle is directly related to the sale and production of automobiles, the recent slowdown in the industry in China has inevitably eroded margins of the Group in the short run. Overall, the highly cyclical nature of the automobile market is likely to bring volatility to its earnings.

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