

ZHEJIANG GLASS COMPANY LTD :
THANK YOU, MR GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

Had Zhejiang Glass Company Ltd been domiciled in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) or in just about any Western country, this financial analyst would have had little hesitation in saying that it had all the hallmarks of being a first-class company that could well go to the top of the class.

But, since this Company is domiciled in the PRC, and since it operates in an environment where law is the unique prerogative of the strong, one has to place reservations on all conclusions that one may reach on reading the Prospectus of Zhejiang Glass Company.

Zhejiang Glass Company is to be known as Stock Code Number 739 of the Main Board of The Stock Exchange of Hongkong Ltd, having Offered 17 million, one renminbi shares at a Premium of about \$HK2.03 per share. (\$HK1 = 1.07 renminbi).

The Company is, also, Placing another batch of 153 million, one renminbi shares on the same basis as the Offered Shares.

Zhejiang Glass Company is, as its name implies, engaged in the business of producing glass, in this case, it maintains that it is the fifth largest manufacturer of float glass in the PRC.

Float glass is defined in the Prospectus as being glass that is manufactured by using the float glass manufacturing technique.

It produces float glass with a thickness of between 4.50 millimetres and 12 millimetres. This is the type of glass that is mainly used in the construction industry.

Actual production of float glass in this Company started in October 1996, meaning that Zhejiang Glass Company is just 5 years old.

But, during that period, it is clear that it has done extraordinarily well, as the following table, lifted from Page 116 illustrates:

TABLE A

	Financial Year ended December 31			Five Months to May 31
	1998	1999	2000	2001
	All Figures are Denominated in Renminbi '000			
Turnover	212,420	297,751	500,669	330,791
Cost of Sales	(133,539)	(135,195)	(221,740)	(144,618)
Gross Profit	78,881	162,556	278,929	186,173
Other Revenue	967	711	509	383
Distribution and Selling Expenses	(2,682)	(2,476)	(2,614)	(1,453)
General, Administrative and Other Operating Expenses	(8,716)	(12,418)	(15,707)	(7,117)
Profit from Operations	68,450	148,373	261,117	177,986

Non-Operating Income	239	368	381	688
Non-Operating Expenses	(73)	(317)	(42)	(42)
Interest Expenses	(11,879)	(10,161)	(13,629)	(3,926)
Profit before Taxation	56,737	138,263	247,827	174,706
Taxation	(21,168)	(47,474)	(84,442)	(59,266)
Profit Attributable to Shareholders	35,569	90,789	163,385	115,440
(Accumulated Deficit) Retained Profits, beginning of Year/Period	(24,433)	8,909	81,540	181,498
Transfers to Statutory Reserves *	(2,227)	(18,158)	(32,677)	(23,088)

* This is a statutory PRC law, which is explained at Page 135, under Note 21:

‘... According to the Company Law of the PRC, before distributing the net profit of each year, the Company shall set aside 10 per cent. of its net profit for the statutory surplus reserve (except where the reserve balance has reached 50 per cent. of the Company’s registered capital), and 5 – 10 per cent. of its net profit for the statutory public welfare fund.

‘Net profit of the Company is appropriated in the following sequence:

- (i) set off against prior years’ losses;*
- (ii) transfer to statutory surplus reserve fund and statutory public welfare fund; and,*
- (iii) distribution of dividends ...’.*

It seems apparent from the above table that, during the first few years of its life, this Company lost money.

But, then, bingo!

For the Current Financial Year, ending December 31, 2001, the Directors are forecasting a Net Profit after Taxation of not less than 208 million renminbi.

Which has to be a record level of profits.

The Company raised about \$HK472 million (about 505 million renminbi), net of expenses, that money, being earmarked for the following:

1. 49 million renminbi to invest in a tempered glass production line;
2. 48 million renminbi to invest in a laminated glass production line;
3. 48 million renminbi to invest in an insulating glass production line;
4. 49 million renminbi to invest in a coated glass production line;
5. 49 million renminbi to invest in a mirror production line;
6. 100 million renminbi to invest in a joint venture, which plans to build a furnace and 2 production lines, producing patterned glass and wired glass; and,
7. 162 million renminbi to be used as General Working Capital.

The debts of this Company, as at September 30, 2001, stood at about 45.18 million renminbi, that money, owed to its bankers. (Page 80)

Considering that Zhejiang Glass Company had Net Tangible Assets, as at May 31, 2001, of about 400 million renminbi, it would appear that the Management could not ... [CLICK TO ORDER FULL ARTICLE](#)

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