

# Shenzhen Sanxin Special Glass Technology Co., Ltd.

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## Investment in Production Line of Low-e Glass and Creation of an Integrated Giant in Energy-saving Glass Curtain Wall Background

Shenzhen Sanxin Special Glass Technology Co., Ltd. or SGT, originated in the former Shenzhen Sanxin Glass Plant, a private glass producer, which was founded by Han Pingyuan in February, 1993. In the mid-1990s, Sanxin Glass Plant and the state-owned China National Guizhou Aviation Industry (Group) Co. Ltd. jointly created Shenzhen Sanxin Industrial Co. Ltd., which introduced glass deep-processing equipment and processing technology from Europe, getting full access to the market of processing building safety glass. Since the mid 1990s, the demand for doors, windows and glass curtain walls has risen steadily, thanks to continuous and stable development of China's economy and sustained improvement of people's living standard. As a supplier of glass curtain wall, SGT decided to extend from production of glass curtain wall into glass curtain wall engineering filed. By virtue of its financial strength and management advantage, it turned itself quickly into a professional glass curtain wall producer with integration of R&D in engineering, design, production, marketing and construction of glass curtain wall. In December of 2000, Shenzhen Sanxin Industrial Co. Ltd. was renamed the Shenzhen Sanxin Special Glass Technology Co. Ltd. after a recapitalization and Han Pingyuan, the founder of the Shenzhen Sanxin Glass Plant, was the largest share holder of the joint stock company by holding 38% stake in GST.

The glass curtain wall industry is a capital-intensive industry, so only those companies with strong financing ability can have financial strength to undertake a large number of projects and to carry out large-scale expansion. Therefore, SGT actively made preparations for initial public offering. GST had its IPO in Shenzhen Stock Exchange on August 23, 2007 and raised CNY258 million.

## Investing CNY330 million in Low-e Glass and Energy-saving Glass Curtain Walls

At present, SGT has two main business: one is the glass deep-processing and the other is the curtain wall engineering. Before the listing, SGT's market positioning inclined to the production of common white glass, irregular-shaped glass and hot bending toughened glass, which aimed mainly at tapping overseas markets. On the one hand, the demand for these products on engineering projects was not big, but their added value was relatively high. On the other hand, these products were for the non-standard orders, which were hard to get in the domestic market. Before coated glass and Low-e glass became populous, SGT's deep-processing glass was also used to meet the demand of companies for supporting purpose.

### Main Business Revenue by Products, 2007

Coated glass and Low-e glass in the glass curtain wall market have made great progress. Because most of the high-end, energy-saving curtain wall projects undertaken by SGT require Low-e glass and SGT has no production lines of coated glass and Low-e glass, so it has run into trouble in many projects.

Therefore, SGT will pour all fund, it raised during IPO, into two projects: one 1.4-million-m<sup>2</sup> production line of energy-saving Low-e glass and an energy-saving curtain wall production base with a combined budget of around CNY330 million. Currently the two projects are in the process of the initial preparation and the preliminary construction.

## SGT Projects Invested by IPO Fund (unit: CNY one million)

Projects  
Total  
First-year investment  
Second-year investment  
Third-year investment  
Construction period  
Full production period

production line of energy-saving Low-e glass with annual production of 1.4 million square meters

186.24  
98.02  
65.35  
22.87  
2  
1

energy-saving curtain wall production base in Daya Bay

140.00  
89.00  
23.00  
28.00  
1  
2

Total

326.24  
187.02  
88.35  
50.87

Source: SGT Prospectus

After Low-e glass rolls off production line, both the production capacity and the products for supporting purpose will be expanded greatly, which will also bring about synergy effects on its engineering projects.

#### Good Prospect of China Low-e Glass Market

According to the state policy on energy-saving and environment protection regarding the building, the newly-built residential buildings should save 30% energy based on 2005. By 2020, all newly-added buildings will reach the goal of saving 65% energy. In terms of the energy-saving target for 2010, in the following five years, the floor space of the newly-added energy-saving buildings will reach about three billion square meters, implying 600 million square meters of energy-saving glass will be involved. It is estimated that China will have a new addition of 120 million square meters of energy-saving glass averagely each year. Therefore, the market of glass for energy-saving buildings will have a brilliant prospect.

Thanks to the tendency towards energy-saving building, Low-e glass and curtain wall products related to Low-e glass, as the main varieties of energy-saving glass will continue to have a good future.

#### Demand & Growth Rate in China Low-e Glass Market, 2005-2010

Dual Role as Material Supplier and Project Contractor May Restrain Long-term Development of SGT

China's energy-saving Low-e glass market is really promising, but that does not mean SGT's glass market

is prosperous. After Low-e glass project is launched,

the defect in dual role as both building material supplier and project contractor has already been embodied in its glass curtain wall business in the market.

China Fangda Group Co., Ltd. was the first company to get listed in the industry. After listing, Fangda invested the fund, raised in its IPO, in building a new material plant in Jiangxi province, making aluminum composite panels and monolayer aluminum panels. Fangda itself is actually a company with focus on engineering project and after its successful listing, it is engaged in both engineering projects and production of materials, which are directly supplied for doors, windows curtain walls of its own projects. Its half-year report of 2007 shows that the operating revenue of aluminum composite panel and monolayer aluminum panel only reached CNY33.86 million and its gross profit rate was only 6.8%. The operating revenue of aluminum profile color aluminum profile only reached CNY26.36 million and its gross profit rate was even lower, only 2.33%, implying its net profit may be zero. This shows Fangda failed in the investment in curtain wall materials.

Xinyi Glass Holdings Ltd. listed on the main board in Hong Kong in 2005. Xinyi, a glass processing company, also invested in a curtain wall company, called Shenzhen Xinyi Curtain Wall and Decoration Engineering Co., Ltd. At the beginning, the company, backed by its powerful fund, undertook a lot of projects. But its dual role as both a building material supplier and engineering project contractor has placed its main business (glass products) in a very embarrassed status in the market competition. In August of 2007, Xinyi disclosed officially the information regarding stock transfer of Xinyi Curtain Wall and Decoration Engineering Co. Ltd.

The above two cases has proved that the dual role may create the obstacle to the development of a company. SGT had the similar experiences before listing.

In the early days, SGT was only glass producer and it had good cooperative relationship with many old curtain wall producers, like King Façade and CATIC.

However, after SGT grew increasingly bigger in the engineering field, many engineering companies stopped doing business with SGT. The glass business, of which SGT has grown up with the help, is confined just because of its dual role, so it has to find another way out. Currently SGT deep-processing glass products are both for export and domestic indoor decoration companies. SGT only takes up few market shares in the domestic curtain wall industry.

After business expansion, its energy-saving Low-e glass may be popular in a short time due to a short supply of energy-saving Low-e glass. At present, it is a buyer market, but the short supply won't last long. Because the major energy-saving Low-e glass producers like CSG, Xinyi and SYP all have expanded their production capacity, the purchase orders of SGT energy-saving Low-e glass from engineering contractors will have a continuous fall. The dual role will hinder the further development of SGT's two main business.

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