



新华远东中国评级

Xinhua Far East China Ratings

## SHANGHAI ZIJIANG ENTERPRISE GROUP CO LTD

上海紫江企业集团股份有限公司

(SH A 600210)

February 2005

Issuer Credit Rating BB+

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## Rating History

Date	Rating Results
April 2003	BB+

## Key Financials

RMB Mil.	1999	2000	2001	2002	2003	Q304
Turnover	592	803	1,139	1,821	2,307	2,213
EBIT	145	176	262	391	412	314
Gross debt	421	731	1,556	2,120	2,014	3,175
Net debt	43	421	876	1,622	1,223	2,652
Total capitalization	1,473	1,919	3,351	4,039	4,675	6,301
Gross margin (%)	30.9	29.7	30.8	30.6	25.9	21.8
EBIT margin (%)	24.5	22.0	23.0	21.4	17.9	14.2
EBIT interest coverage (x)	5.2	5.0	4.5	3.5	3.3	-
Net debt / EBITDA (x)	0.2	1.7	2.4	2.9	1.9	-
Gross debt to total capital (%)	28.6	38.1	46.4	52.5	39.7	50.4

Note: 1999-2003 financials are from the respective companies' annual reports which are audited by domestic auditors; 2004 Q1 figures are unaudited.

## Rating Opinion

### Rating Rationale

The long-term rating of BB+ (pi) for Shanghai Zijiang Enterprise Group Co Ltd ('Zijiang Enterprise' or 'the Company') takes into account its dominant position in China's PET (Polyethylene Terephthalate) bottle and the PET bottle mold market. As one of the two largest suppliers of these products, the Company is in an advantageous position to benefit from its underlying huge market potentials in China. In particular, its market position is bolstered by a long-established relationship with beverage giants, notably Coca-Cola, Pepsi-Cola and Uni-President. The Company's expansion into other packaging product lines has also reinforced its leading position in China's packaging industry.

While Zijiang Enterprise is profitable and faces a number of growth opportunities, Xinhua Far East is concerned about the Company's aggressive growth strategy and its substantial investments in related industries and non-core sectors, such as real estate which are largely financed by debt, resulting in consistently high financial leverage.

The PET bottle manufacturing industry is capital intensive, geographically fragmented and favors market first movers. To grasp the lucrative growth opportunities and expand its market share in China, Zijiang Enterprise has to make substantial capital expenditures and investments to support its aggressive geographic expansion throughout China. Such rapid geographic expansions demand substantial funding and come with high execution risks. They can also place pressure on profitability and cash flow in the short-to-medium term. In addition, as a main cash-generating company of fast-growing private conglomerate Shanghai Zijiang (Group) Co Ltd, Zijiang Enterprise has a history of high dividend payouts and its capital reserves have organically grown slowly. Thus, despite two successful fund raisings from the capital market in the past three years, it has had to rely on substantial bank loans to meet its funding requirements. Furthermore, significant amounts of its bank loans are short-term, elevating its liquidity risks.

Given the tremendous capital commitments for its geographic expansion in the vast Chinese market, and the intense funding requirements of its parent company, Xinhua Far East believes that Zijiang Enterprises can hardly materially reduce its high financial gearing in the short-to-medium term. The expected high financial leverage constrains the Company's rating at the current level.

### **Outlook**

The leading position of Zijiang Enterprise in China's PET bottle packaging market as well as the vast market prospect for PET bottles provides firm support Zijiang Enterprise's BB+ rating. Thus, its rating outlook is stable.

### **Recent Development**

In the first three quarters of 2004, the Company's gross margin and EBIT margin both diminished, mainly due to a number of rises in raw material prices. Falling sales prices for PET bottles have further put pressure on the Company's profit margin. As a result, its operating profit fell, along with operating cash flow, in the first three quarters of 2004. The falling operating profit, together with a lower receivable turnover during the period, can be attributed to the fall in its net operating cash flow for the first nine months of 2004.

Owing to huge capital expenditure requirements for expanding production and operations, and the Company's slow organic capital formation as a result of its high dividend payouts, there is still a considerable funding gap financed by debts. During the first nine months of 2004, the Company's gross debt surged by 57.6% to RMB 3,175 million, and the total debt to total capital ratio rebounded to 50.4% from 39.7% as of year-end 2003. Meanwhile, the Company's short-term debt increased by RMB 834 million to RMB 1,884 million, highlighting significant liquidity risk. Furthermore, the Company recently acquired an investment property from its largest shareholder, Zijiang Group. Even if this transaction was done on an arm's length basis, the fact that Zijiang Enterprise diverted funds from meeting large capital expenditure requirements in its core business to buying an investment property raises concerns about its possible role as a funding window for its parent company.

## Company Profile

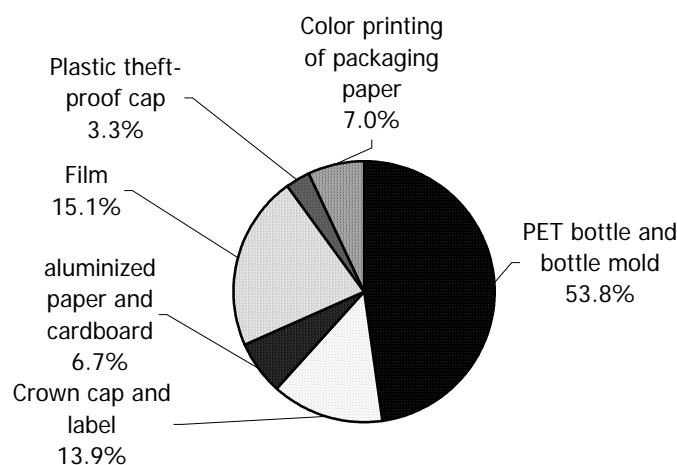
Shanghai Zijiang Enterprise Group Co Ltd, formerly Shanghai Zijiang Enterprise Co Ltd, became a Sino-foreign joint venture in March 1999 and, in August of that year, listed 85 million A shares on Shanghai Stock Exchange, raising RMB 650 million.

As of June 30, 2004, the Company's largest shareholder, Shanghai Zijiang (Group) Co Ltd ('Zijiang Group'), held a 36.83% interest in the Company. Zijiang Group is the largest private conglomerate in Shanghai, and is effectively controlled by its founder, Mr Shen Wen, with a 34% stake in Zijiang Group. It is involved in printing and packaging, real estate, precision manufacturing and information technology (see Appendix 1). It earned a pretax profit of RMB 1.35 billion in 2002.

Zijiang Enterprise engages in the printing and packaging industry. Its core business is the production and sale of PET bottles and PET bottle molds, bottle caps, labels, aluminized paper and cardboard, packaging film, high-grade ink, and multi-color screen-printed plastic containers. At present, the Company has an annual production capacity of 2.1 billion PET bottle molds, two billion PET bottles, five billion high-quality crown caps, 2.5 billion plastic labels, 10,000 tons of high-grade ink, one billion plastic theft-proof caps, 38 million meters of aluminized paper and cardboard, 5,000 tons of PE cast film, 10,000 tons of CPP film, and 23,000 tons of BOPET film. The Company has long-established relationships with large beverage manufacturers in China. Its major clients include Coca-Cola, Pepsi-Cola, Uni-President and Zhejiang Yangshengtang.

The Company's production has extended to other sectors of the packaging industry; for example, its film label and plastic theft-proof caps. Its major clients in this area are well-known beverage companies such as the two Colas, Jianlibao and Sunrise. The Company's subsidiary, Shanghai Ziquan Packing Co Ltd, is the largest bottle cap manufacturer and seller in China, and its crown caps met the quality standards of the two Colas and are widely used in the beer industry. Its other major clients include well-known beer producers Suntory, Reeb Beer and Carlsberg. The Company's other packaging products, including film and aluminized paper and cardboard, are widely used in packaging medicine, healthcare products and daily use items.

**Chart 1: Zijiang Enterprise's Turnover Composition, 2003**



Source: Company 2003 annual report

## Fundamental Analysis

**Zijiang Enterprise's dominant position in China's PET bottle market enables it to enjoy the promising market prospects driven by increasing popularization of PET bottle**

Zijiang Enterprise and Zhuhai Zhongfu Enterprise Co Ltd ('Zhuhai Zhongfu', SZ A 000659) are the two largest PET bottle and PET bottle mold producers in China. Both companies' PET bottles and PET bottle molds have met the quality requirements of Pepsi-Cola and Coca-Cola ('the two Colas') — both of which have become their largest clients. The current competitive landscape shows that Zijiang Enterprise has higher market share in the hot-fill PET bottle market, and Zhuhai Zhongfu has competitive edge in terms of gross production volume and in the carbonated drinks bottle sector. Zhuhai Zhongfu accounted for 30-40% of the domestic PET bottle market and Zijiang Enterprise 20%, while Zhuhai Zhongfu has 40-45% of the two Cola's PET bottle market and Zijiang Enterprise 30-35%<sup>1</sup>. However, after nearly several years in development, Zijiang Enterprise's production capacity of the PET bottle and the PET bottle mold matches that of Zhuhai Zhongfu<sup>2</sup>.

PET can be made into high-strength and high-transparency blow-molded bottles from non-crystalline bottle molds. It was first used by Pepsi-Cola in the 1970s for packaging carbonated drinks and has become increasingly popular as a container for beverages, because of its low price, transparency, air-proof quality and pressure resistance. For instance, in the US, more than half of all soft drinks have been packaged in PET bottles since 1997; consumption of PET bottles for soft drinks is now over 22.5 billion. As early as 2001, PET-bottled mineral water as a percentage of mineral water consumption was 87.3% for Japan, 98.2% for Italy, 91.8% for France, 87.4% for Spain, 89.1% for US and 74.7% for the UK.

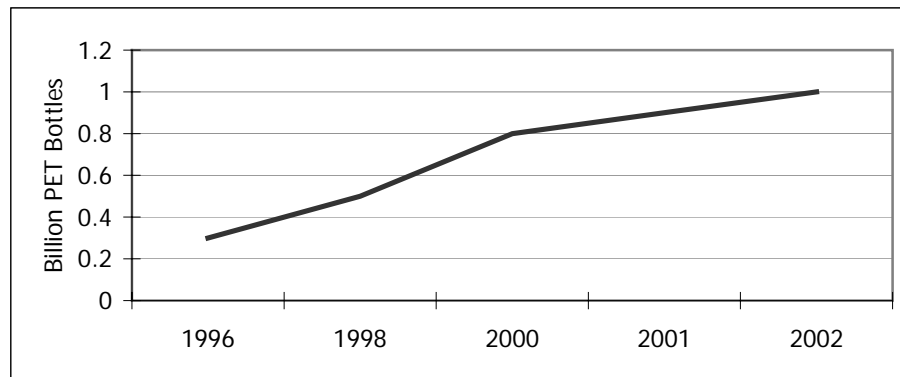
The rapid growth of China's beverage market has driven demand for PET bottles (see Chart 2). The China Soft Drink Association forecasts that the output of soft drinks in China will increase to 27.58 million tons in 2004 from 17.26 million tons in 2001, an average compound annual growth rate of 16.1%. At present, besides carbonated drinks that account for 46% of the soft drink market, other major soft drink categories include packaged tea beverages, packaged juice and bottled water. In 2001 in China, 95% of bottled water and about 70% of carbonated drinks were packaged in PET bottles, while the proportion of drinks packaged in PET bottles was more than 60%<sup>3</sup>. In the fast-growing tea beverage market (whose domestic output was 200,000 tons in 1997, 400,000 tons in 1998, 800,000 tons in 1999, 1.85 million tons in 2000 and three million tons in 2001), hot-fill PET bottles used for hot tea beverages has become the fastest growing PET bottle category in China with an annual growth rate exceeding 50%<sup>4</sup>.

<sup>1</sup> International Plastics News for China, April 2002.

<sup>2</sup> As mentioned in the Company Profile, Zijiang Enterprise's annual output capacity is 2.1 billion PET bottle molds and two billion PET bottles. Zhuhai Zhongfu did not disclose its output capacity, but one of its executives disclosed Zhuhai Zhongfu's present annual output capacity of PET bottles and bottle mold is about 3-4 billion.

<sup>3</sup> International Plastics News for China, March 2002.

<sup>4</sup> International Plastics News for China, April 2002.

**Chart 2: Domestic Consumption of PET Bottles**

*Source: China Plastic Association*

Besides the soft drink market, the application of PET bottle packaging has expanded to other food and beverages, and even cosmetics and medicine in recent years. Because of its lower costs and resistance against smash, some beer manufacturers in the US, UK and Japan are already using PET bottle packaging. Europe's five biggest dairy producers have begun adopting PET bottle packaging. In Japan, PET bottles accounted for 13% of the sauce packaging market as early as 1995<sup>5</sup>. China is the world's second largest beer producer, whose output in 2001 exceeded 22 million tons and is growing at 5%-7% per annum. At present in China, beer is packaged in about 35 billion glass bottles (including used bottles) and seven billion metal cans every year<sup>6</sup>. Assuming PET bottles can partly replace traditional packaging of beer, a market share of only 10% translates into demand for 4.2 billion PET bottles, a huge potential market. Zijiang Enterprise developed and patented a PET beer bottle in 2002. In addition, Chinese liquor (including Wuliangye (SZ A 000858, A+(pi)), edible oils, dairy products and sauces have already begun to package in PET bottles. PET bottles are widely used for edible oil packaging in China.

Although PEN, a new packaging material, is a good replacement of PET in terms of quality, its high price is an obstacle to its widespread use. By contrast, PET has undergone a series of technological upgrades, where problems such as heat resistance and pressure resistance have been overcome. Besides, it can easily be re-used. Moreover, PET's price is relatively low, making it easy to popularize in China.

In sum, Xinhua Far East believes that consumption of PET bottles will continue its robust growth in China, giving tremendous opportunities to Zijiang Enterprises. In Xinhua Far East's opinion, both Zijiang Enterprises and Zhuhai Zhongfu are in most favorable position to benefit from lucrative growth potentials of PET packaging in China.

<sup>5</sup> International Plastics News for China, April 2002.

<sup>6</sup> International Plastics Material News for China, December 2002.

**The PET bottle industry is geographically fragmented and favors first movers. To grasp growth opportunities Zijiang quickly established production facilities across China which brought expansion but also funding pressures and execution risks.**

PET bottles are larger in size compared to other types of drink packaging. As a result, they are more expensive to transport. Moreover, if bottle molds are stored for too long a period, the bottle blowing process is less efficient. Therefore, PET bottle manufacturers usually set up plants close to their clients, making the market for PET bottles and bottle molds geographically fragmented. This tends to favor incumbents and this means high sunk costs and greater risks for potential challengers. Zijiang Enterprises and Zhuhai Zhongfu are first movers in many cities in China and, accordingly, the incumbents in these local markets. In addition, both companies have established relationships with large PET bottle users, including Coca-Cola and Pepsi Cola, which both impose stringent standards over the production of their beverage containers.

Although Zhuhai Zhongfu entered the PET bottle and bottle mold market before Zijiang Enterprise and became a PET bottles supplier for Coca-Cola in China as early as 1986, Zijiang Enterprise has become the two Colas' main PET bottle packaging provider in some regions, especially in eastern China. In addition, the Company has strategic partnerships with Uni-President, one of the leaders in China's tea beverage packaging market with about 30% market share in China, to which Zijiang Enterprise is the sole supplier in respect to Uni-President's Beijing and Chengdu branch companies. It also provides 70-80% of the PET bottles externally purchased by Uni-President's Kunshan and Guangzhou branch companies.

In fact, Zijiang Enterprise has set up PET bottle and bottle mold production plants in 13 cities in China, while its archrival Zhuhai Zhongfu has subsidiaries in 19 cities in China and in Bangkok, Thailand, and is setting up another subsidiary in Mongolia. But the Company's plants are concentrated in eastern China. As a result of cooperation with the two Colas' bottling plants, Zijiang Enterprise's plants are physically close to those of Zhuhai Zhongfu in many cities (see Appendix 3 for Zijiang Enterprise and Zhuhai Zhongfu's PET bottle and bottle mold production locations). Comparatively speaking, Zhuhai Zhongfu's production is more widely distributed geographically and entered southwestern and northwestern China before Zijiang Enterprise did. The beverage industry in eastern China and southern China (mainly Guangdong province) is more developed, so Zijiang Enterprise's production location benefits its sales. However the plastic processing industry is also well-developed in eastern China, and thus competition from smaller manufacturers is fierce there. Zhuhai Zhongfu has been present in southern China for a longer time and so enjoys early mover advantage in the region. In addition, many beverage manufacturers such as Master Kang, Wahaha and Nowada Group can produce auxiliary PET packaging products independently. Also, some overseas PET packaging manufacturers are setting up production facilities in China with target markets in eastern, southwestern, and northwestern China. As such, while the PET bottle market is vibrant and exhibits strong growth, the competition is intensifying too.

Under current market circumstances and industry nature, Zijiang enterprise is aggressive in building production facilities rapidly all over the country in order to move ahead of its competitors to get the incumbency advantage. However, this strategy imposes pressures on funding in the short term. In addition, the execution risk is multiplied as the Company tries to implement various large scale expansions scattered around a big country simultaneously.

**Despite its sound operating cash flow and three successful right issues, huge capital expenditures and investments gave rise to a considerable funding gap that has to be financed by debts. The resulting high leverage constrains the company's rating.**

As described above, to expand its market share for PET bottles, Zijiang Enterprise invested heavily in expanding production capacity and setting up PET bottle and bottle mold plants catering to its major clients around China. From 1999-2003, its actual investment in PET bottles and bottle mold manufacturing reached RMB 1.18 billion (see Appendix 4), which were financed by right issues in equity market and bank loans. In addition, the Company plans to invest RMB 195 million in PET bottles and bottle mold projects in the next few years.

To diversify industry and product concentration risks, the Company in recent years has aggressively invested in upstream industries, such as developing new material, as well as production of engineering plastic and plastic alloy. It also made substantial investments in diversifying into other areas of packaging business, such as a high-quality crown cap production facility with an annual capacity of three billion under the Company's subsidiary Shanghai Ziquan Packing Co Ltd, a plastic theft-proof cap production facility with an annual capacity of one billion under its subsidiary Shanghai Ziri Packing Co Ltd, as well as acquiring a controlling stake in Shanghai Zijiang Metallization Packaging Material Co Ltd and Shanghai Ziteng Packaging Material Co Ltd.

The Company also made long-term equity investments in non-core industries such as digital communications technology (Shanghai Datasolution Corp) and real estate development (Shanghai Zizhu Technology Industrial Park, jointly invested with Zijiang Group). From 1999-2004, Xinhua Far East estimated that the Company's investments in projects other than the PET bottle industry totaled about RMB one billion.

From 1999-2002, the Company's net operating cash flow was RMB 1.15 billion which could not fully meet its capital expenditure. Even though it raised about RMB 1.12 billion from the capital market during this period, there was still a funding gap that was financed by bank loans. As a result, its gross debt to total capital ratio rose to over 50% in 2002. Although it fell to 39.7% as at the end of 2003 after another RMB 866 million right issue, the continuing new investment and expansion projects commanded more bank loans and pushed up the ratio to over 50% as at September 30, 2004.

Given the Company's aggressive growth strategies, investment appetite and financial policy, Xinhua Far East expects that its financial leverage will not materially lower. The high financial leverage is a

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major factor constraining Zijiang Enterprise's rating at current level.

**Notwithstanding its large funding gap, Zijiang Enterprise invested in real estate projects relating to its parent company. This further adds to concerns about its possible role as a funding window for its parent company.**

The Company's largest shareholder, Zijiang Group, is a conglomerate which focuses on the packaging industry, as well as property development and investment. Zijiang Enterprise is Zijiang Group's flagship company in the packaging industry and a major source of cash flow for the group. Zijiang Group is a fast-growing privately-owned conglomerate and has been active in real estate investment in recent years. In particular, it has invested in the Shanghai Zizhu Science Park Project. This RMB six billion project only has a registered capital of RMB 0.5 billion and the remaining amount is expected to be largely financed by bank loans as the construction proceeds. Thus, the government's policy to tighten bank credits and cool down investment in property affected Zijiang Group.

Certain developments have raised the possibility of the Company's role as a funding window for the group. It is reflected by the Company's high cash dividend payout, particularly in the years of rights issues. In 1999 and 2001, when it raised funds from the capital market, its cash dividend payout ratio was as high as 80% and 83% of net profits respectively. Its cash dividend payout ratio was also high at about 64% in 2000 and 2002.

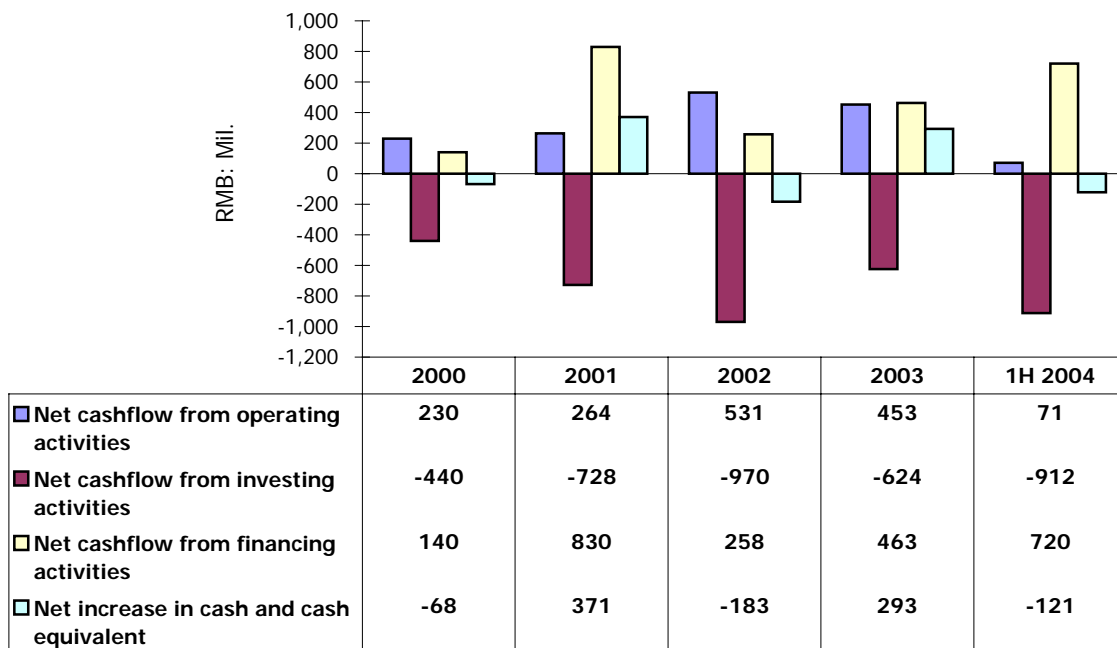
While Zijiang Enterprise's cash dividend payout ratio fell to 36% in 2003, the above concerns still linger. In the first half of 2004, in spite of its huge funding requirements for core business, Zijiang Enterprise and its subsidiaries acquired an investment property from Zijiang Group. In this transaction, the Company effectively paid RMB 269 million to Zijiang Group for the purchase.

## Financial Analysis

**Zijiang Enterprise has significant liquidity risks due to limited financial flexibility and a high level of debt burdens which have short average maturity.**

Although it has relatively stable operating cash flow, where a turnover of one yuan can generate 0.2-0.3 yuan of cash flow on average, the Company has little financial flexibility due to its large capital expenditure and generous cash dividend policy. The Company has relatively high funding pressures due to its large capital expenditure and an increased need for working capital after enlarging production scale. In addition, its cash dividend payout ratio is high, a factor which hinders its organic capital formation; in 1999 and 2001 (when it raised funds from the capital market), its cash dividend payout ratio was as high as 80% and 83% of net profits respectively. Its cash dividend payout ratio was also high at about 64% in 2000 and 2002, but dropped to 36% in 2003. The Company's cash was in a net outflow position in 2000 and 2002, as well as the first half of 2004 (see Chart 3).

**Chart 3: Zijiang Enterprise Cash Flow, 2000 - 1H 2004**



*Source: Zijiang Enterprise 2000-2003 annual reports and 2004 interim report*

Although Zijiang Enterprise raised a total of about 1.12 billion yuan from the capital market in 1999 and 2001, it still needed to rely on bank loans to bridge the funding gap. From 1999-2002, its gross debt to total capital ratio rose to 52.5% from 28.6%, its net debt to EBITDA ratio increased to 2.9 times from 0.2 times, while its EBIT interest coverage fell to 3.5 times from 5.2 times. The Company's rights issue in December 2003 helped it raise 866 million yuan through a second issue of ordinary shares in the stock market, which helped improve its financial profile for the year-end 2003. While this temporarily alleviated the funding pressure, a huge funding gap left it with huge

bank loans in 2004.

It is worth noting that the Company's proportion of short-term debt is excessively high, consisting mainly of bank borrowings due to mature within one year (Chart 4). Xinhua Far East is concerned that such debt exposure could increase the Company's liquidity risk, given its high gross-debt-to-total-capital ratio. Even so, the Company's current ratio has remained low in the past few years (see Chart 4).

**Chart 4: Debt Structure, Current Ratio and Quick Ratio of Zijiang Enterprise**

	2000	2001	2002	2003	1H04
Bank borrowings due within one year (RMB Mil.)	668	1,222	1,040	1,050	2,051
Short-term debt as percentage of gross debt	91%	79%	49%	52%	67%
Current Ratio (x)	0.88	0.88	0.90	1.29	0.97

*Source: Zijiang Enterprise 2000-2003 annual reports and 2004 interim report*

Taking into account that Zijiang Enterprise plans to increase production and sales nationwide in a bid to further expand, Xinhua Far East expects it will still incur substantial capital expenditure over the next two to three years. However, considering that such equity financing activity is clouded by uncertainties in the capital market, Xinhua Far East will closely monitor Zijiang Enterprise's financing situation.

**Zijiang Enterprise managed to achieve a high gross margin. However, its increasingly dispersed geographic operation and rising raw material costs eroded its profitability.**

Due to the Company's large-scale expansion, its turnover has been growing at double digits since 1999. It has also maintained a sound asset turnover ratio. However, Zijiang Enterprise's excessive reliance on large clients poses risks. Xinhua Far East estimates that the Company's sales to the two Colas and Uni-President accounted for more than 50% of its turnover in 2004. Although these clients are leading beverage companies with strong sales and credit records, if they change their investment and market strategies or products fall short of customer quality requirements, it would severely affect the Company's turnover and profitability<sup>7</sup>. The reliance on large clients also constrains Zijiang Enterprise's pricing flexibility and, accordingly, affects its ability to maximize its profits.

<sup>7</sup> Zijiang Enterprise disclosed in its annual reports that its five largest clients accounted for 30.85% of its sales revenue in 2001 and 23.24% in 2002, because it treats different branch companies of the two Colas in different regions as different clients. However, Xinhua Far East believes the two Colas' branch companies will have a unified attitude throughout the country in choosing suppliers.

**Chart 5: Zijiang Enterprise's Turnover Growth and Asset Turnover Ratio, 1999-2002**

	1999	2000	2001	2002	2003
Annual turnover growth rate	62.8%	35.7%	41.9%	60.0%	26.69%
Asset turnover ratio	35.0%	37.0%	30.5%	40.1%	42.14%

*Source: Zijiang Enterprise 1999-2002 annual reports and 2003 interim report*

About 60% of Zijiang Enterprise's production costs are raw materials costs<sup>8</sup>. At present, the Company purchases 60% of the bottle-grade polyester chips used in producing PET bottles and bottle molds from Sinopec Yizheng Chemical Fibre Co Ltd and 30% from Far Eastern Industries (Shanghai) Ltd. Such centralized procurement helps the Company maintain the quality of its raw materials, and facilitates long-term cooperation with major clients<sup>9</sup>, thus enhancing its bargaining power and controlling production costs. In this way, Zijiang Enterprise maintained a gross margin of about 30% by leveraging on its excellent upstream and downstream relations, despite the high volatility of prices of bottle-grade polyester chips, its main raw material.

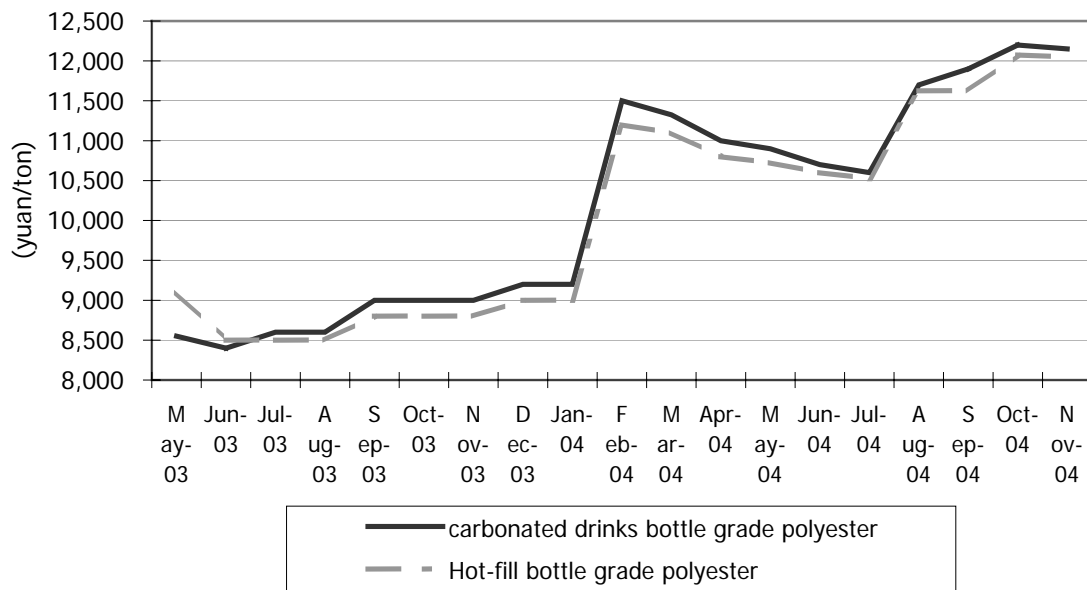
However, the Company's operations are geographically dispersed and diversified in terms of industries. After nearly four years in development, the Company expanded from a mainly Shanghai-based firm with two subsidiaries and one associated company to a listed enterprise with three branch companies, 24 subsidiaries and 13 associated companies, with production and operations in 14 cities in China, increasing demands on operations and management. On the other hand, the production and operating expense<sup>10</sup> to turnover ratio increased to 6.7% in 2002 from 4.5% in 1999.

<sup>8</sup> Memorandum of 2001 rights issue.

<sup>9</sup> Because the two Colas, the Company's major clients for PET bottle and bottle molds, impose quality requirements on all polyester chips used as raw material, which the two suppliers have met.

<sup>10</sup> Including cost of goods sold and overheads but excluding depreciation and amortization.

Chart 6: Raw Material Costs



### Peer Comparison

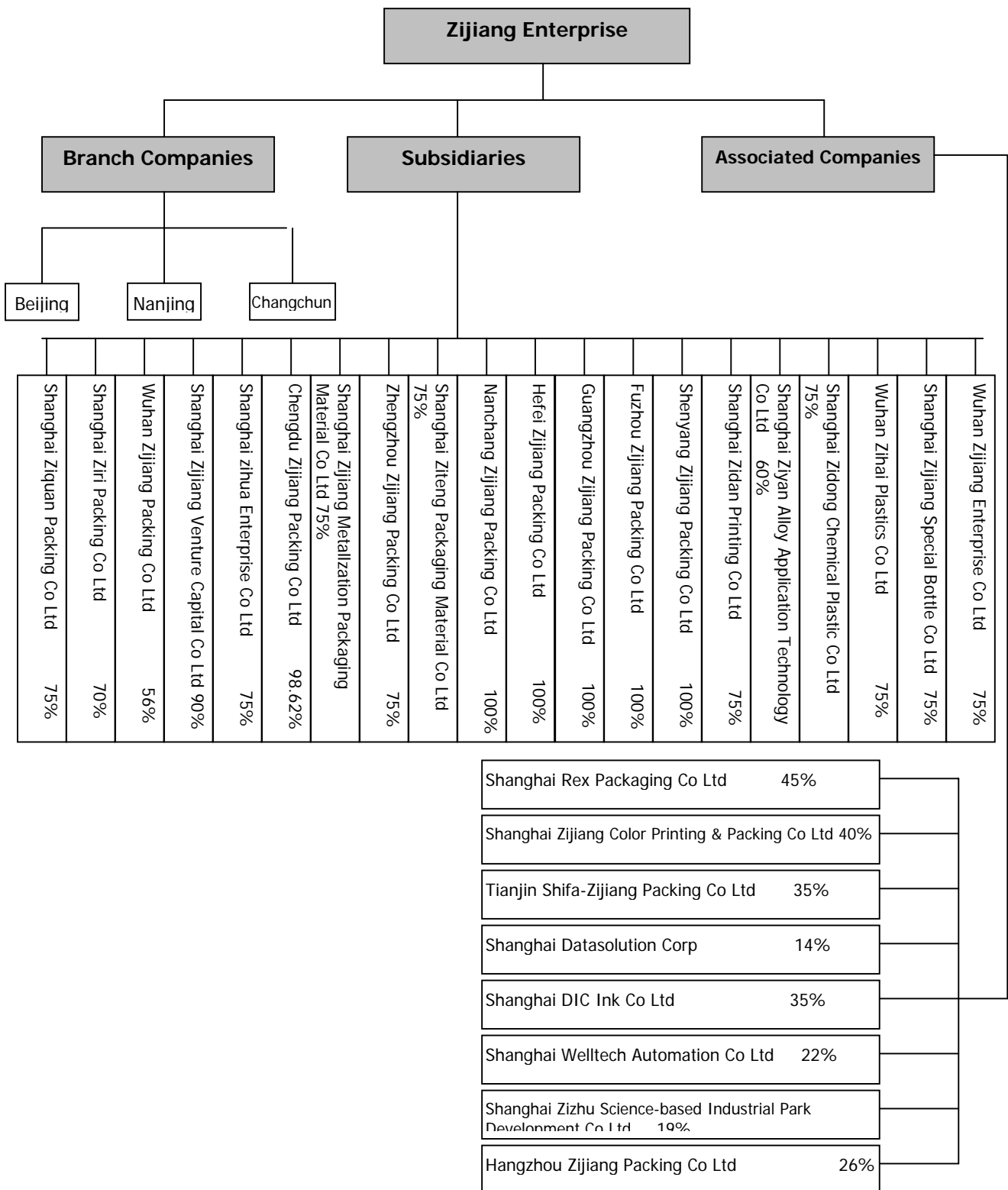
Zhuhai Zhongfu is the Company's biggest competitor in China. Zijiang Enterprise's turnover is slightly larger than that of Zhuhai Zhongfu, because the Company's business scope is slightly broader than the latter's (Zhuhai Zhongfu's business is concentrated in the production and sale of PET bottles and bottle mold and film labels). Zijiang Enterprise's profitability is also slightly stronger than that of Zhuhai Zhongfu. On the other hand, Zhuhai Zhongfu's production plants and sales outlets are more widely distributed than Zijiang Enterprise's. Also, Zhuhai Zhongfu has expanded upstream by acquiring a manufacturer of bottle-grade polyester chips, which has improved its control of production cost. Zhuhai Zhongfu has a relatively lower financial leverage and better debt service coverage than Zijiang Enterprise and, accordingly, represents lower financial risk.

Chart 7: Peer Group Comparison

RMB Mil.	Zijiang Enterprise (SH A 600210)		Zhuhai Zhongfu (SZ A 000659)	
	BB+ (pi)		—	
Xinhua Far East issuer credit rating	2002	2003	2002	2003
Turnover	1,821	2,307	1,197	1,360
EBIT	391	412	225	165
Gross debt	2,120	2,014	1,130	1,607
Net debt	1,622	1,223	738	1,312
Total capitalization	4,039	4,675	2,741	3,767
Gross margin (%)	30.6	25.9	25.6	21.2
EBIT margin (%)	21.4	17.9	18.8	12.2
EBIT interest coverage (x)	3.5	3.3	3.8	2.1
Net debt / EBITDA (x)	2.9	1.9	2.2	4.1
Gross debt to total capital (%)	52.5	39.7	41.2	42.7

Source: Respective company annual reports

**Appendix 1: Organization Structure of Zijiang Enterprise**



Source: Company 2002 annual reports and company website [www.zijiangqy.com](http://www.zijiangqy.com)

**Appendix 2: Main Businesses of Zijiang Enterprise's branches, subsidiaries  
and associated companies**

***Branch Companies***

Beijing Branch Company	Manufacture and sale of containers such as PET bottles
Nanjing Branch Company	Manufacture and sale of containers such as PET bottles
Changchun Branch Company	Manufacture and sale of containers such as PET bottles

***Direct Subsidiaries***

Shanghai Ziquan Packing Co Ltd	Manufacture and sale of PVC, PE and iron bottle caps
Shanghai Ziri Packing Co Ltd	Manufacture and sale of plastic bottle cap and packaging
Wuhan Zijiang Packing Co Ltd	Manufacture and sale of drink container and other plastics
Shanghai Zijiang Metallization Packaging Material Co Ltd	Manufacture and sale of vacuum aluminized packaging material
Shanghai Zihua Enterprise Co Ltd	Manufacture and sale of plastic container and plastic packaging
Shanghai Ziteng Packaging Material Co Ltd	Manufacture and sale of CPP film
Zhengzhou Zijiang Packing Co Ltd	Manufacture and sale of drink containers and other plastics
Chengdu Zijiang Packing Co Ltd	Manufacture and sale of containers such as PET bottles
Shanghai Zijiang Venture Capital Co Ltd	Investment in hi-tech industries and enterprise management consulting
Guangzhou Zijiang Packing Co Ltd	Manufacture and sale of PET material and containers
Shanghai Zidong Chemical Plastic Co Ltd	Manufacture biaxially originated polyester film
Nanchang Zijiang Packing Co Ltd	Manufacture and sale of containers made with PET material
Shanghai Zidan Printing Co Ltd	Manufacture color printed paper packing products
Shengyang Zijiang Packing Co Ltd	Manufacture and sale of PET bottles and PET containers
Fuzhou Zijiang Packing Co Ltd	Manufacture and sale of containers such as PET bottles and bottle mold, bottle caps, label and coating material
Hefei Zijiang Packing Co Ltd	Manufacture and sale of new packing material and PET bottles
Shanghai Ziyang Alloy Application Technology Co Ltd	Manufacture and sale of new magnesium alloy material and products, design and manufacture of refined mold; manufacture and sale of auto parts and plastics such as gasoline tanks
Shanghai Zijiang Special Bottle Co Ltd	Manufacture of non-organic and non-metal material and products
Wuhan Zijiang Enterprise Co Ltd	Manufacture of engineering plastics with high obstruction, high heat- resistance and high intensity, plastic alloy and relevant products

Wuhan Zihai Plastics Co Ltd	Manufacture and sale of PET bottle and other plastics
<b>Indirect Subsidiaries</b>	
Shengyang Ziquan Packing Co Ltd	Manufacture and sale of PVC, PE and iron bottle caps
Shanghai Ziquan Label Co Ltd	Manufacture of various types of labels and printed products for packaging and decoration
Shanghai Zijing IC Technology Co Ltd	Design, manufacture, test and sale of IC (integrated circuit)
Synet Optics Technology Corp	Development, manufacture, sale and relevant technology consulting of fiber optics
<b>Associated Companies</b>	
Shanghai Zijiang Color Printing & Packing Co Ltd	Manufacture and sale of plastic color printed complex packaging products
Shanghai DIC Ink Co Ltd	Manufacture and sale of ink, coating for construction material and can manufacturing
Shanghai Rex Packing Co Ltd	Manufacture and sale of multi-color screen-printed plastic container, heat molding products and relevant molds
Tianjin Shifa-Zijiang Packing Co Ltd	Manufacture and sale of containers such as PET bottles
Shanghai Datasolution Corp	Data communication, Internet high-speed connection, server co-location, IDC value-added services and network system integration
Shanghai Welltech Automation Co Ltd	Manufacturer and supplier of industrial automation instrument and system integration solution provider
Shanghai Zizhu Science-based Industrial Park Development Co Ltd	Development and construction of Shanghai Zizhu Science-based Industrial Park
Hangzhou Zijiang Packing Co Ltd	Manufacture and sale of containers such as PET bottles

*Sources: Company 2002 Annual Report; Company website, [www.zijiangqy.com](http://www.zijiangqy.com); Zijiang Group website, [www.zijianggroup.com](http://www.zijianggroup.com); website of Shanghai Datasolution Corp, [www.shuxun.net](http://www.shuxun.net) and; website of Shanghai Welltech Automation Co Ltd, [www.welltech.com.cn](http://www.welltech.com.cn)*

### Appendix 3: Geographic Location of Zijiang Enterprise and Zhuhai Zhongfu's PET Bottle and Bottle Mold Production Sites



Note: **Purple** indicates Zijiang Enterprise's PET bottle and bottle mold production sites.

**Green** indicates Zhuhai Zhongfu's PET bottle and bottle mold production sites.

Location in **black** indicates the common location of both companies' PET bottle and bottle mold production sites.

Source: Xinhua Far East; Company 2002 Annual Report and Company website, [www.zijiangqy.com](http://www.zijiangqy.com);

Zhuhai Zhongfu 2002 Annual Report

**Appendix 4.a: Zijiang Enterprise's Investment in PET Bottle and Bottle Mold Production, 1999-2004**

<b>Investment Project</b>	<b>Planned Investment (RMB Mil.)</b>	<b>Actual Investment (RMB Mil.)</b>	<b>Year of Completion</b>
Construction of a bottle mold production center with an annual capacity of 715 million	248.00	170.89	2002
Construction of a PET hot-fill bottle production line with an annual capacity of 120 million	110.00	73.87	2001
Establishing Chengdu Zijiang Packing Co Ltd	17.43 <sup>1</sup>	17.43	1999
Establishing Nanjing Branch	0.75	0.75	2001
Establishing Changchun Branch	-	39.59	2000
Acquiring a 75% stake in Zhengzhou Zijiang Packing Co Ltd	22.83	22.83	2000
Acquiring a 35% stake in Tianjin Shifa-Zijiang Packing Co Ltd	21.11	21.11	2000
Special bottle center (production line with annual capacity of 200 million PET hot-fill bottles)	120.00	121.79	In progress
Setting up Guangzhou Zijiang (production line with annual capacity of 100 million PET hot-fill bottles)	58.50	58.50	2001
Additional investment in Chengdu Zijiang (construction of a production line with annual capacity of 85 million PET hot-fill bottles)	44.92	44.8137	2002
Setting up Beijing branch company (production line with an annual capacity of 100 million PET hot-fill bottles)	50.00	50.44	2002

<b>Investment Project</b>	<b>Planned Investment (RMB Mil.)</b>	<b>Actual Investment (RMB Mil.)</b>	<b>Year of Completion</b>
Acquiring additional 20% stake in Zhengzhou Zijiang	8.30	8.30	2001
Establishing Fuzhou Zijiang	36.00	36.00	2001
Establishing Nanchang Zijiang	28.50	28.50	2001
Establishing Hefei Zijiang	28.50	28.50	2001
Establishing Shenyang Zijiang	22.50	22.50	2001
Acquiring a 75% stake in Wuhan Zihai Plastics Co Ltd	32.42	32.42	2002
Acquiring a 26% stake in Hangzhou Zijiang Packing Co Ltd	14.1665	14.1665	2002
Construction of bottle mold center phase II with an annual capacity of 900 million	248.00	248.00	1H 2004
Additional investment in Wuhan Zijiang Enterprise Co Ltd.(invest in PET bottle mold project with an annual capacity of 900 million)	138.195	74.70	1H 2004
Additional investment in Shenyang Zijiang	50.00	25.00	1H 2004
Additional investment in Guangzhou Zijiang	20.00	20.00	1H 2004
Additional investment in Chengdu Zijiang	20.00	20.00	1H 2004
<b>Total</b>	<b>1,340.12</b>	<b>1,180.11</b>	

Note: 1.The investment in the project is US\$2.1 million, US\$1 = 8.3 yuan.

Source: Company IPO prospectus, memorandum of 2001 rights issue, 2003 second issue prospectus, 1999-2003 annual reports, 2004 interim report

**4.b: Zijiang Enterprise's Planned Investment in PET Bottle and Bottle Mold Production**

<b>Investment Project</b>	<b>Planned Investment (Mil. Yuan)</b>
Additional investment in Nanchang Zijinag	20.00
Additional investment in Hefei Zijinag	20.00
Additional investment in Zhengzhou Zijinag	19.92
Establishing Jinan Zijiang	45.00
Establishing Xi'an Zijiang	45.00
Establishing Changsha Zijiang	45.00
<b>Total</b>	<b>194.92</b>

*Source: Company 2003 second issue prospectus, 2004 interim report*

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