

Analyst: Paul Sham

Main Board Listing – Research

威達國際控股有限公司

Vitar International Holdings Limited [Stock Code: 00195]

Sponsor : China Everbright Capital Limited
Bookrunner and Lead Manager : China Everbright Securities (HK) Limited
Sector : Materials
Business : Manufacturing & sales of insulation and heat-resistance materials

Total share offer: *28,000,000 shares (28.0% of the enlarged share capital) Public Offer: 2,800,000 shares (10%) Placing: 25,200,000 shares (90%) <i>*All 28,000,000 shares are New Shares</i>	<u>Business of Vitar</u> Vitar engages in the production, design and sales of insulation and heat-resistance materials in Southern China. The products of Vitar, including fibre-glass sleeving, silicon-based tubes, high-temperature electric wires and mica sheets, are used in a wide range of household electrical appliance and are sold to customers in Hong Kong, China and selected overseas markets. Besides, Vitar also engages in the trading of copper and silicone. Most of its customers are OEM manufacturers of household electrical appliances. The sales to OEM manufacturers accounted for 99.8%, 98.6% and 98.4% of the sales of manufactured products respectively for the 3 financial years ended 31 December 2007. According to the market report issued by CCID, an independent market research and management consulting company, Vitar ranked the 10 th in terms of the annual production value in the list of the 60 largest insulation material manufacturers in 2007.
Price: HK\$2.1 per share Market Cap: HK\$210 million Historical FY07 PER: 8.7x Unaudited pro forma NTA per share: HK\$1.90 Staffing: 480 (as of 23 rd October 2008)	
HK Public Offer period: 30 th October 2008 – 4 th November 2008 Receiving banks: DBS Bank (Hong Kong) Limited Share registrar: Tricor Investor Services Limited Listing date: 12 th November 2008	

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.



Shareholding Structure after Listing

Vitar Development Holdings Limited – 35% owned by Mr. Leung Chau Hiu, the Founder and Chairman; 32.5% owned by Mr. Leung Kai Wing (Mr. Leung), CEO and executive Director; 10% owned by Ms. Tsang Chi Yung, executive Director, and the spouse of Mr. Leung; 10% owned by Ms. Leung Chun Yin, executive Director, and the younger sister of Mr. Leung; 12.5% owned by other connected parties of the Company	72.0%
Public Investors	28.0%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$40.4 million at an issue price of HK\$2.1 per share.

	HK\$ million
Capital expenditure for the establishment of a silicone rubber production line	31.4
Capital expenditure for the installation and trial production of 2 additional production lines for each of fibre-glass sleeving products, silicon-based tubing products and high-temperature electric wires	9.0

Financial Highlights

	Year ended 31 st December			4 months ended 30 th April	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	144,045	175,896	204,540	56,661	66,240
Gross profit	33,710	39,045	43,195	12,373	13,731
Attributable profit	18,001	22,659	24,253	7,563	4,417
Gross margin	23.4%	22.2%	21.1%	21.8%	20.7%
Net margin	12.5%	12.9%	11.9%	13.3%	6.7%

Revenue Breakdown by product (% of Total Revenues)

	Year ended 31 st December						For the 4 months ended 30 th April			
	2005		2006		2007		2007		2008	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing and sales of products										
Fibre-glass sleeving	40,130	27.9	41,355	23.5	40,377	19.7	13,342	23.5	11,298	17.1
Silicon-based tubes	9,534	6.6	15,107	8.6	18,552	9.1	6,194	10.9	4,752	7.2
High-temperature electric wires	31,333	21.8	44,603	25.4	51,131	25.0	16,677	29.4	16,319	24.6
Mica sheets	40,236	27.9	43,818	24.9	35,694	17.5	11,436	20.2	12,552	18.9
Trading of copper & silicone rubber										
Copper	5,589	3.9	16,157	9.2	26,018	12.7	6,016	10.6	7,753	11.7
Silicone rubber	17,223	11.9	14,856	8.4	32,768	16.0	2,996	5.3	13,566	20.5
Total	144,045	100	175,896	100	204,540	100	56,661	100	66,240	100



Strengths/Opportunities

- ✓ **Lower cost pressure** The profitability of Vitar highly depends on the cost of raw materials such as copper, silicone rubber and various other kinds of raw materials. The total costs of such raw materials represented more than 75% of the total cost of sales for its manufacturing business in the past 3 years. Current global slow down or recession should keep raw material prices low for a considerable period of time.

Weaknesses/Threats

- × **Worsening business environment** Quite a number of manufacturers of electrical appliances in Southern China has closed down as a result of the global financial turmoil leading to credit tightening and severe drop in demand.
- × **A small participant in the industry** In terms of the annual production value, Vitar only ranked the 10th among the largest insulation materials suppliers for household electrical appliances in China. Compared with the 2007 production value of insulation materials in China which amounted RMB11,900m, Vitar's FY07 product sales of RMB\$145.8m suggested that the Company owns a very limited market share in the industry. It also implies that Vitar does not have strong pricing power to its customers.

Recommendation: Unattractive



Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.