

Analyst: Paul Sham

Main Board Listing – Research

興利 (香港) 控股有限公司

Hing Lee (HK) Holdings Limited [Stock Code: 00396]
Sponsor and Lead Manager

: Shenyin Wanguo Capital (HK) Limited

Sector : Consumer goods

Business : Manufacturing home furniture products

Total share offer: *50,000,000 shares
(25.0% of the enlarged share capital)

Public Offer: 5,000,000 shares (10%)

Placing: 45,000,000 shares (90%)

**All 50,000,000 shares are New Shares*
Price: HK\$1.02 per share

Market Cap: HK\$204 million

Historical FY08 PER: 6.63x

Adjusted NTA per share: HK\$1.21

Staffing: 1,157 (as of 3rd June 2009)

HK Public Offer period:
9th June 2009 – 12th June 2009

Receiving bank:
Bank of China (Hong Kong) Limited

Share registrar:
Computershare Hong Kong Investor Services Ltd

Listing date: 22nd June 2009

Business of Hing Lee

Hing Lee is engaged in the design, manufacture and wholesale of home furniture products including mainly wood-based furniture and mattresses in the PRC and overseas markets.

Without self-owned retail shops, Hing Lee relies on small domestic distributors to market its furniture products to end-users in the PRC. Approximately 85% of these distributors are operated in the form of sole proprietorship, each operating one to two shops. As of 31st December 2008, the total number of domestic distributors distributing Hing Lee's products reached 471 while the total number of approved shops in the PRC amounted to 565.

Regarding its overseas markets, around 68% of exported products was shipped to Asian countries such as Japan, Taiwan, Middle East and Southeast Asia in 2008. The remaining export business was mainly generated in Europe, United States and Canada.

Apart from manufacturing furniture products, Hing Lee also earns licensing fees from granting non-exclusive rights to other furniture manufacturers for use of its own brands and products designs.

Shareholding Structure after Listing

Mr. Fang Shin, the father of Mr. Fang Yan Zau, a non-executive Director of Hing Lee	38.98%
Mr. Sun Kai Hing, one of the founders and an executive Director	9.14%
Mr. Cheung Kong Cheung, one of the founders and an executive Director	9.14%
Mr. Chan Kwok Kin, one of the founders and the head of the sales and marketing department	9.14%
Mr. Huang Wei Ye, one of the founders and the head of design and development department	8.60%
Public Investors	25.00%
	<u>100.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$36.0 million at an issue price of HK\$1.02 each.

	HK\$ million
For increasing brand recognition, enhancing corporate profile and increasing market penetration by various media channels	5.0
For acquiring new and advanced design equipment and software, recruiting designers and providing continuous training to the design and development team	5.0
For acquiring advanced woodworking machineries	10.0
For partial repayment of the banking facilities	13.0
For the general working capital	3.0

Financial Highlights

	Year ended 31 st December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Revenue	369,626	492,669	534,346
Gross profit	70,100	96,231	101,002
Attributable profit	28,103	40,192	30,746
Gross margin	19.0%	19.5%	18.9%
Net margin	7.6%	8.2%	5.8%

Revenue Breakdown by business activities (% of Total Revenues)

	Year ended 31 st December					
	2006 HK\$'000	%	2007 HK\$'000	%	2008 HK\$'000	%
Domestic sales	148,430	40.2%	211,022	42.8%	254,087	47.6%
Exports	193,797	52.4%	253,738	51.5%	261,312	48.9%
Licensing fees	27,399	7.4%	27,909	5.7%	18,947	3.5%
Total	369,626	100.0%	492,669	100.0%	534,346	100.0%

Strengths/Opportunities

- ✓ Hing Lee earns licensing fees by granting rights to other furniture manufacturers to use its brand names and designs. Such fees not only lift the overall profit margin but also prove certain brand recognition in the industry. Although the amount of licensing fees is still insignificant for the time being, it could be a potential breakthrough for Hing Lee's business if it can further consolidate the brand image in the long run.

Weaknesses/Threats

- × The furniture industry in the PRC consists of approximately 50,000 small to medium-sized market participants, with no apparent brands dominating the market. Also, the top 10 enterprises in the industry only accounted for 2.8% of the industry total turnover. Against such industry backdrop, Hing Lee is likely to be a price-taker that faces tremendous price competition within industry.
- × Hing Lee relies mainly on small sole proprietorships for marketing its home furniture products in the PRC market. Without cooperating with sizable chain stores, Hing Lee could not enjoy economies of scale in distribution and its growth in the PRC market would be limited.
- × Owing to the small amount of capital raised, the underwriting fees and other expenses in connection with this share offer accounted for almost 30% of total capital raised. Such high expense ratio is not appealing to the investors.

Recommendation: Unexciting

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