

**BEA securities**

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**HONG KONG RESEARCH****30<sup>th</sup> June 2009**

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**Main Board Listing – Research**

志高控股有限公司

Chigo Holding Limited [Stock Code: 00449]

**Sole Sponsor** : BNP Paribas  
**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers** : First Shanghai Securities Sun Hung Kai Financial

**Sector** : Consumer Durables & Apparel**Business** : Design, manufacture and sale of air-conditioning products

<b>Total share offer:</b> <u>72,500,000</u> shares (14.5% of the enlarged share capital) <b>Public Offer:</b> 7,250,000 shares (10%) <b>Placing:</b> 65,250,000 shares (90%) <b>Greenshoe:</b> 10,875,000 shares	<b><u>Business of Chigo (“the Group”)</u></b>  Chigo is mainly engaged in the design, development, manufacture and sale of air-conditioning products. In terms of sales volume, the Group was the fourth largest domestic air-conditioner manufacturer in the Mainland in 2008, grasping a market share of about 7.6%.  The Group sells its air-conditioning products, parts and components in both the domestic and the overseas markets. In the Mainland, the Group’s products were sold under CHIGO brand and HYUNDAI (現代) brand, whereas products were sold in the overseas market under the CHIGO brand and on an OEM basis. The Group’s major products include residential (split type, window type & portable type) and commercial air-conditioning products as well as related parts and components. It also manufactures and sells other products like air-curtains, water-coolers, dehumidifiers, wine refrigerators and other home appliances.  Chigo’s production facilities are located in Foshan, Guangdong province, comprising 23 production lines (16 for the residential and 7 for the commercial products).
<b>Price:</b> HK\$1.50 – HK\$2.27 per share <b>Market Cap:</b> HK\$750 million – HK\$1,135 million <b>Pro forma fully diluted FY08 P/E:</b> 7.0x – 10.5x <b>Adjusted NTA per share:</b> HK\$3.25 – HK\$3.36 <b>Staffing:</b> 9,204 (as of 31 <sup>st</sup> Dec 2008)	
<b>HK Public Offer period:</b> 30 <sup>th</sup> June 2009 – 6 <sup>th</sup> July 2009 noon <b>Receiving bank:</b> Standard Chartered Bank (HK) <b>Share registrar:</b> Tricor Investor Services Ltd. <b>Listing date:</b> 13 <sup>th</sup> July 2009	

**Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Chigo Group Holding (BVI) – 99.46% owned by Chairman and CEO of the Group, Mr. LI Xinghao, and 0.54% owned by his elder son Mr. LI Longyi.	68.48%
Five other independent third-party pre-IPO investors with interests ranging from 0.18% to 8.55%.	17.02%
Public shareholders	14.50%
	<u>100.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$93.8 million (based on an offer price of HK\$1.885, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
To expand the Group's manufacturing capacity for the production of commercial air-conditioning products.	56.3
For advertising and marketing activities.	28.1
For general working capital.	9.4

**Financial Highlights**

	Year ended 31 <sup>st</sup> Dec		
	2006	2007	2008
	RMB '000	RMB '000	RMB '000
Total turnover	4,535,062	5,716,408	5,920,583
Gross profit	835,144	1,056,591	979,933
Operating profit	340,834	417,387	295,777
<b>Profit/ (Loss) attributable to shareholders</b>	<b>220,955</b>	<b>372,903</b>	<b>95,288</b>
Gross profit margin	18.4%	18.5%	16.6%
Operating profit margin	7.5%	7.3%	5.0%
Net profit margin	4.9%	6.5%	1.6%
	<b>31/12/2006</b>	<b>31/12/2007</b>	<b>31/12/2008</b>
Net debt to Shareholders' Equity	Net cash	51.9%	59.3%

**Breakdown of turnover in terms of products**

	Year ended 31 <sup>st</sup> Dec					
	2006		2007		2008	
	RMB '000	%	RMB '000	%	RMB '000	%
CHIGO brand air-conditioners	2,740,543	60.4%	3,404,391	59.6%	2,899,778	49.0%
HYUNDAI brand air-conditioners	201,381	4.4%	163,803	2.9%	116,558	2.0%
OEM air-conditioners	1,430,389	31.5%	1,959,106	34.3%	2,330,942	39.4%
Air-conditioner parts & components	24,821	0.5%	72,410	1.3%	415,608	7.0%
Other products	137,928	3.0%	116,698	2.0%	157,697	2.7%
<b>Total</b>	<b>4,535,062</b>	<b>100.0%</b>	<b>5,716,408</b>	<b>100.0%</b>	<b>5,920,583</b>	<b>100.0%</b>

**Strengths/Opportunities**

- ✓ The Group plans to use 60% of its proceeds raised from the IPO to support its expansion plan of production facilities for commercial air-conditioning products, adding two more product lines to a total of 9 by the first half of 2011. However, the expansion plan may only boost Chigo's overall capacity at a limited scale, as the Group has no plan to further expand its core residential air-conditioning segment.

**Weaknesses/Threats**

- × The Group saw operating profit margin in all regional markets slashed by nearly half in 2008 due to rising raw material costs. Margin pressure is seen further deepening in 2009 amid global economic recession and so weaker demand from both residential and commercial consumers.
- × Copper accounted for about 25% of the Group's cost of goods sold. For hedging purpose, the Group entered into copper forward and swap contracts in 2007 and 2008, but the outcome was not desirable. The Group had ceased its copper forward positions since Dec 2008, while the swap contracts will expire by Jun-Sep 2009, which may lead to a potential loss of RMB4 million. Besides, the Group was also involved in foreign exchange hedging, which led to additional volatility in the bottom line.

**Recommendation:** **Unattractive**



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