

Analyst: Kelvin Li

Main Board Listing – Research

天溢果業控股有限公司

Tianyi Fruit Holdings Limited [Stock Code: 00756]
International Coordinator, Bookrunner, Sponsor & Lead Manager : Evolution Watterson Securities Limited

Sector : Food, beverage & tobacco

Business : Manufacture of frozen concentrated orange juice (FCOJ) and sale of fresh oranges

Total share offer: <u>250,000,000</u> shares (25% of the enlarged share capita) Public Offer: 25,000,000 shares (10%) Placing: 225,000,000 shares (90%) Greenshoe: 37,500,000 shares	<u>Business of Tianyi Fruit</u> <p>Tianyi Fruit is one of the leading producers of frozen concentrated orange juice (FCOJ) in terms of production volume in the Mainland. For 2007, Tianyi Fruit's FCOJ output accounted for more than one-third of the total production volume in China.</p> <p>Since its establishment in 1993, the Group mainly engages in the production and distribution of FCOJ and its related product, namely orange pulp. It also started distribution of fresh orange since 2004. Besides, during the off-season of orange pressing, the Group also utilizes its production facilities for the production and distribution of concentrated strawberry juice and concentrated gooseberry juice. Since 2006, the Group began the production and distribution of dehydrated longans.</p> <p>Tianyi Fruit operates two production facilities in Quanzhou and Sanming. It also operates 23 leased orange firms, with most of which situated in the Sanming city.</p>
Price: HK\$0.63 – HK\$0.73 per share Market Cap: HK\$630 million–HK\$730 million Pro forma 1H2008E EPS: RMB0.0215 Adjusted NTA per share: RMB0.32 – RMB0.34 Staffing: 273 (as of 24 th June 2008)	
HK Public Offer period: 30 th June 2008 – 4 th July 2008 noon Receiving bank: ICBC (Asia) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 10 th July 2008	

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

Key Wise – 86.856% owned by Mr. Hong Hong U (the Group' chairman) and 13.144% owned by Mr. Sin Ke (the Group's CEO)	57.061%
First Trading – owned by Mr. Ye Jinxing (an independent 3 rd party)	7.500%
Perfect Landmarks Limited – owned by Mr. Chan Ho Ping (an independent 3 rd party)	4.473%
Mobile Consultants Limited – owned by Ms. So Hon Chun (an independent 3 rd party)	2.982%
Sunshine Asset Management (HK) Limited (an independent 3 rd party)	1.492%
Sunshine Greater China Master Fund – owned by Sunshine Asset Management (HK) Limited (an independent 3 rd party)	1.492%
Public Investors	25.000%
	<u>100.000%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$141 million (Assuming an offer price of HK\$0.68, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For acquiring land use rights, plant construction, purchase and installation of production and processing equipment.	103.0
For expanding the total area of orange farms.	23.0
For enhancing marketing activities and expanding and improving the sales network coverage.	4.0
For improving the orange planting technology and developing technology know-how on the production of fruit concentrate products	4.0
For working capital.	7.0

Financial Highlights

	2005	2006	2007
	RMB' 000	RMB' 000	RMB' 000
Revenue	94,480	175,443	265,595
Gross profit	18,442	33,365	63,115
Gains from changes in fair value of biological assets minus estimated point-of-sale costs	32,563	60,536	44,001
Operating profit	46,895	86,379	97,253
Profit attributable to shareholders	30,112	55,602	62,818
Gross profit margin	19.52%	19.02%	23.76%
Operating profit margin	49.63%	49.23%	36.62%
Net profit margin	31.87%	31.69%	23.65%
	31/12/2005	31/12/2006	31/12/2007
Net debt/(cash) to Equity	17.9%	(1.2%)	(8.7%)

Strengths/Opportunities

- ✓ Coca-cola, the world's leading beverage manufacturer, and Suntory, a renowned Japanese food and beverage producer, are among the top five customers of Tianyi.
- ✓ The Group is planning to build the third production line. It will add another 9,000 tonnes of FCOJ output capacity to a total of about 18,200 tonnes by 2009, strengthening the Group's leading position in the Mainland's FCOJ market.

Weaknesses/Threats

- × Tianyi Fruit mainly sources its oranges from Fujian province. Natural disasters in the province like rain storms and typhoons would damage orange cultivation and threaten the Group's orange supply.
- × The leasing contracts of the 23 orange farms that the Group operates would expire from 2008 to 2010. As the contracts were commenced from 2004 to 2006, upward rental renewals in the next couple of years are expected, which may lead to pressure on the Group's profit margin.
- × The Group's financial statements included the gain from change in fair value of its immature oranges before harvest in its leased farms less estimated point-of-sale costs. It is a non-cash item and has inflated the Group's bottom line over the past years.
- × The Group's credit to its customers jumped sharply, as it raised the credit terms to 90 days in 2007 from 30 days in 2005 and 2006. As a result, the Group's debtors' turnover days surged to 105 as at the end of 2007 from 50 a year earlier. Besides, trade receivables accounted for 44.2% of the Group's total assets as of 31st Dec 2007, much less healthy when compared with 9.6% and 25.1% by the end of 2005 and 2006, respectively.

Recommendation: Unattractive



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