

Main Board Listing - Research

新澤控股有限公司

New Heritage Holdings Ltd. [Stock Code: 0095]

Joint Sponsors : Tanrich Capital Limited & Altus Capital Limited
Joint Book-runners and Joint Lead Managers : Oriental Patron Asia Limited & Tanrich Capital Limited

Sector : Real Estate

Business : Property development and property investment

Total share offer: 168,000,000 shares
(26.24% of the enlarged share capital)

Public Offer: 16,800,000 shares (10%)

Placing: 151,200,000 shares (90%)

Greenshoe: 25,200,000 shares (15%)

Price: HK\$0.56 – HK\$0.88 per share

Market Cap.: HK\$358.6 million – HK\$563.5 million

Pro forma FY2005 P/E: 6.4x – 10.1x

Adjusted NTA / share: HK\$0.4220 – HK\$0.5035

Staffing: 162

HK Public Offer period:
22nd November 2005 – 25th November 2005

Receiving bank: Standard Chartered Bank
(Hong Kong) Limited
The Bank of East Asia, Limited

Share registrar: Tricor Investor Services Limited

Listing date: 2nd December 2005

Business of New Heritage (“the Group”)

The Group is principally engaged in property development and property investment businesses in Suzhou and Beijing in the PRC respectively. Currently, all of the Group's property development projects are in Suzhou and its associated company holds 30.05% stake of the Beijing Landmark Towers, a hotel, office and retail complex in Beijing with a total gross floor area of 130,000 square meters.

The Group's flagship projects in Suzhou included Suzhou Garden Villa and Suzhou Garden Court. In order to replenish its land bank, the Group and Suzhou Land Resources Bureau had entered into agreement to assign the group the land use right of a piece of land in Suzhou with a total site area of approximately 41,579 square meters. The tentative commencement date of construction is targeted to be May 2006 and the completion of the project is expected to be in the second half of 2007.

Apart its holding of the Beijing Landmark Towers, the Group also has plans to develop properties in Beijing in the near future and has set up a representative office earlier this year.

Major Shareholders after Listing

Mr. CF Tao (Chairman) and spouse (<i>interest via Belbroughton</i>)	39.78%
Mr. SP Tao, brother of Mr. CF Tao	17.83%
Current and former directors of the Group and related parties	16.15%
	<u>73.76%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$79.8 million.

(Assuming an issue price of HK\$0.56 per share, which is the low-end of the indicative price range)

	HK\$ million
For settling the cost of a piece of land in Wuzhong District in Suzhou	43.5
For repayment of bank loan and overdraft	29
For general working capital	7.3
Total	79.8

Financial Highlights

	Year ended 31 st December			6 months ended 30 th June	
	2002	2003	2004	2004	2005
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Revenue	144,638	68,121	197,710	45,617	22,514
Gross profit	30,823	18,960	51,229	20,979	3,543
Properties revaluation Gain	9,966	10,141	7,725	17,876	3,871
Profit before tax	17,877	19,403	49,270	36,667	6,295
Net profit	16,811	18,470	31,389	24,530	3,845

Strengths/Opportunities

- ✓ Based on the statistics released by the Jiangsu Statistics Bureau, Jiangsu Province ranked the second, the fifth and the seventh in terms of GDP, total population and per capita disposable income of urban household respectively among all provinces in the PRC in 2003. Thus, leveraging on its experience of the property market in Suzhou, the Group is able to explore property development opportunities in other cities of Jiangsu Province besides Suzhou.
- ✓ Its 30.05% stake in Beijing Landmark Tower contributes stable rental income and cashflow to the Group that can support the group's future development projects. Besides, given the low book value of this property project, the group might record a substantial one-time revaluation gain in the near term as revealed by the management.
- ✓ Pricing this IPO at 6.4x-10.1x FY2005E PER is not demanding when compares with other PRC property plays such as Beijing North Star (0588), Shanghai Forte (2337) and even R&F properties (2777) that was listed earlier this year with FY2005E PER of 14x-19x.

Weaknesses/Threats

- × The Group's property development projects are all located in Suzhou and account for over 90% of its revenue. Any significant economic downturn in Suzhou might adversely affect the group's results
- × The property development market in Suzhou has become increasingly competitive as evidenced by the increasing number of property development companies. According to the Suzhou Statistics Bureau, the number of property developers increased from 554 in 2001 to 735 in 2003. As a result, the properties completed exceeded of properties sold during 2002 – 2004 and the gap is unlikely to be narrowed soon. If this situation persists, it will exert pressure on property prices and adversely affect the Group's bottom line.

Recommendation: Too small to bite