

**BEA securities**

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HONG KONG RESEARCH**12th May 2005**

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Main Board Listing - Research

建福集團控股有限公司

Kenford Group Holdings Limited [Stock Code: 0464]

Sponsor & Lead Manager	: Partners Capital International Limited
Sponsor & Co-Manager	: SinoPac Securities (Asia) Limited
Bookrunner	: Partners Capital Securities Limited
Co-Lead Manager	: G.K. Goh Securities (H.K.) Limited

Sector : Consumer Discretionary**Business** : Design, manufacture, sales of home appliances

Total share offer: *100,000,000 shares
(25% of the enlarged share capital)

Public Offer: 10,000,000 shares (10%)**Placing:** 90,000,000 shares (90%)**Greenshoe:** Nil

*With 1 Warrant for every 4 Offer Shares (Code:0452)

Price: HK\$0.65 – HK\$0.85 per share**Market Cap.:** HK\$260 million – HK\$340 million**Forecast FY2005 P/E:** 4.5x – 5.9x (pro forma)**Adjusted NTA per share:** HK\$0.38 – HK\$0.43**Staffing:** 2,721**HK Public Offer period:**12th May 2005 – 18th May 2005**Receiving bank:** Hang Seng Bank**Share registrar:** Computershare Hong Kong
Investor Services Limited**Listing date:** 24th May 2005**Business of Kenford**

The Group is principally engaged in the design, manufacture and sale of a wide range of electrical hair care products (hair dryers and hair styling apparatus), electrical health care products (facial saunas, foot spas and massagers) and other small household electrical appliances (vacuum cleaners and citrus juicers/mixers).

Endowed with a renowned multinational customer base, the Group's products include those manufactured for sale under brand names such as "Remington" and "Vidal Sasson". The Group's products were sold on ODM, OEM and OBM basis.

For each of the 3 years ended 31st March 2004 and the 9 months ended 31st December 2004, the sale of electrical hair care products accounted for approximately 72%, 75%, 86% and 93% of the Group's turnover respectively.

The Group's production facilities are located in the Dongguan City, Guangdong province, the PRC. The finished products are being distributed and sold overseas. For the year ended 31st March 2004, products sold to Europe, North and South America and Asia respectively accounted for approximately 73%, 9% and 9% of the Group's turnover.

Major Shareholders after Listing (Assuming the warrants issued are not exercised)

Mr. Lam Wai Ming, Executive Director [interest held via Beaute (BVI) and Achieve Best (BVI)]	35.7%
Mr. Tam Chi Sang, Executive Director [interest held via Beaute (BVI) & Realchamp (BVI)]	10.2%
Mr. Chan Kwok Tung, Executive Director [interest held via Champion Sight (BVI)]	3.6%
	<u>75.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$57 million.

(Assuming the warrants issued are not exercised, and at an issue price of HK\$0.75 each, which is the mid-point of the indicative price range)

	HK\$ million
Construction of new plant	20
Acquisition of new machineries	9
Penetration and further expansion into new and existing geographical markets such as the US and the PRC	9
Strengthening the engineering, research and development capability of the Group	14
General working capital	5

Financial Highlights

	Year ended 31 st March			9 months ended
	2002	2003	2004	31 st December 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	290,323	284,882	301,634	383,654
Gross profit	48,702	69,771	68,655	87,673
Operating profit	15,563	35,350	38,616	64,766
Net profit	8,451	49,132	31,076	56,918
EPS – Basic	HK¢2.82	HK¢16.38	HK¢10.36	HK¢18.97

Strengths/Opportunities

- ✓ The Group's customers are well known European brandnames such as "Remington", "Morphy Richards", "Nicky Clarke" and "Vidal Sassoon", etc.
- ✓ Being an ODM manufacturer, the Group has demonstrated its competency by successfully registered 99 patents and designs in Hong Kong, the PRC and overseas. The related value added features gave the Group's products competitive edges over other manufacturers'.
- ✓ Priced at a FY2005E PER of 4.5x - 5.9x with an estimated 38% y-o-y net profit growth, valuation of the counter is not demanding when compares with other industrial counters.

Weaknesses/Threats

- × As raw materials like metals and plastics represent 85% of the Group's direct costs at the end of 2004, rising commodity prices should put pressure to the Group's profit margin. Furthermore, rising electricity tariffs in the PRC will be a major concern as the Group requires to consume quite a substantial amount of electricity for production.
- × Both US and the PRC markets are highly competitive markets and brand awareness of Kario, the Group's own brand, might be weak in new markets. In this case, the growth strategy of the management might sound a bit over-optimistic.
- × The Group has a pending litigation with WIK Far East Limited (as the plaintiff) in respect of alleged infringement of a patent registered by WIK related to certain retractable brushes sold by the Group. Kenford would be liable to pay damages and refrain from further producing the related products if it loses the case.

Recommendation: Unexciting