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EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8098 Facsimile: 3608 6132

HONG KONG RESEARCH

30th November 2006

Analyst: Kelvin Li

Main Board Listing – Research

金達控股有限公司

Kingdom Holdings Limited [Stock Code: 0528]

Global Coordinator, Bookrunner, Lead Manager : Guotai Junan Securities (Hong Kong) Limited
Joint Sponsors : Guotai Junan Capital Limited
 BCOM Securities Company Limited

Sector : Consumer Durables & Apparel
Business : Manufacture and sale of linen yarns

<p>Total share offer: <u>150,000,000</u> shares <i>(25% of the enlarged share capital)</i></p> <p>Public Offer: 15,000,000 shares (10%)</p> <p>Placing: 135,000,000 shares (90%)</p> <p>Greenshoe: 22,500,000 shares</p>	<p><u>Business of Kingdom Holdings</u></p> <p>Kingdom Holdings mainly engages in the manufacture and sale of linen yarns. According to the Ministry of Commerce, Zhejiang Jinyuan, a wholly owned subsidiary of Kingdom, ranked 1st in the Mainland for the export of linen yarns both in 2005 and 1H 2006, while Jiangsu Jinyuan, another 100%-owned subsidiary of Kingdom, ranked 7th and 13th in 2005 and 1H2006, respectively.</p> <p>Kingdom Holdings produces yarns with counts ranging from 8.5 Nm to 60 Nm, which are sold and marketed under the brands of “紫薇”, “Crape Myrtle” and “Kingdom” to domestic and overseas markets like the EU countries, Korea, India, Russia, Turkey and etc.</p> <p>Kingdom Holdings has two production plants based in Haiyan County in Zhejiang province and Rugao city in Jiangsu province. Annual production capacity of the two production facilities totals more than 10,000 tons of linen yarns.</p>
<p>Price: HK\$1.40 – HK\$1.75 per share</p> <p>Market Capitalisation: HK\$840 million – HK\$1,050 million</p> <p>Pro-forma FY2005 P/E: 9.3x – 11.7x</p> <p>Adjusted NTA per share: HK\$0.83-HK\$0.92</p> <p>Staffing: 2,422 (as of 23rd November 2006)</p>	
<p>HK Public Offer period: 30th November 2006 – 5th December 2006 noon</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 12th December 2006</p>	

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

Kingdom Investment (BVI) – 76.38% owned by Chairman Mr. Ren	45.6%
Caledonia – an investment trust listed on London Stock Exchange	11.1%
Millionfull (controlled by a non-executive director, Ngan Kam Wai, Albert and his family)	10.8%
Royal Sincere (75% controlled by an adviser of Kingdom, Mr. Tse Chau Shing)	3.8%
Unique Source (owned by independent 3 rd party)	3.6%
Mr. Tse Chau Shing (an adviser of Kingdom)	0.1%
	<u>75.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$208 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.575 each, being the mid-point of the indicative price range)

	HK\$ million
For construction of the third production base adjacent to the existing facilities, machinery and equipment purchase and construction of factory building	126
To finance the proposed establishment or acquisition of a production base for the manufacture of flax fibres	55
To repay existing bank loan, which was used primarily for the purchase of raw material	10
For general working capital	17

Financial Highlights

	Zhejiang Jinyuan Group		The Group			
	Year ended 31/12/2003	From 1/1/2004 to 16/11/2004	From 17/11/2004 to 31/12/2004	Year ended 31/12/2005	6 months ended 30/6/2005	6 months ended 30/6/2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	100,781	262,077	31,621	452,349	217,687	219,612
Gross profit	23,034	81,844	9,871	134,061	59,290	65,760
Profit before tax	18,279	70,841	8,205	106,467	44,397	48,717
Attributable profit	11,923	61,463	7,096	91,749	38,003	39,408
EPS	RMB0.03	RMB0.14	RMB0.02	RMB0.20	RMB0.08	RMB0.09
Gross margin	22.9%	31.2%*		29.6%	27.2%	29.9%
Net profit margin	11.8%	23.3%*		20.3%	17.5%	17.9%
			31/12/2004	31/12/2005	30/06/2005	30/06/2006
Net debt to SH Equity	N/A	N/A	100.1%	92%	N/A	59.8%

Remarks: Zhejiang Jinyuan Group became a wholly owned subsidiary of the Company by 17th November 2004; (*) Figures for the full year of 2004, assuming the Company fully acquired Zhejiang Jinyuan Group on 1st January 2004.

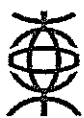
Strengths/Opportunities

- ✓ The quota imposed by the EU on Chinese textile products will expire by the end of 2007. The removal of quota should help revive Kingdom's export sales.

Weaknesses/Threats

- × Exports sales made up the integral part of Kingdom's turnover over the past years. For the year ended 31/12/2005 and the six months ended 30/06/2006, export sales accounted for 74% and 60% of the Group's total turnover, respectively. Due the introduction of quota system for Chinese textile exports to the EU countries in mid-2005, the Group's export sales to EU fell by 25.0% y-o-y in the first half, which led to a 23.5% y-o-y drop in the overall export sales in 1H2006.
- × Due to a slowdown in export sales, the Group's inventory piled up during the first half, which led to a surge in the inventory turnover days to 190 days as at 30/06/2006 from 175 days as at 31/12/2005.
- × Pricing at the top end of the indicative price range would translate to a valuation of 11.7x pro-forma FY05 P/E, which would be higher than those of Weiqiao Textile (2698)'s 7.6x FY05 P/E and Huafeng Textile (0364)'s 4.6x FY05 P/E.

Recommendation: Unattractive



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