

Analyst: Stanley Lau

Main Board H-share Listing – Research

吉林奇峰化纖股份有限公司

Jilin Qifeng Chemical Fiber Co., Ltd [Stock Code: 0549]
Sole Global Coordinator, Bookrunner and Lead : BOCI Asia Limited

Manager
Joint Sponsors : BOCI Asia Limited, SBI E2-Capital (HK) Limited

Sector : Materials

Business : Acrylic fibre producer in the PRC

Total share offer: <u>236,250,000</u> H shares (27.27% of the enlarged share capital) Public Offer: 23,628,000 H shares (10%) Placing: 212,622,000 H shares (90%) Greenshoe: 35,437,500 H shares (15%)	<u>Business of Jilin Qifeng</u> <p>The Company is principally engaged in the production and sale of different types of acrylic fibre, namely acrylic top, acrylic tow and acrylic staple fibre.</p> <p>The Company is the second largest acrylic fibre producer in the PRC, with an approximately 11.6% market share in the PRC. In December 2005, the Company has formed a 50:50 joint venture with Milan-listed Montefibre, the world's third-largest acrylic fibre producer, to construct new production facilities. Upon the commencement of facilities at the venture by the end of 2006, the Company will have an annual production capacity of approximately 236,000 tonnes, which can be further expanded to approximately 286,000 tonnes.</p> <p>Located at the Jilin City in Jilin Province, the Company sells most of its products to wool yarn manufacturers in more than 10 provinces of the PRC under the trademark "Baishan". Its products are primarily processed into wool yarns, which are used for manufacturing a wide range of apparel and home furnishings.</p>
Price: HK\$1.69 – HK\$2.12 per H share H-share Market Cap.: HK\$399.3 million – HK\$500.9 million Pro Forma FY2006E P/E: N/A Adjusted NTA per share: HK\$1.20 – HK\$1.31 Staffing: 1,299	
HK Public Offer period: 9 th June 2006 – 14 th June 2006 Receiving bank: Bank of China (Hong Kong) Share registrar: Computershare Hong Kong Investors Services Limited Listing date: 21 st June 2006	

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

Jilin Chemical Fiber Group Co., Ltd	50.01%
Ronsace Company Limited	10.95%
Sanlink Investments Limited	5.08%
Halesfield Investment Limited	3.51%
The National Social Security Fund of the PRC	2.73%
Zengcheng Shenyang Textile Company Limited	0.15%
Jilin Dalin Industry Company Limited	0.15%
Shanghai Taiyi Textile Company Limited	0.15%
	<u>72.73%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$420 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.90 each, being the mid-point of the indicative price range)

	HK\$ million
Injection of 50% of the registered capital of the new joint venture with Montefibre	151.4
Repayment of bank loans	235.9
General working capital	32.7

Financial Highlights

	Year ended 31 st December		
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
Turnover	928,258	1,142,892	2,189,141
Gross profit	217,540	288,035	351,446
Operating profit	132,122	175,161	249,010
Net profit	88,080	129,402	152,910
Owner's equity	613,848	604,792	757,702

Strengths/Opportunities

- ✓ Annual demand for acrylic fibre in the PRC has been rising steadily in recent years. Since 2003, the PRC has become the largest producer, importer and consumer of acrylic fibre in the world. Despite the increase in the domestic output of acrylic fibre to accommodate the surging demand, there was a continuous domestic supply deficit that was satisfied by imports. This domestic supply deficit presents a valuable growth opportunity for the Company's business.
- ✓ The Company currently produces a small quantity of differential fibre like microfibre and high bulk fibre. In view of the significant growth potential in the high-end differential fibre market in the PRC which is still in its infancy and currently dominated by foreign imports, the Company formed a new joint venture with Montefibre in December 2005, intending to develop certain types of differential fibre, which command higher prices and offer relatively higher profit margins.

Weaknesses/Threats

- × The characteristics of the acrylic fibre industry are capital intensive, long recovery period, high exit barriers and high fixed costs. Although the PRC acrylic fibre market has been growing rapidly in recent years and there is a continuous domestic supply deficit, competition from domestic and international acrylic fibre producers is intense. Furthermore, similar to acrylic fibre, other chemical fibre such as polyester fibre, polypropylene fibre and nylon fibre can act as substitutes for wool in textile manufacturing. This creates a certain degree of competition among different types of chemical fibre.
- × Rising price of crude oil over the past year has largely driven up the price of acrylonitrile, the principal raw material in the production of acrylic fibre. As such, the Company's gross profit margin fell to 16.1% last year from 25.2% in 2004.
- × The Company does not provide guidance for its 2006 earnings.

Recommendation: Unexciting

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