



EAST ASIA SECURITIES COMPANY LIMITED

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

Dealing: 2842 3530 / 2842 3475 Research: 2842 3198 Facsimile: 2845 2937 / 2526 7992

HONG KONG RESEARCH

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Analyst: Louis Chan

Mainboard Listing - Research

寶姿時裝有限公司

Ports Design Limited [Stock Code: 0589]

Sponsor : CLSA Equity Capital Markets Limited
Global Coordinator / Bookrunner / Lead Manager : CLSA Limited
Co-Lead Managers : ABN Amro Rothschild China International Capital Corp. (H.K.) Ltd

Sector: Industrials - apparels

Business: Design, manufacture and distribution of ladies' and men's fashion garments and accessories

<p>Total share offer: <u>35,000,000</u> shares (26.8% of the enlarged share capital)</p> <p>Placement: 31,500,000 shares (90%) - 21,500,000 new shares - 10,000,000 sale shares</p> <p>Public offer: 3,500,000 shares (10%)</p> <p>Greenshoe: 5,250,000 shares</p>	<p><u>Business of Ports Design</u></p> <p>Ports International, established in Canada in the 1960's by Luke Tanabe, has quickly become a well-respected brand in North America and the UK. However, the early 1990's saw the retailer go into financial difficulty and it was eventually purchased in 1989 by ESL, which at the time was controlled by Ports Design's current chairman and CEO.</p> <p>Nowadays, Ports Design is a vertically-integrated international fashion and luxury-goods company. It is primarily engaged in the design, manufacture, distribution and retail of ladies' and men's fashion garments as well as the sale of accessories such as shoes, handbags, scarves and fragrances in the PRC and, more recently, in Hong Kong, under the brand name Ports International. The Group has over 240 retail outlets in over 50 PRC cities and currently operates 8 dedicated retail outlets there selling BMW Lifestyle products.</p> <p>Meanwhile, the Group also has an OEM business which exports merchandise to major retailers in North America. It sources raw materials and coordinates the shipment of finished goods to the customers. If requested by the customer, the Group will also provide design input.</p>
<p>Price: HK\$9.00-HK\$10.83 per share Market cap. : HK\$1,175 million-HK\$1,414 million</p> <p>Prospective P/E: 11.7x-14.1x (pro forma fully-diluted)</p> <p>Staffing: 2,724</p>	
<p>Book opens: 13th October 2003 Book closes: 24th October 2003</p> <p>Public offer opens: 21st October 2003 Public offer closes: 24th October 2003</p> <p>Receiving bank: Standard Chartered Bank Share registrar: Computershare H.K. Investor Services Limited</p> <p>Listing date: 31st October 2003</p>	

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Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

CEO / managing director CHAN Kai-tai Alfred and chairman TAN Han-kiat Edward (through their equally-owned PIEL, they hold directly 0.67% of the Group, with their remaining interest in the Group held through their 82.77%-owned CFS, a Toronto-listed company, which controls 46.65% of the Group)	39.28%
Government of Singapore Investment Corporation (Ventures)	12.43%
Simon CHU, the brother-in-law of the chairman	5.36%
	<u>57.07%</u>

Use of Proceeds

Gross proceeds from the offer are estimated to be HK\$230 million (Assuming the over-allotment option is not exercised and an issue price of HK\$9.915, being the midpoint of the proposed range of issue prices of HK\$9.00 and HK\$10.83 per offer share)

	HK\$ million
To open superstores in major cities in the PRC	21
To design, develop, expand and/or renovate the retail operations in the PRC, Hong Kong and other parts of Asia, including the opening of approximately 80 retail outlets in the PRC and the opening of approximately 15 BMW Lifestyle products retail outlets in the PRC	66
To carry out advertising and marketing campaigns as well as other corporate-image enhancement programmes	8
To design, develop and promote existing and new products, in particular the men's collection	10
To expand the production, manufacturing and distribution facilities in the PRC including the opening of new distribution centres and investments in new plant and machinery	38
To repay loans	38
To serve as additional general working capital of the Group	49

Financial Highlights

	6 months ended 30 th June 2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover				
Retail	163,263	326,870	286,887	225,919
OEM	84,487	116,767	115,233	98,495
Unallocated	<u>5,601</u>	<u>26,101</u>	<u>13,005</u>	<u>15,585</u>
	<u>253,351</u>	<u>469,738</u>	<u>415,125</u>	<u>339,999</u>
Operating profit	38,069	108,977	71,883	57,552
Net profit	<u>35,846</u>	<u>92,919</u>	<u>58,625</u>	<u>47,612</u>
Dividend	-	60,000	35,347	24,861
EPS	<u>RMB0.34</u>	<u>RMB0.88</u>	<u>RMB0.56</u>	<u>RMB0.45</u>



Strengths

- ✓ According to an *ACNielsen Readership Survey* 2001/2002 undertaken for *Elle* magazine China edition, readers ranked Ports International as the top brand in fashion and accessories they wished to buy in the coming 12 months. Ports International's ranking was ahead of other international brands such as Chanel, Gucci, LV and Esprit (*stock code*: 0330). A high brand recognition should bode well for the Group, amid the fierce competition in the industry.
- ✓ The Group is one of the first movers in the PRC luxury-fashion industry, with a fairly effective branding strategy without offering any discounts. We reckon the growing number of middle class and a fast pace of urbanization of the nation do make things look good for the Group.
- ✓ The tie-up with BMW seems to be a strategically-sound move, which also helps demonstrate the manufacturing standards as well as marketing and retailing abilities of the Group. There could well be astounding growth in future sales in this business.
- ✓ There is no direct comparables with Ports Design in the market but we can take a few Hong Kong-listed garment makers/distributors as reference. Moisselle International (*stock code*: 0130), which solely focuses on ladies' apparels, is now trading at 7.0x its FY2003 net profit while Gay Giano (*stock code*: 0686) and Theme International (*stock code*: 0990), both of which focus on mid-range apparels for men and ladies, are still loss-making. Meanwhile, the offer price of Ports Design, which targets the higher-end men's/ladies' apparels market in the PRC, does not really seem too expensive.

Weaknesses

- × The Group has no long-term merchandise supply contracts with its 3rd-party suppliers. Competitive pressures or consolidation in the supply chain may therefore make it difficult for the Group to receive an adequate and quality supply of fabric and other raw materials in the future.
- × The Group's net profit margin was seen declining from 19.8% for the year ended 31st December 2002 to 14.1% for the 6 months ended 30th June 2003 while its operating profit margin was also down from 23.2% for the year ended 31st December 2002 to 15.0% for the 6 months ended 30th June 2003.
- × Total funds intended to be raised amount to a HK\$230 million but the Group has paid total dividends of RMB95 million for the 2 years ended 31st December 2002 while intending to pay another RMB35 million prior to the listing date.
- × Meanwhile, existing shareholders are cashing in some 10 million shares, which represent 28.6% of the total offer.

Recommendation: Trading Subscribe