

Analyst: Stanley Lau

## **Main Board Listing – Research**

協盛協豐控股有限公司

Co-Prosperity Holdings Limited [Stock Code: 0707]

**Sponsor** : TIS Securities (HK) Limited  
**Lead Manager** : Grand Vinco Capital Limited

**Sector** : Consumer Durables & Apparel  
**Business** : Fabrics processing service provider in the PRC

<b>Total share offer:</b> <u>200,000,000</u> shares <b>(25% of the enlarged share capital)</b> <b>Public Offer:</b> 20,000,000 shares*(10%) <b>Placing:</b> 180,000,000 shares (90%) <b>Greenshoe:</b> Nil	<b><u>Business of Co-Prosperity</u></b> <p>The Group is a fabrics processing service provider in the PRC, which is principally engaged in the sale of finished fabrics and the provision of fabric processing sub-contracting services to its customers. Sale of finished fabrics accounted for 77.6% of the Group's total turnover for the year ended 31<sup>st</sup> December 2005.</p> <p>The types of processing employed and offered by the Group include: (i) processing of woven fabrics; (ii) processing of knitted fabrics; (iii) printing of fabrics; and (iv) washing of garment and fabrics. The finished fabrics are mainly sold to textile manufacturers in the PRC.</p> <p>The Group's production facilities are located in Shishi City, Fujian Province. As of 31<sup>st</sup> December 2005, the Group's annual maximum production capacity of its knitted fabrics and woven fabrics facilities was approximately 21,200 tons and 43.6 million metres respectively, and the Group's utilisation rate for knitted fabrics and woven fabrics facilities was 75.9% and 83.3% respectively.</p>
<b>Price:</b> HK\$1.00 – HK\$1.16 per share <b>Market Cap.:</b> HK\$800 million – HK\$928 million <b>Pro Forma FY2005 P/E:</b> 6.2x – 7.2x <b>Adjusted NTA per share:</b> HK\$0.57 – HK\$0.60 <b>Staffing:</b> 1,271	
<b>HK Public Offer period:</b> 21 <sup>st</sup> March 2006 – 24 <sup>th</sup> March 2006 <b>Receiving bank:</b> Standard Chartered Bank <b>Share registrar:</b> Tricor Investor Services Limited <b>Listing date:</b> 30 <sup>th</sup> March 2006	

*Remark (\*): Up to a maximum of 2,000,000 shares, being 10% of the Public Offer Shares initially available under the Public Offer, are available for subscription by full-time employees of the Group in Hong Kong (other than the directors or chief executive of the Group, existing beneficial owners of Shares and their respective associates) on a preferential basis.*

### **Major Shareholders after Listing**

Famepower Limited, which is wholly-owned by Federal Trust Company Limited, a trust company acting as the trustee for The Sze Trust, the beneficiaries of which are family member of Mr. Sze Siu Hung, Chairman of the Group	71.49%
Peilei Charitable Limited, which is equally-owned by Mr. Sze and his spouse Madam Cai Peilei	3.51%
	<u>75.00%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$137.6 million.

(Assuming an issue price of HK\$1.08 each, being the mid-point of the indicative price range)

	HK\$ million
Expansion of production facilities	60.0
Establishment or acquisition of raw fabrics production facilities	35.0
Construction of waste water treatment facilities	20.0
Expansion of sales office	10.0
Research and development, and staff training	5.0
General working capital	7.6

### Financial Highlights

	Year ended 31 <sup>st</sup> December		
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
Turnover	182,256	452,865	599,916
Gross profit	39,722	95,444	150,194
Operating profit	31,838	80,100	120,776
Net profit	25,534	74,190	110,513
<b>EPS – Basic</b>	<b>RMB0.0387</b>	<b>RMB0.1124</b>	<b>RMB0.1674</b>

### Strengths/Opportunities

- ✓ The Group's ability to provide a wide range of value-added processing and printing services to customers is one of its competitive advantages over domestic peers and such processing services will increase the value of the fabrics and, in turn, increase the profitability of the Group. In fact, we see the Group's gross margin has stood at more than 20% during the past 3 years, while turnover has recorded an annual compound growth rate of about 80%.
- ✓ The Group is situated at Shishi City, Fujian Province, which is one of the major textile manufacturing bases in the PRC. As such, the Group can achieve a relatively speedy and responsive delivery of products to customers within the region at a relatively low cost.

### Weaknesses/Threats

- × The expiry of the Agreement on Textiles and Clothing (ATC) following China's accession to the WTO has attracted more overseas textile manufacturers to import from the PRC. Such an increase in the import from the PRC has triggered the recent unveil by the US and the European Union of the trade disputes for growth rates in the PRC textile imports, which has resulted in investigations and informal consultations with the PRC, paralleled with the calls for the imposition of safeguard measures and possible new trade barriers such as anti-dumping towards PRC textile. Notwithstanding the fact that most of the Group's customers are located in the PRC, if there is any imposition of quotas, some of its customers whose products are exported overseas will be affected and this, in turn, may have a negative impact on the sales and profitability of the Group.
- × The growth rate of textile production in China has been very strong over the past few years. There are increasing concerns that the growth rate of supply has already outstripped that of demand, especially in the low-end segment.
- × Priced at 6.2x to 7.2x FY2005 P/E, valuation of the counter is just more or less in line with the sector average of 7.0x.

**Recommendation: Speculative Subscribe**

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