

Analyst: Sabina Cheng

Main Board Listing – Research

Artini China Company Limited [Stock Code:0789] 雅天妮中國有限公司

**Sole Global Coordinator, Sole Bookrunner,
Sole Sponsor and Lead Manager**

: Cazenove Asia Limited

Sector : Manufacturing and retailing

Business : Fashion accessories supplier

<p>Total share offer: *<u>280,000,000</u> shares (28% of the enlarged share capital)</p> <p>Public Offer: 28,000,000 shares (10%)</p> <p>Placing: 252,000,000 shares (90%)</p> <p>Greenshoe: 42,000,000 shares</p> <p>*Comprising 250,000,000 New Shares and 30,000,000 Sale Shares</p>	<p><u>Business of Artini China</u></p> <p>Established in 1992, Artini China is a fashion accessories supplier. Its products include fashion jewellery such as necklaces, bracelets, earrings and rings, and accessory items including watches, belts and hair accessories.</p> <p>It has vertically integrated business model with two parts: 1) design and manufacture of fashion accessories for international branded customers on a concurrent design manufacturing basis, which is regarded as “CDM”, and 2) operation of a retail distribution network to sell fashion accessories under its own “Artini” and “Q’ggle” brands in the PRC, Hong Kong and Macao.</p> <p>Historically, the CDM business has been its major income source and it accounted for approximately 95.5%, 92.6%, 76.8% and 52.0% of its total turnover for the 3 financial years ended 31st March 2007 and the 8 months ended 30th November 2007, respectively. In 2006, it began to gradually shift its focus to retail operations, particularly in the PRC. Turnover, derived from its retail and distribution business accounted for approximately 4.5%, 7.4%, 23.2% and 48.0% of its total turnover during the 3 financial years ended 31st March 2007 and the 8 months ended 30th November 2007, respectively.</p> <p>Going forwards, the Company has strategy to focus on developing and expanding its retail business in the PRC.</p>
<p>Price: HK\$2.22 - HK\$3.43 per share</p> <p>Market Cap: HK\$2,220 million– HK\$3,430 million</p> <p>Pro forma FY2009E PER: 12X – 18.5X</p> <p>Adjusted NTA per share: HK\$0.59 – HK\$0.88</p> <p>Staffing: 2,198 (as of 30th November 2007)</p>	
<p>HK Public Offer period: 2nd May 2008 – 7th May 2008</p> <p>Receiving banks: ICBC (Asia) Limited Standard Chartered Bank (Hong Kong) Limited</p> <p>Principal share registrar & transfer office: Butterfield Fund Services (Bermuda) Limited</p> <p>Hong Kong branch share registrar & transfer office: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 16th May 2008</p>	

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Shareholding Structure after Listing (Assuming the over-allotment option is not exercised)

Fully Gain (wholly-owned by Mr. Tse Chiu Kwan who is the Chairman and executive Director of Artini China)	64.8%
Excellent Gain (wholly-owned by Ms. Yip Ying Kam who is the Vice-chairman and executive Director of Artini China)	7.2%
Public Investors	28.0%
	<u>100.0%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$633.5 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.825 each, being the midpoint of the indicative price range)

	HK\$ million
For the expansion of its PRC retail network	253.4
For the expansion of the production capacity of the existing plant	126.7
For marketing and promotion of "Artini" and "Q'ggle" brands	95.0
For the addition and improvement of its operational system and logistics centers	63.4
For the development of an advanced information technology management system	31.6
For general working purpose	63.4

Financial Highlights

	Year ended 31 st March			Eight months ended 30 th November	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Turnover	241,210	291,739	339,480	225,739	363,463
Gross profit	86,599	114,282	191,696	124,777	224,067
Operating profit	45,239	57,481	84,255	65,322	78,719
Profits attributable to shareholders	41,697	52,773	73,488	57,542	66,707
Gross margin	35.9%	39.2%	56.5%	55.3%	61.6%
Operating margin	18.8%	19.7%	24.8%	28.9%	21.7%
Net margin	17.3%	18.1%	21.6%	25.5%	18.4%

Revenue by business segment

	Year ended 31 st March						Eight months ended 30 th November			
	2005		2006		2007		2006		2007	
	% of HK\$'000 turnover		% of HK\$'000 turnover		% of HK\$'000 turnover		% of HK\$'000 turnover		% of HK\$'000 turnover	
Turnover										
CDM	230,469	95.5%	270,250	92.6%	260,814	76.8%	185,569	82.2%	189,128	52.0%
Retail and distribution										
- Hong Kong and Macao	10,741	4.5%	21,489	7.4%	44,035	13.0%	30,397	13.5%	21,244	5.8%
- PRC	-	0.0%	-	0.0%	34,631	10.2%	9,773	4.3%	153,091	42.2%
Sub-total	10,741	4.5%	21,489	7.4%	78,666	23.2%	40,170	17.8%	174,335	48.0%
Total	241,210	100.0%	291,739	100.0%	339,480	100.0%	225,739	100.0%	363,463	100.0%



Strengths/Opportunities

- ✓ **Strong production capability and facilities** The Company's Guangdong Factory has the designed annual output capacity to manufacture over 15 million pieces of fashion accessories and gift and premium items. The utilization rate for the production of their products was 82.3% for the 8 months ended in Nov 2007. It will use approximately 20% of the raised IPO capital of further expansion of the existing plants, implying it is trying to be well prepared for meeting the increase in production.
- ✓ **Developing and expanding its retail business in the PRC** As of Mar 2008, Artini China owned and managed 33 retail stores and 97 concessions over the PRC, Hong Kong and Macao. Most of its retail points are located in high-end shopping malls, department stores and hotels such as Mixc Plaza, King Glory Plaza and Citic City Plaza in Shenzhen; Oriental Plaza and Ginza Mall in Beijing; Jiu Bai City Mall, Super Brand Mall and Grand Gateway Plaza in Shanghai. Its retail network expanded rapidly, with 5, 7, 48 as at Mar 2005, 2006, 2007 and further expanded to 138 retail points in March 2008. Besides, it plans to develop and expand its retail business by exploring new channels of distribution such as catalogue shopping, TV shopping channel and online shopping.
- ✓ **Enhancing brand equity of the "Artini" brand and the "Q'ggle" brand** The Group started its Hong Kong retail business in 2003, leveraged this experience, its marketing and promotion activities in the PRC have been initially focused mainly on the first-tier cities in the PRC such as Shenzhen, Shanghai, Beijing and Guangzhou. It plans to penetrate other 2nd-tier and 3rd-tier cities in the PRC. The regular price of "Artini" products ranges from around HK\$280 to HK\$28,000 while the regular price of "Q'ggle" products ranges from around HK\$50 and HK\$3,000.
- ✓ **Received high ranking in a latest research report** According to a research report –"Research Report of China Fashion Accessories Industry" jointly published by the China General Chamber of Commerce and the China Jewelry Information Center in Mar 2008, the company ranked 1st in terms of revenue among all domestic fashion accessories retailers in the PRC in 2007 and 2nd in terms of revenue among all fashion accessories retailers (including both domestic and foreign owned retailers) in the PRC in 2007.
- ✓ **Valuation** Market estimates that Artini China would be traded between 12X and 18.5X FY2009 PE, which is lower than other retailers such as Ports Design and Belle, making its share offers attractive for an exposure in the booming fashion and accessories market in the PRC amid the recent improved market sentiment.

Weaknesses/Threats

- × A cashing in of 30 million existing shares by major shareholder.
- × **A drop in the net profit margin** The gradual shift of the Group's business focus from "CDM" sales to retail of its own branded products result in significant improvement in gross profit margin from 55.3% to 61.6% for the 8 months ended in 30th Nov 2007. However, this had led to the increase in selling and distribution costs and hence lowering the net profit margin from 25.5% to 18.4% over the same period.

Recommendation: Hit and run



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