

Analyst: Ernest Tan

## **Main Board Listing – Research**

王朝酒業集團有限公司

Dynasty Fine Wines Group Limited [Stock Code: 0828]

**Global Coordinator, Bookrunner and Lead Manager** : ABN-AMRO Rothschild  
**Senior Co-managers** : BNP Paribas Peregrine Capital Limited  
    Pacific Foundation Securities Limited  
    Tai Fook Securities Company Limited  
**Co-manager** : First Shanghai Securities Limited  
**Sector** : Consumer staples  
**Business** : Production and sale of grape wine products

|   |   |
|---|---|
| <b>Total Share Offer:</b> <u>300,000,000</u> shares<br><b>(25% of the enlarged share capital)</b><br><br><b>Public Offer:</b> 30,000,000 shares (10%)<br><br><b>Preferential Offer*:</b> 36,000,000 shares (12%)<br><br><b>Placing:</b> 234,000,000 shares (78%)<br><br><b>Greenshoe:</b> 45,000,000 shares (15%) | <b><u>Business of Dynasty Fine Wines Group</u></b><br><br>The Group is engaged in the production and sale of grape wine products under its trademark (i.e., Dynasty) in the PRC and is one of the leading PRC grape wine producers. It is a joint venture between Tianjin Development (0882) and France's Remy Cointreau (RCOP.PA), one of the principal operators in the world wine and spirit market. |
| <b>Price:</b> HK\$1.75 – HK\$2.25 per share<br><b>Market Cap.:</b> HK\$2,100 – HK\$2,700 million<br><b>Pro Forma Basic FY2004 P/E:</b> 12.50X – 16.07X<br><b>Unaudited Pro Forma Adjusted NTA:</b><br>HK\$0.83 – HK\$0.95 per share<br><b>Staffing:</b> 352   | The Group has produced over 50 wine products since Dynasty's establishment, which can be broadly divided into four main categories: red wines, white wines, sparkling wines and brandy. Anyhow, red wines account for more than 90% of the Group revenue. The annual production capacity of the Group is currently at approximately 30,000 tonnes.  |
| <b>HK Public Offer period:</b><br>17 <sup>th</sup> January 2005 – 20 <sup>th</sup> January 2005<br><b>Share registrar:</b> Tricor Investor Services Limited<br><b>Receiving bank:</b> HSBC<br><b>Listing date:</b> 26 <sup>th</sup> January, 2005   | Dynasty sells its products in 16 provinces and autonomous regions and four municipalities directly under the Central Government of the PRC. The Group also exports a small portion of its products to the United States, Macau and Hong Kong (about 0.2% of its revenue from the year 2001 – 2004).   |

\*Qualifying Tianjin Development (0882) shareholders (Hong Kong shareholders only) are invited to apply for the aggregate of 36,000,000 reserved shares in the Preferential Offering on the basis of an assured entitlement of one reserved share for every whole multiple of 26 Tianjin Development shares held at the close of business on 28<sup>th</sup> December 2004.

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

|   |               |
|---|---------------|
| Famous Ever (100% owned by Tianjin Development)                               | 46.50%        |
| Remy Pacifique (100% owned by Remy Cointreau)                                 | 24.75%        |
| Intra* (equally owned by a non-executive director, Benny Cheung and his wife) | 3.75%         |
|   | <u>75.00%</u> |

**Use of Proceeds**

Net proceeds from the offer are estimated to be approximately HK\$550 million.

(Assuming an offer price of HK\$2.00 per share, the mid-point of the stated offer price range of HK\$1.75 to HK\$2.25 per share.)

|  | HK\$ million |
|--|--------------|
| Expand the Group's production capability. Approximately HK\$65 million, HK\$90 million and HK\$45 million will be spent on wine cellar construction, wine production machineries and building construction respectively. | 200          |
| Fund partly the establishment of new production facilities.  | 160          |
| Expand the Group's sales and distribution network by expanding its sales force and marketing activities in the PRC.  | 20           |
| Acquisition of Smiling East, the unlisted business that is engaged in the manufacture and sale of unprocessed wine to the Group.   | 47           |
| Funding for possible acquisition of complimentary wine businesses and general working capital  | 123          |

**Financial Highlights**

|                           | Year ended 31 <sup>st</sup> December |                | 9 months ended |                            |
|---------------------------|--------------------------------------|----------------|----------------|----------------------------|
|                           | 2001                                 | 2002           | 2003           | 30 <sup>th</sup> Sept 2004 |
|                           | RMB'000                              | RMB'000        | RMB'000        | RMB'000                    |
| Turnover                  | 622,302                              | 730,500        | 708,571        | 620,913                    |
| Gross profit / (loss)     | 301,518                              | 372,359        | 360,904        | 337,452                    |
| Operating profit / (loss) | 152,972                              | 167,270        | 171,180        | 187,188                    |
| Net profit / (loss)       | <b>115,186</b>                       | <b>120,879</b> | <b>124,393</b> | <b>135,420</b>             |
| EPS – Basic*              | <b>RMB0.13</b>                       | <b>RMB0.13</b> | <b>RMB0.14</b> | <b>RMB0.15</b>             |

\*The calculation of basic earnings per share is based on the profit attributable to shareholders during the track record period and on the 900,000,000 shares issued.

**Breakdown of Revenue by Product Category**

|                 | Year ended 31 <sup>st</sup> December |       |                |       | 9 months ended |       |                            |       |
|-----------------|--------------------------------------|-------|----------------|-------|----------------|-------|----------------------------|-------|
|                 | 2001                                 |       | 2002           |       | 2003           |       | 30 <sup>th</sup> Sept 2004 |       |
|                 | RMB'000                              | %     | RMB'000        | %     | RMB'000        | %     | RMB'000                    | %     |
| Red wines       | 515,964                              | 82.9  | 618,762        | 84.7  | 639,149        | 90.2  | 583,755                    | 94.0  |
| White wines     | 103,864                              | 16.7  | 109,938        | 15.0  | 66,070         | 9.3   | 35,807                     | 5.8   |
| Sparkling wines | 655                                  | 0.1   | 272            | 0.0   | 260            | 0.0   | 213                        | 0.0   |
| Brandy          | 264                                  | 0.0   | 379            | 0.1   | 681            | 0.1   | 377                        | 0.1   |
| Others          | 1,555                                | 0.3   | 1,149          | 0.2   | 2,411          | 0.4   | 761                        | 0.1   |
| Total           | <u>622,302</u>                       | 100.0 | <u>730,500</u> | 100.0 | <u>708,571</u> | 100.0 | <u>620,913</u>             | 100.0 |

**Strengths/Opportunities**

- ✓ Penetration rate of grape wine was low in the PRC, i.e. per capital consumption of wine in the PRC was only 0.22 litres in 2003 as compared with 59 litres of France, 22 litres of United Kingdom, 12 litres of the United States, and 3 litres of Japan. As the fast growing economy of the PRC has led to the rise of “middle class” consumers in large cities who are ready to embrace western drinking habits, there is tremendous growth potential for grape wine producers in the PRC.
- ✓ The Group is one of the top grape wine producers (others include Changyu, Great Wall and Huaxia) in the PRC. The “Dynasty” brand name was recognised as a well-known trademark for grape wine products by the Trade Mark Office of the State Administration for Industry and Commerce of the PRC in 2000.
- ✓ Its joint venture partner, Remy Cointreau, is one of the principal operators in the world wine and spirit markets with a portfolio of well-known brands including Remy Martin cognac and orange liqueur Cointreau. Although Remy was not involved in the day-to-day operations of the Group, the association should enhance the product image of the “Dynasty” brands of wines. Moreover, the marketing muscle of Remy should come in handy to the Group latter on.
- ✓ The net profit of the Group for the first nine months of FY2004 had already surpassed its full year profits of FY2003. The Group forecasts its net profit (before extraordinary items) to be not less than RMB 175 million for FY2004. It represents a growth of 40.7% as compared with that of FY2003.
- ✓ The pricing of the IPO, i.e. 2004E PER of 12.5 –16.1X, is not too demanding when compared with 17X – 20X of other comparables. For instance, Yantai Changyu (200869.SZ) is trading at 2004E PER of 19.3X on the Shenzhen Stock Exchange.

**Weaknesses/Threats**

- × With PRC’s entry into the World Trade Organisation, import tax on wines had been decreasing over the past few years to 14% from 44.6% in 2001. It inevitably invites competition from vineyards overseas.
- × Counterfeit products and infringement of intellectual property rights are common in the PRC. They could pose threats to the Group’s revenue in the future.

**Recommendation:     Speculative Subscribe**