

Analyst: Louis Chan

Main-Board Listing - Research

中國綠色食品(控股)有限公司

China Green (Holdings) Limited [Stock Code: 0904]
Sponsor / Lead Manager / Bookrunner : JS Cresvale International Limited

Sector: Foods – agriculture and processing

Business: To grow and process vegetable and fruit

Total share offer: <u>150,000,000</u> shares (25% of the enlarged share capital) Placement: 135,000,000 shares (90%) Public offer: 15,000,000 shares (10%) Greenshoe: 22,500,000 shares	<u>Business of China Green</u>
Price: HK\$1.28 per share Market cap. : HK\$768 million Historical P/E: 6.96x (pro forma fully-diluted) Staffing: 150 (excluding 1,500-2,500 temporary workers)	<p>The Group is a vegetable and fruit grower and processor in Fujian province, producing and supplying fresh and processed vegetables and fruits. Most of the Group's products are sold to the Japanese market and the Group's business relationship with its Japanese customers commenced in as early as 1998. The Group takes a seasonal complementary approach in deciding what vegetable or fruit to cultivate and adopts an end-to-end, vertically-integrated approach to vegetable and fruit cultivation and processing.</p>
Book opens: 12 th December 2003 Book closes: 22 nd December 2003 Public offer opens: 31 st December 2003 Public offer closes: 6 th January 2004 Receiving bank: Standard Chartered Bank Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 13 th January 2004	<p>The Group operates 3 processing factories and leases 19 vegetable- and 4 fruit-cultivation bases. The processing factories occupy approximately 14,200 m² of GFA in Fujian and Zhejiang provinces whilst the cultivation bases occupy approximately 26,800 mu of farmland in the 2 provinces.</p> <p>The Group's principal products can be categorized into fresh produce, processed products and pickled products. For the year ended 30th April 2003, the 3 categories accounted for 60%, 23% and 17% respectively of the Group's total turnover.</p>

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Mr SUN Shaofeng (the chairman, managing director and founder of the Group)	67.5%
Ms KWOK Kin-kwok (an ex-director of the Group)	7.5%
	<u>75.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$173 million.
(Assuming that the over-allotment option is not exercised)

	HK\$ million
To expand the existing facilities (eg. refrigeration system, greenhouse, protective cover and irrigation system)	26
To establish facilities for quick-frozen fruits and vegetables processing, vegetable-juice processing and dehydrated-vegetables processing)	57
To establish new cultivation bases and vegetables processing facilities in other provinces of the PRC	52
To set up R&D works for new cultivation, vegetable processing and freshness preservation	10
To fund the sales and marketing activities for both domestic and international markets	8
To apply for and obtain the Green Food Certification, HACCP certification and ISO 14000 certification	2
To serve as the Group's general working capital	18

Financial Highlights

	2 months ended 30 th June 2003 RMB'000	2003 RMB'000	Year ended 30 th April 2002 RMB'000	2001 RMB'000
Turnover				
Fresh produce	19,941	156,899	82,743	73,449
Processed products	16,513	58,619	26,614	777
Pickled products	5,363	42,955	14,668	1,800
	<u>41,817</u>	<u>258,473</u>	<u>124,025</u>	<u>76,026</u>
Operating profit	20,479	132,793	61,500	34,196
Net profit	<u>18,016</u>	<u>116,978</u>	<u>54,131</u>	<u>30,870</u>
Dividends	-	-	12,196	9,189
EPS	<u>RMB0.04</u>	<u>RMB0.26</u>	<u>RMB0.12</u>	<u>RMB0.07</u>

Strengths

- ✓ Each year during winter, the Group can continue its cultivation activities in Fujian province and hence enjoys competitive advantages over other fruit and vegetable growers in northern China and Japan due to climatic constraints.
- ✓ The Group places great importance on the quality of its produce and products. It has been awarded the ISO9002:1994 certificate issued by the China Quality Certification Centre for Import and Export. The cultivation processes employed by the Group also comply with the current Safe Crop Certification prescribed by the Bureau of Quality and Technical Supervision. Meanwhile, it has further applied for the certification by the China Green Food Development Centre as well as the HACCP and ISO14000 certificates, which are expected to be granted soon.
- ✓ The Group has a strong 26-member R&D team, providing technological solutions to mass cultivation and advanced processing of vegetables and fruits. They regularly conduct research on improving cultivation techniques as well as planting new crops and processed products. It is able to launch an average of 5-6 new product series each year, enabling the Group to establish a wide range of quality produce and products to tap the high-margin export market.
- ✓ With a successful expansion of turnover at a CAGR of 84.4% from 2001-2003, the Group's business looks set to be boosted on the back of a further upgrading of facilities as well as establishment of new cultivation and processing bases to be financed by the listing proceeds.

Weaknesses

- × The Group seems to have depended on a few major Japanese customers whilst the overall Japanese market accounted for nearly 80% of its turnover for the year ended 30th April 2003. If any of such customers ceases to deal with the Group or if there is a sudden downturn in the Japanese economy, its business can be adversely affected.
- × The agricultural industry is highly fragmented and characterized by intense competition, which can eat into the Group's margins. In fact, the Group has seen deteriorating profitability lately. Operating profit margin and net profit margin went down from 51.4% and 45.3% for the year ended 30th April 2003 to 49.0% and 43.1% respectively for the 2 months ended 30th June 2003.
- × China Green's valuation can be referenced to a couple of other locally-listed companies with similar exposure. Chaoda Modern Agricultural (*stock code*: 0682), which is mainly engaged in the growing of agricultural produce, is now trading at 6.9x its FY2003 earnings while natural-food processor First Natural Foods (*stock code*: 1076) is trading at 4.5x its FY2002 earnings. Shares of China Green, which are priced at historical P/Es of 6.7x-7.2x, do not seem that attractive.

Recommendation: Unexciting

Hit & Run if investors prefer to ride on the recent IPO waves