

Analyst: Kelvin Li

## Main Board Listing – Research

盈進集團控股有限公司

Walker Group Holdings Limited [Stock Code: 1386]

**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers** : Taifook Securities DBS  
**Sole Sponsor** : Taifook Capital

**Sector** : Retailing  
**Business** : Sales of footwear products

<p><b>Total share offer:</b> <u>150,000,000</u> shares (25.0% of the enlarged share capital)</p> <p><b>Public Offer:</b> 15,000,000 shares (10%)</p> <p><b>Placing:</b> 135,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 22,500,000 shares</p> <p><b>Price:</b> HK\$3.18 – HK\$3.86 per share</p> <p><b>Market Cap:</b> HK\$1.91 billion – HK\$2.32 billion</p> <p><b>FY2006/07 forecast PER:</b> 17.5x to 21.2x</p> <p><b>Adjusted NTA per share:</b> HK\$1.01 – HK\$1.18</p> <p><b>Staffing:</b> 2,628 (as of 18<sup>th</sup> May 2007)</p>	<p><b><u>Business of Walker Group</u></b></p> <p>Walker Group mainly engages in the design and sales of a diversified range of footwear products, including casual, smart casual and sports casual footwear, in Hong Kong and the Mainland China.</p> <p>Since its establishment in 1990, Walker Group has developed an extensive sales network in Hong Kong and the PRC. As of 18<sup>th</sup> May 2007, the Group has 393 self-managed sales points, including 56 in HK and 337 located in more than 55 cities and 23 Mainland provinces. Walker Group also has 7 franchised concessions in Taiwan operated by the Taiwan franchisee, Vivid Footwear.</p> <p>Sales points of Walker Group can be categories into two kinds, namely multi-brand sales points and specialty sales points. The multi-brand sales points are operated under the name of <i>WALKER SHOP</i>, which mainly sell a diversified range of footwear products. The specialty sales points are operated under one single in-house brand or a licensed brand.</p>
<p><b>HK Public Offer period:</b> 28<sup>th</sup> May 2007 – 31<sup>st</sup> May 2007 noon</p> <p><b>Receiving bank:</b> Standard Chartered Bank (HK)</p> <p><b>Share registrar:</b> Tricor Investor Services Limited</p> <p><b>Listing date:</b> 7<sup>th</sup> June 2007</p>	

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

Smart Presto, a company 90% owned by the chairman Mr. Huang and 10% by his wife Ms. Chan. Ms Chan is also an executive director of Walker Shop.	74.79%
The Group's senior management and employees	0.21%
ITOCHU Corporation	1.25%
Gaoling Yali Fund, L.P. – 98% owned by Yale University, USA	2.00%
Public investors	21.75%
	<u>100.00%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$486 million (Assuming an offer price of HK\$3.52, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For setting up the franchised sales points and self-managed sales points	322
For setting up the specialty sales points of "ACUPUNCTURE" in Hong Kong and the PRC and "PINK PANTHER" in Hong Kong	76
For strengthening the product design and development capacity	12
For upgrading the existing management information system	12
For marketing and promotional activities	24
For general working capital	40

### Financial Highlights

(HKD '000)	Year ended 31 <sup>st</sup> Mar			8 months ended 30 <sup>th</sup> Nov	
	2004	2005	2006	2005	2006
Turnover	356,493	466,377	528,605	332,172	395,944
Gross profit	202,047	274,191	337,108	212,081	267,631
Operating profit	27,084	52,189	70,572	43,908	68,122
Attributable profit to shareholders	<b>20,698</b>	<b>39,229</b>	<b>53,895</b>	<b>33,044</b>	<b>52,228</b>
Gross profit margin	56.7%	58.8%	63.8%	63.8%	67.6%
Operating profit margin	7.6%	11.2%	13.4%	13.2%	17.2%
Net profit margin	5.8%	8.4%	10.2%	9.9%	13.2%

### Turnover Breakdown by Geographical Areas

(HKD '000)	Year ended 31 <sup>st</sup> Mar			8 months ended 30 <sup>th</sup> Nov	
	2004	2005	2006	2005	2006
Hong Kong	252,572	276,914	259,190	164,797	187,126
Mainland China	103,921	188,840	268,129	166,508	204,478
Others	-	623	1,286	867	4,340
<b>Total</b>	<b>356,493</b>	<b>466,377</b>	<b>528,605</b>	<b>332,172</b>	<b>395,944</b>

### Strengths/Opportunities

- ✓ The Group has an extensive sales network in China, with 337 sales points located in 23 provinces covering major cities and municipalities like Beijing, Shanghai, Tianjin, Chongqing, Guangzhou, Shenzhen, Wuhan, Hangzhou, etc. The Group also has presence in major Mainland department stores like Parkson Department Store, New World Department Store Wangfujing Department Store, Beijing Hualian Department Store, etc. The well-established retail network should enable the Group to ride on booming consumer spending in China.
- ✓ The Group does not own any production facilities. Such strategy should allow the Group to focus its resources on product design, brand building as well as logistics management.

### Weaknesses/Threats

- × The Group does not own any premises of its sales points. A sharp jump in rentals as well as concession fees paid to department stores may significantly affect the Group's profit margin. For the 8 months ended Nov 2006, rental expenses and concession fees accounted for 28.8% of the Group's total turnover, up from 27.8% in FY2005/06 and 25.7% in FY2004/05.

**Recommendation: Trading Buy**

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