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EAST ASIA SECURITIES COMPANY LIMITED

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**HONG KONG RESEARCH****15<sup>th</sup> September 2004**

Analyst: Stanley Lau

**Main Board Listing - Research**

錦興國際控股有限公司

Kam Hing International Holdings Limited [Stock Code: 2307]

**Sponsor** : Tai Fook Capital Limited  
**Sole Bookrunner & Lead Underwriter** : Tai Fook Securities Company Limited  
**Co-Lead Managers** : Goldbond Securities Limited  
 SBI E2-Capital Securities Limited

**Sector** : Textiles**Business** : Manufacture and sale of finished knitted fabrics

<b>Total share offer:</b> <u>160,000,000</u> shares <b>(25% of the enlarged share capital)</b>  <b>Public Offer:</b> 16,000,000 shares (10%) <b>Placing:</b> 144,000,000 shares (90%)  <b>Greenshoe:</b> 24,000,000 shares	<b><u>Business of Kam Hing</u></b>  The Group is principally engaged in the manufacture and sale of finished knitted fabrics.  Its production facilities are located in Panyu, Guangdong Province, which comprises 3 production zones with annual knitting and dyeing capacities of 74 million pounds and 101 million pounds respectively.  The Group's merchandise was sold to various garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell garment products to the consumers in the US and other countries.  Many of the Group's products have been made into garments bearing international brands carried by companies such as Gap Inc., Target Corp., May Department Stores, Eddie Bauer Inc., Associated Merchandising Corp. and Sears.  Apart from knitting and dyeing fabrics for its own sale, the Group also occasionally provides knitting and dyeing services for other fabric manufacturers, which just normally accounts for approximately 1% of the Group's total turnover.
<b>Price:</b> HK\$1.13 – HK\$1.61 per share <b>Market Cap.:</b> HK\$723.2 million – HK\$1,030.4 million  <b>Forecast FY2004 P/E:</b> 7x – 10x <b>Adjusted NTA per share:</b> HK\$0.79 – HK\$0.91  <b>Staffing:</b> 1,916	
<b>Book opens:</b> 14 <sup>th</sup> September 2004 <b>Book closes:</b> 17 <sup>th</sup> September 2004  <b>Receiving bank:</b> Hang Seng Bank Limited <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 23 <sup>rd</sup> September 2004	

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

Exceed Standard (100% owned by the co-founder Mr. Tai Chin Chun)	60%
Power Strategy (100% owned by the co-founder Mr. Tai Chin Wen)	15%
	<u>75%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$203 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$1.37 per share, being the midpoint of the proposed range of HK\$1.13 and HK\$1.61)

	HK\$' million
Expansion of production capacity	100
Installation of an additional power and steam generator	50
Purchase of additional machinery for the yarn dyeing operation	15
Expansion of the marketing distribution network	12
Production development	10
Additional general working capital	16

### Financial Highlights

	4 months ended 30 <sup>th</sup> April 2004 HK\$'000	Year ended 31 <sup>st</sup> December 2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	385,827	1,101,581	980,192	711,620
Operating profit	37,958	125,491	91,785	27,877
Net profit	28,296	96,356	81,547	21,011
EPS	HK¢5.9	HK¢20.1	HK¢17.0	HK¢4.4

### Geographical Breakdown of Turnover

	4 months ended 30 <sup>th</sup> April 2004		2003		Year ended 31 <sup>st</sup> December 2002		2001	
	HK\$' million	%	HK\$' million	%	HK\$' million	%	HK\$' million	%
Singapore	200.3	51.9	641.6	58.2	614.5	62.7	450.0	63.2
Hong Kong	36.8	9.5	125.4	11.4	116.7	11.9	79.3	11.2
Taiwan	89.5	23.2	177.0	16.1	103.7	10.6	54.8	7.7
Others	<u>59.2</u>	<u>15.4</u>	<u>157.6</u>	<u>14.3</u>	<u>145.3</u>	<u>14.8</u>	<u>127.5</u>	<u>17.9</u>
	<u>385.8</u>		<u>1,101.6</u>		<u>980.2</u>		<u>711.6</u>	

### Strengths/Opportunities

- ✓ The PRC's accession to the WTO has provided a favourable environment for textile and apparel industries in Hong Kong and the PRC. The removal of worldwide quotas on PRC-origin imports by 2005 is expected to boost textile production volume in the PRC and exports of PRC-made fabrics and clothing.
- ✓ The Group's vertical integrated production process, which encompasses facilities for fabric knitting, dyeing, setting and finishing, has given the Group significant cost advantage and timely delivery capacities. As half of the amount raised will be used in expanding production capacities, the Group is expected to enjoy better economies of scale.
- ✓ The Group will start yarn dyeing in later this Month. The move should benefit the Group in reducing production unit cost, improving quality control and reducing production lead-time.
- ✓ The Group has established relationships with garment manufacturers and certain international fashion apparel brand operators through its proven record of quality control. The Group has not experienced any material sales returns from its customers and has accredited the ISO9001:2000 certification on knitting, dyeing and finishing of textiles.
- ✓ Comparable companies like Texwinca (stock code: 0321), Fountain Set (stock code: 0420) and Victory City (stock code: 0539) are trading at an average of 12.8x 04E P/E. The valuation of the Group at 7x-10x 04E P/E is not demanding.



**Weaknesses/Threats**

- × The Group faces competition from both Hong Kong and PRC domestic manufacturers, in particular from those who have invested significant capital investment in plant and machinery comparable to that of the Group.
- × The Group has not entered into any long-term supply agreement with any of its suppliers. Any significant price fluctuation or disruptions in the supply of its major raw materials (cotton yarns) may adversely affect the profitability of the Group.
- × The debt to equity ratio of the Group increased from 78.0% as of 31<sup>st</sup> December 2003 to 95.2% as of 30<sup>th</sup> April 2004, due to increasing utilisation of the banking facilities.

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