

Analyst: Sam Ho

## Main Board Listing- Research

合豐集團控股有限公司

Hop Fung Group Holdings Limited [Stock Code: 2320]

**Sponsor, bookrunner and lead manager** : DBS Asia Capital  
**Co-sponsor** : Guotai Junan Capital Limited

**Sector** : Paper manufacturing

**Business** : Manufacture and sale of corrugated paper boards and corrugated carton boxes

<b>Total share offer:</b> <u>108,000,000</u> shares (30% of the enlarged share capital)	
<b>Placement:</b>	97,200,000 shares (90%) 79,200,000 new shares 18,000,000 sale shares
<b>IPO:</b>	10,800,000 shares (10%)
<b>Greenshoe:</b>	16,200,000 shares
<b>Price:</b> HK\$1.10 per share <b>Market cap. :</b> HK\$396 million	
<b>Prospective FY2003 P/E:</b> 7.5x (fully-diluted) <b>Estimated NAV per share:</b> HK\$0.55	
<b>Staffing:</b> 520 (including processing factories)	
<b>IPO opens:</b> 15 <sup>th</sup> September 2003 <b>IPO closes:</b> 18 <sup>th</sup> September 2003	
<b>Share registrar:</b> Abacus Share Registrars Limited <b>Receiving bank:</b> Standard Chartered Bank	
<b>Listing date:</b> 24 <sup>th</sup> September 2003	

<b><u>Business of Hop Fung</u></b>
<p>The Company is principally engaged in the manufacture and sale of corrugated paper-ware products including corrugated paper boards and corrugated carton boxes.</p> <p>During the track record period, the corrugated paper boards were sold mainly to paper-ware agents, suppliers and trading companies, while the corrugated carton boxes were sold mainly to customers who use them for packaging purposes in their manufacturing base in the PRC.</p> <p>The Company has 2 production plants (through processing arrangements) at Fengang Town, Dongguan and Gongming Town, Baoan district, Shenzhen. The factory in Fengang has a GFA of 13,741 m<sup>2</sup> and the one in Gongming has a GFA of 26,393 m<sup>2</sup>. The 2 factories have a total monthly manufacturing capacity of some 23 million m<sup>2</sup> of corrugated paper boards.</p>

### Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Hui Sum Kwok (chairman and chief executive officer)	6.52%
Hui Sum Ping (vice chairman and executive director)	6.52%
Hui Sum Kwok's family trust	21.08%
Hui Sum Ping's family trust	21.08%
Wong Mui (deputy general manager and the spouse of Hui Sum Kwok)'s family trust	8.80%
Shum Lit Ki, father of Shum Kam Wing (a senior management)	6.00%
	<u>70.00%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$83 million  
(Assuming the over-allotment option is not exercised)

	HK\$ million
To expand existing manufacturing facilities for corrugated carton boxes	15
To set up manufacturing operations mainly for domestic PRC sales	20
To set up manufacturing operations for upstream medium paper production	25
To serve as general working capital	23

### Financial Highlights

	3-month ended 30 <sup>th</sup> April	Year ended 31 <sup>st</sup> December		
	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Corrugated paper boards	93,345	238,898	237,308	268,390
Corrugated carton boxes	58,162	154,676	130,253	128,824
	<u>151,507</u>	<u>393,574</u>	<u>367,561</u>	<u>397,214</u>
Operating profit	<u>23,787</u>	<u>46,237</u>	<u>45,993</u>	<u>42,492</u>
Net profit	<u>19,792</u>	<u>37,460</u>	<u>34,406</u>	<u>26,738</u>
Dividend	-	30,000	17,000	9,500
Earnings per share	<u>HK¢7.3</u>	<u>HK¢13.9</u>	<u>HK¢12.7</u>	<u>HK¢9.9</u>

### Strengths

- ✓ With the high growth in China's manufacturing industry, total output of China's packaging industry recorded a CAGR of 12% in 1996-2000, while the total output of paper packaging sector has a CAGR of 11.4% in the same period. Moreover, China's total output of paper packaging sector is expected to grow at a CAGR of over 8% from 2001 to 2005.
- ✓ For each of the 2 years ended 31<sup>st</sup> December 2002 and the 4 months ended 30<sup>th</sup> April 2003, its gross profit margin was maintained at over 20%, while its net margin was kept at over 9%. The Company's gross profit was largely unaffected by the fluctuations in unit raw material costs and unit selling prices of its products, as it is able to pass through most of the increase in costs to its customers.
- ✓ The Company will start manufacturing medium paper, which currently accounts for some 40% of its cost of goods sold, in 1Q2005 for internal use. This should enhance the Company's gross margin.
- ✓ Hop Fung's shares are priced at a prospective P/E of 7.5x, which is not demanding when compared with other listed peers Hung Hing (stock code: 0450)'s P/E of 11x and Leefung-Asco (stock code: 0623)'s P/E of 10x.

### Weaknesses

- × Competition in the corrugated paper-ware industry is very intense as it is a highly-fragmented market with many small players.

### **Recommendation: Trading buy**