

Analyst: Ernest Tan

**Main Board Listing- Research**

中天國際有限公司

Zhongtian International Limited - [Stock Code: 2379]
**Bookrunner and Lead Manager**

: First Shanghai Capital Limited

**Sector** : Information Technology - System Integration

**Business** : Provide total business solutions to rural credit co-operatives 信用社 in the PRC

<p><b>Total share offer:</b> <u>100,000,000 shares</u> (25% of the enlarged share capital)</p> <p><b>Placement:</b> 90,000,000 shares (90%) - 75,000,000 new shares - 15,000,000 sale shares</p> <p><b>IPO:</b> 10,000,000 shares (10%)</p> <p><b>Greenshoe:</b> 15,000,000 shares</p> <p><b>Price:</b> HK\$0.77-HK\$1.21 per share</p> <p><b>Market cap:</b> HK\$308 mln-HK\$484 mln</p> <p><b>P/E:</b> 7x-11x (FY 2003 historical)</p> <p><b>Adjusted NAV per share:</b> HK¢38.94-HK¢47.97</p> <p><b>Book opens:</b> 6<sup>th</sup> September 2004 <b>Book closes:</b> 15<sup>th</sup> September 2004</p> <p><b>IPO commences:</b> 10<sup>th</sup> September 2004 <b>IPO ends:</b> 15<sup>th</sup> September 2004</p> <p><b>Share registrar:</b> Tricor Investor Services Limited <b>Receiving bank:</b> Standard Chartered Bank (Hong Kong) Limited</p> <p><b>Listing date:</b> 22<sup>nd</sup> September 2004</p>	<p><b><u>Business of Zhongtian</u></b></p> <p>The Group is a total business solutions provider in the PRC and is one of the market leaders in providing total business solutions to rural credit co-operatives (RCC 信用社) in the PRC. The Group is principally engaged in (i) the provision of total business solutions (in finance and core banking) which includes R&amp;D and sale of proprietary software products and associated system integration services; (ii) the sale of hardware and software products which are developed by the outsiders; and (iii) the provision of after sale IT maintenance services. The Group is located in Qingdao City, Shangdong Province of the PRC.</p> <p>The Group was established in 2000. In 2003, the Group completed a project for Shangdong Provincial RCC that was of larger size and contract sum than those city-level projects. In May 2004, the Group successfully bid for a contract for Hubei Provincial RCC. During the past four years, it had entered into over 100 contracts and served over 2,700 RCCs in aggregate.</p> <p>During the track record period, turnover of the group derived from RCCs (rural credit co-operatives) amounted to approximately RMB16,421,000, RMB90,980,000, RMB99,399,000 and 34,109,000 during the three years ended 31 December, 2003 and the three months ended 31 March, 2004, respectively (representing 100%, approximately 99.6%, 90.9%, 89.3% of the Group's total turnover during the respective periods).</p>
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**Major Shareholders after Listing**

(Assuming the over-allotment option is not exercised)

Mr Sun Lianggui, chairman	46.89%
Mr. Mr. Wang Zhaobo, chief operating officer	12.06%
Ms. Sun Xianfang, chief financial officer	4.02%
Mr. Wang Jiaqing, chief marketing officer	4.02%
Pre-IPO Investors	8.01%
	<u>75.00%</u>

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### Use of Proceeds

Gross proceeds from the offer are estimated to be HK\$99 million. (Assuming the over-allotment option is not exercised, and at an issue price of HK\$0.99 each, which is the mid-point of the indicative price range).

According to the prospectus, the total net proceeds of the Share Offer after deducting related expenses are estimated to amount to approximately HK\$72 million.

	HK\$ million
Enhancement of the Group's market share and expansion of its geographical coverage in the PRC	17.2
Upgrade and enhance the Group's products in the existing banking and finance industry	8.3
R&D and commercialisation of the Group's software products in other industries	12.5
Establishment of an R&D centre	34
<b>Total</b>	<b>72</b>

### Financial Highlights

	1Q 2004	Year ended 31 <sup>st</sup> December		
	RMB'000	2003	2002	2001
		RMB'000	RMB'000	RMB'000
Turnover				
Provision of total business solutions	24,703	95,516	88,916	9,436
Sale of 3 <sup>rd</sup> parties hardware and software products	9,777	12,632	2,064	6,985
Provision of after-sale IT maintenance service	<u>3,717</u>	<u>1,247</u>	<u>352</u>	<u>n.a.</u>
	38,197	109,395	91,332	16,421
Operating profit	12,735	54,319	33,148	2,196
Net profit	<u>12,650</u>	<u>46,137</u>	<u>32,788</u>	<u>2,621</u>
Dividend	-	23,375	42	-
EPS- basic	<u>RMB¢4.62</u>	<u>RMB¢16.85</u>	<u>RMB¢11.98</u>	<u>RMB¢0.96</u>

### Balance Sheet at a Glance

	1Q 2004	Year ended 31 <sup>st</sup> December		
	RMB'000	2003	2002	2001
		RMB'000	RMB'000	RMB'000
Current Assets				
Bank balances and cash	40,818	68,143	33,576	32,552
Trade receivables	19,287*	6,515	7,041	452
Other current assets	<u>51,742</u>	<u>14,091</u>	<u>25,171</u>	<u>13,165</u>
	111,847	88,749	65,788	46,169
Non current assets	16,388	17,077	13,452	2,957
Current liabilities	18,062	41,191	37,602	43,234
Non-current liabilities	32,903**	-	-	-
Minority interests	219	234	-	-
Shareholder's funds	77,051	64,401	41,638	5,892

\* Taking into consideration the subsequent settlement up to 30 June 2004, the unsettled amount of the trade receivables as at 30 June, 2004 decreased to approximately RMB 8,185,000.

\*\* Represents convertible notes of RMB32.9 million which will be mandatorily converted into shares of the Company upon listing at IPO price. After the conversion, non-current liabilities will be reduced to zero.

**Strengths/ Opportunities**

- ✓ During the track record period, the Group has completed over 100 projects with aggregate contract sum of over RMB 200 million and served over 2,700 Rural Credit Co-operatives (RCCs 信用社) in aggregate. The Group entered into these over 100 contracts with 25 entities, which are mostly either RCCs at provincial-level and city-level.
- ✓ Save for an executive director, all other executive Directors have more than 10 years of experience in the PRC IT industry and/or related business and have been working together since 1994.
- ✓ On 27 June 2003, the State Council issued the Proposal to Intensify the Reform of Rural Credit Co-operatives, which stipulates that there will be a series of reforms on the management and systems of the RCCs in the PRC. According to the China Banking Regulatory Commission, the State Council has approved eight province/municipalities in the PRC to carry out such reforms. This policy will generate business opportunities to the Group as the establishment of an IT system and connectivity of systems in disperse locations are necessary to improve the efficiency of the management of a bank.

**Weaknesses/ Threats**

- × Competition is keen with relatively low entry barrier, i.e. system integration projects of RCCs are subject to open tenders. As the market is fragmented and there is no single player to set the price and technology standards, competition in these areas will eventually erode profit margins.
- × Zhongtian does not provide any earnings guidance for FY 2004.
- × Convertible notes of RMB 32.9 million will be converted into shares of the company upon listing at IPO price, equivalent to 7% of the enlarged share capital of the Group immediately following completion of the share offer.

**Recommendation: Caveat Emptor**