

Analyst: Kelvin Li

## **Main Board Listing - Research**

金鷹商貿集團有限公司

Golden Eagle Retail Group Limited [Stock Code: 3308]
**Joint Sponsors** : Goldbond Capital (Asia) Limited

ABN AMRO Rothschild

**Joint Global Coordinators, Joint Bookrunners** : Goldbond Securities Limited

**and Joint Lead Managers**

ABN AMRO Rothschild

**Sector** : Retailing

**Business** : Department store operator in the PRC

**Total share offer:** 450,000,000 shares  
(25.0% of the enlarged share capital)  
(including 112,500,000 New shares &  
337,500,000 Sale shares)

**Public Offer:** 45,000,000 shares (10%)

**Placing:** 405,000,000 shares (90%)

**Greenshoe:** 67,500,000 shares

**Price:** HK\$2.50 - HK\$3.15 per share

**Market Cap.:** HK\$4,500 million – HK\$5,670 million

**FY2005E P/E:** 20.8x-26.2x (pro-forma fully diluted)

**Adjusted NTA per share:** HK\$0.29-HK\$0.33

**Staffing:** 2,336 (as of 3<sup>rd</sup> March 2006)

**HK Public Offer period:**

8<sup>th</sup> March 2006 – 13<sup>th</sup> March 2006 noon

**Receiving bank:** Bank of China (HK)

Standard Chartered Bank (HK)

**Share registrar:** Computershare Hong Kong

Investor Services Limited

**Listing date:** 21<sup>st</sup> March 2006

### **Business of Golden Eagle (“the Group”)**

The Group is a private enterprise, mainly engaged in the development and operation of a department store chain in Mainland China. The Group's department stores are characterized by “shop in shop” and customer-oriented concepts, offering quality merchandise and services. As at 31<sup>st</sup> January 2006, the Group operates six department stores with gross floor area and operating area of over 159,000 square metres and 115,000 sq m, respectively, situated in prime shopping areas in their respective cities.

Jiangsu province is currently the Group's principal market. The Group opened its first department store in Nanjing, namely Nanjing Xinjiekou Store, in 1996, and has extended its department store chain into other cities in the province since 2000. In July 2005, the Group expanded outside Jiangsu province and controlled a store in Xi'an, Shaanxi province.

The Group's department stores offer a wide range of merchandise, ranging from daily necessities like apparel and food to luxuries like jewellery and wine, while merchandise is sold via concessionaire counters and direct sale counters.

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

Mr. Wang Hung, Roger (chairman of the Group)

75.0%

75.0%

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$920 million.

(Assuming an issue price of HK\$2.825 each, which is the mid-point of the indicative price range, and the over-allotment option is not exercised.)

	HK\$ million
For establishment of three new stores, namely Xi'an Gaoxin Store, Nanjing Xuanwu Store and Taizhou Store	320
For acquisitions and/or opening of three to four department stores in the PRC in the next 2-3 years	300
For repayment of bank borrowings.	200
For the upgrade of the hardware and software of the Enterprise Resources Planning (ERP) system	30
For improvement in the exterior and interior decorations of the Group's department stores	30
For general working capital	62

Remark: The Joint Lead Managers have undertake to transfer, on behalf of the Selling Shareholder of the 337.5 million sales shares, RMB750 million of the net proceeds to the Group one day before the Listing Date, in order to settle the Outstanding Loan (RMB750 million) due from the Selling Shareholder to the Group.

### Financial Highlights

	Year ended 31 <sup>st</sup> December			9 months ended 30 <sup>th</sup> September 2005
	2002 RMB '000	2003 RMB '000	2004 RMB '000	2005 RMB '000
Gross sales proceeds	1,036,573	1,442,121	2,107,054	1,939,381
Turnover	235,685	303,540	481,699	497,353
Gross profit	141,090	203,780	327,074	349,227
Operating profit	41,864	75,231	156,497	231,058
Attributable profit	5,910	35,345	91,970	145,381
<b>Basic EPS</b>	<b>RMB0.0035</b>	<b>RMB0.0209</b>	<b>RMB0.0545</b>	<b>RMB0.0862</b>

### Strengths/Opportunities

- ✓ Consumer spending continues to grow favourably in China and shows little sign of slowdown, thanks to strong economic growth, rising personal income and higher propensity to spend, which should provide department store operators with good business opportunities and potential for further expansion.
- ✓ Jiangsu province, the Group's principal market, is one of the PRC's most economically established provinces, with the third highest GDP in the country in 2004. Since opening its first store in Jiangsu province, the Group has established a store network with 5 outlets in the province, making it well-positioned to compete with peers.
- ✓ Pricing at 20.8x-26.2x FY2005E P/E, Golden Eagle's valuations are lower than rival Parkson (HKEx: 3368)'s 36x FY2005A P/E. Golden Eagle's operating margin for the first nine months of 2005 was near 46%, compared with Parkson's 33% in FY2005, making it more attractive in terms of better profitability.

### Weaknesses/Threats

- × Competition is expected to become more intense, after the PRC fully opened its retail market to foreign retailers last year, in order to comply with WTO requirements. The Group said it would look for other second-tier cities to open new stores, where rivalry is less severe.
- × 75% of the total shares offer would be sales shares from existing shareholders for loan repayment to the company. Although the proceeds from sales of the sale shares will be repaid to the company, the existing shareholders had in fact long been withdrawing resources for expansion of the company if not for the listing.

**Recommendation: Trading Buy**

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