

Analyst: Kelvin Li

Main Board Listing – Research

永嘉集團控股有限公司

Win Hanverky Holdings Limited [Stock Code: 3322]

**Global Coordinator, Bookrunner, Lead
Manager and Sponsor**

: DBS Asia Capital Limited

Sector : Consumer durables & apparel

Business : Manufacturing and Distribution of sportswear

Total share offer: <u>300,000,000</u> shares (25% of the enlarged share capital) Public Offer: 30,000,000 shares (10%) Placing: 270,000,000 shares (90%) Greenshoe: 45,000,000 shares	<u>Business of Win Hanverky</u> Win Hanverky is a vertically integrated sportswear and active outerwear manufacturer and distributor for international sports brands, mainly Adidas and UMBRO. It engages in 3 main areas of business, namely (i) sportswear manufacturing, (ii) sportswear distribution and (iii) active & outer wear business. On the manufacturing side, it currently has 7 production facilities in the PRC and 1 each in Vietnam and Philippines. Manufacturing of Adidas products on OEM basis accounted for over 40% of the Group's total sales. On the distribution side, the Group is the exclusive distributor of UMBRO and 4 soccer teams in Hong Kong and PRC. It has about 90 distributors operating approximately 650 retail outlets in the PRC and 140 retail outlets in Hong Kong, Macau and Taiwan. On the active & outer wear business, the group is a wholesaler of NYL products. The Group manufactures the NYL products in be distributed in chain department stores mainly in North America. However, the contribution to revenue of this business is shrinking over the years.
Price: HK\$1.98 – HK\$2.38 per share Market Cap.: HK\$2,376 million – HK\$2,856 million Pro Forma FY2005 P/E: 9.84x -11.82x Adjusted NTA per share: HK\$0.83-HK\$0.93 Staffing: 10,460 (as of 31 st March 2006)	
HK Public Offer period: 25 th August 2006 – 30 th August 2006 Receiving bank: DBS Bank (HK) Limited Share registrar: Tricor Investor Services Ltd. Listing date: 6 th September 2006	

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

Quinta (*)	61.36%
Minority shareholders (^)	13.64%
	<u>75.00%</u>

Remarks: (*) Quinta is 70% owned by Mr. Li Kwok Tung Roy and 30% owned by Mr. Lai Ching Ping, both being directors of Win Hanverky. (^) Minority shareholders included TSG BVI, China Yiu Fai David, Poon Wai Chee Garry, Wong Man Fu, Chan Kam Cheong and Ng Siu Tang.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$606.8 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.18 each, being the mid-point of the indicative price range)

	HK\$ million
Expanding production capacity of Sportswear Manufacturing Business	270
Expanding Sportswear Distribution Business	250
Expanding Active and Outer Wear Business and/or financing development of new product	50
General Working Capital	36.8

Financial Highlights

	Year ended 31 st December			4 months ended
	2003	2004	2005	30 th April 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	978,417	1,366,056	2,054,091	763,049
Gross profit	325,982	492,314	753,122	274,093
Operating profit	55,545	167,900	349,633	129,578
Net profit	26,788	123,294	241,542	87,965

Strengths/Opportunities

- ✓ The Company posted strong earnings growth in the past years. Turnover increased by an average of 44.8% and net profit increased by about an average of 200% during FY03 – FY05. Win Hanverky should be able to keep growing robustly in the future with solid bottom line as it has established concrete business relationship with Adidas for over 20 years.
- ✓ International sports brands are expected to consolidate their supplier base in the coming years. This should benefit Win Hanverky as its production capacity is well established in the PRC and has long-term relationship with Adidas. More than 40% of the proceeds from IPO will be used to expand capacity, and it should help strengthen Win Hanverky's position in the industry.
- ✓ To be priced at 9.84x – 11.82x historical P/E, valuation of the counter is not too demanding. Investors should note that there are little peer group comparables for this counter. Yue Yuen (14x FY05 p/E) is much bigger than subject and more involved in sports shoes. Others like Texwinca does not have significant manufacturing for brands equivalent to Adidas.

Weaknesses/Threats

- × There are some concerns about the Company's over-reliance on the European and the North American markets, as well as anti-dumping and quotas measures. The majority of sales for Win Hanverky (approximately 70%-80%) were for exports to Europe and North America. Any economic downturn or trading conflicts may harm the sales of Win Hanverky.
- × Effects of the World Cup 2006 may gradually be fading.
- × Adidas accounted for about 40% of Win Hanverky's total sales. Such concentration of sales to one single client may lead to certain business risk to the Company.

Recommendation: Caveat Emptor

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