

## **Main Board Listing - Research**

互益集團有限公司

Addchance Holdings Limited [Stock Code: 3344]

**Sponsor** : Goldbond Capital (Asia) Limited

**Sole Bookrunner & Lead Manager** : Goldbond Securities Limited

**Sector** : Consumer Discretionary

**Business** : Production and sale of dyed yarns and knitted sweaters

<b>Total share offer:</b> <u>100,000,000</u> shares (25% of the enlarged share capital)  <b>Public Offer:</b> 10,000,000 shares (10%)  <b>Placing:</b> 90,000,000 shares (90%)  <b>Greenshoe:</b> 15,000,000 shares (15%)	<b><u>Business of Addchance ("The Group")</u></b>  The Group engages in the production and sale of dyed yarns and knitted sweaters. It is also involved in the production and sale of cotton yarns, the provision of dyeing and knitting services, and the trading of cotton and yarns. Its production facilities are located in Susong, Luoding, Zhangjiagang and Cenxi in the PRC.  Dyed yarns are the principal products of the Group that accounted for 54.5% and 57.3% of its turnover in FY2004 and the first three months of FY2005 respectively. Most of the Group's customers are Hong Kong knitting factories that make purchases for their plants in the PRC.  The Group also produces a wide range of plain knitted sweaters for men and ladies in cardigans and pullover styles. It has over 50 customers for its knitted sweaters that include European retail chains such as H&M Hennes & Mauritz AB, WE Europe B.V., Camaieu SA and the Inditex Group. Sale of knitted sweaters accounted for 24.6% and 18.5% of its turnover in FY2004 and the first three months of FY2005 respectively.
<b>Price:</b> HK\$1.01 per share  <b>Market Cap.:</b> HK\$404 million  <b>Pro Forma FY 2005E P/E:</b> 5.39x  <b>Adjusted NTA per share:</b> HK\$0.43  <b>Staffing:</b> 2,640	
<b>HK Public Offer period:</b> 23 <sup>rd</sup> September 2005 – 28 <sup>th</sup> September 2005  <b>Receiving bank:</b> Standard Chartered Bank (Hong Kong) Limited  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 5 <sup>th</sup> October 2005	

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

Family of Dr. Sung Chung Kwun, the Chairman [interest via Powerlink*]	66.75%
Senior executives of the Group [interest via Herojoy*]	8.25%
	<u>75.0%</u>

\*Powerlink and Herojoy are ultimately beneficially owned by GZ Trust, a discretionary trust set up by Dr. Sung Chung Kwun. The discretionary objects of which are Dr. Sung's family (Powerlink) and the employees of the Group from time to time including Mr. Wong Chiu Hong, Managing Director; Ms. Mok Pui Mei, Executive Director and Mr. IP Siu Lam, Executive Director (Herojoy).

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$80 million.

*(Assuming the over-allotment option is not exercised.)*

	HK\$ million
Partial payment of the unpaid capital of Zhangjiagang Addchance Spinnery for the expansion of dyeing variety	50
Expansion of linking and finishing operation	7
Market expansion and strengthening product development capability	2
Continued enhancement on existing production facilities	7
Information systems upgrade	5
General working capital	9

### **Financial Highlights**

	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March	
	2002	2003	2004	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	670,688	609,296	772,202	136,970	125,328
Gross profit	144,385	136,464	176,256	24,121	27,389
Operating profit	42,117	50,010	71,958	3,765	2,700
<b>Net profit</b>	<b>22,773</b>	<b>25,856</b>	<b>42,021</b>	<b>(1,276)</b>	<b>114</b>
<b>Basic EPS (HK cents)</b>	<b>7.59</b>	<b>8.62</b>	<b>14.01</b>	<b>(0.43)</b>	<b>0.04</b>

### **Strengths/Opportunities**

- ✓ The Group is equipped with large cone dyeing vats of capacity that are over 10,000 lbs and 26,000 lbs. When processing big orders, using large scale dyeing vat to process the yarn in one lot can minimise colour difference of the dyed yarn. The electricity, water and dyeing chemical consumptions can also be minimised, thus saving production cost.
- ✓ The Group's Luoding Composite Mill and Zhangjiagang Dyeing Mill are located in Guangdong province and Jiangsu province where a large number of garment and textile enterprises are located. Furthermore, the Luoding River and Yangtze River nearby allow abundant river water supply that are essential to the dyeing operation.
- ✓ Priced at a FY2005E PER of 5.39x, valuation of this IPO is not demanding when compares with the industry's average of 7.2x.

### **Weaknesses/Threats**

- × The textile industry in the PRC is highly fragmented with large number of players in the market due to low entry barrier. In fact, there are already more than ten listed companies in Hong Kong that are engaged in similar business of the Group. Hence, price competition is intense and profit margins of the players are inevitably capped.
- × Textile quotas were reintroduced to PRC products by the US in May 2005 and by the EU in June 2005 until the end of 2007. These quotas indirectly affect the Group's sales of dyed yarn as most of its customers are factories in the PRC. As the categories of products under these quotas also include knitted sweaters that the Group produces, its sales could be adversely affected in the next two years.

**Recommendation: Unexciting**