

Main Board Listing - Research

華力控股(集團)有限公司

Huali Holdings (Group) Limited [Stock Code: 3366]

Sponsor and Arranger : Anglo Chinese Corporate Finance, Limited
Joint Lead Managers and Joint Bookrunners : China Merchants Securities (HK) Co., Limited
Watterson Asia Limited

Sector : Materials

Business : Manufacturing of paper-based packaging containers and materials

<p>Total share offer: <u>50,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 5,000,000 shares (10%)</p> <p>Placing: 45,000,000 shares (90%)</p>	<p><u>Business of Huali Holdings ("the Group")</u></p> <p>Established in March 1985, the Group designs and manufactures quality paper-based packaging containers and materials, including corrugated paperboard and printed cartons for customers in Mainland China. The annual production capacity is about 210,000 tonnes.</p> <p>The Group targets middle to large-sized customers that cover a board array of industries including electronics, food and beverage, pharmaceutical products and other consumer products. List of customers includes large domestic companies such as Konka Group and Shanghai Lenovo Electronic Co. Ltd.; and domestic operations of international names such as Canon, Sanyo and Fuji Xerox, etc.</p> <p>It has five operating subsidiaries in the PRC, two of which are located at East Industrial Park, Huaqiaocheng, Shenzhen, and the other three are located in Zhongshan, Shanghai and Mudanjiang. Accordingly, the Group's network covers major industrial districts in the Pearl River Delta, the Yangtze River Delta and the North-eastern Region of Mainland China.</p>
<p>Price: HK\$1.25 – HK\$1.35 per share</p> <p>Market Cap.: HK\$250 million – HK\$270 million</p> <p>Fully diluted FY2005 P/E: 6.67x – 7.20x</p> <p>Adjusted NTA per share: HK\$1.51 – HK\$1.53</p> <p>Staffing: 1,333</p>	
<p>HK Public Offer period: 24th October 2005 – 27th October 2005</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 2nd November 2005</p>	

Major Shareholders after Listing

*OCT Group [interest via Pacific Climax Limited]	67.185%
**Mr. Zhang Zhi Lin and Mr. Hu Zhengdong [interest via Polyfairz Group Limited]	7.815%
	<u>75.00%</u>

*OCT Group is a PRC state-owned enterprise established in 1987 and headquartered in Shenzhen.

** Mr. Zhang Zhi Lin and Mr. Hu Zhengdong hold 90% and 10% of Polyfairz Group Limited respectively. The 7.815% stake is acquired from a convertible loan arrangement.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$45.5 million.

(Assuming an issue price of HK\$1.25 per share, which is the low end of the indicative price range)

	HK\$ million
For acquiring a piece of land in Shenzhen for building a new factory	45.0
For general working capital	0.5
Total	45.5

Financial Highlights

	Year ended 31 st December			5 months ended 31 st May	
	2002 RMB '000	2003 RMB '000	2004 RMB '000	2004 RMB '000	2005 RMB '000
Turnover	409,688	504,617	605,533	220,548	261,087
Gross profit	67,180	59,365	73,716	23,914	29,945
Operating profit	37,014	36,061	41,717	9,124	19,506
Net profit	25,588	26,027	28,651	5,098	16,004

Strengths/Opportunities

- ✓ The Group has a diverse customer base, i.e. over 550 customers that covers a broad array of industries including electronics, food and beverage, pharmaceutical products and other consumer products. Changes in demand of customers of different industries therefore should not have a significant adverse impact on its business.
- ✓ Pricing of this IPO, i.e. FY2005E PER of 6.67-7.20x, is not demanding when compares with the industry's average of 9.88x.

Weaknesses/Threats

- × Paper is the key raw material that accounted for about 71.5%, 70.3%, 72.8% and 73.5% of its total cost of sales during the track record period. The Group's profitability would very much depend on the prices of paper and whether it could pass the escalated costs onto its customers.
- × The Group's profit margins had declined gradually from FY2002 to FY2004 due to increasing paper costs and administrative expenses. Although margins for the first five months of FY2005 rebounded compared with the same period in FY2004, the figures were still lower than that of FY2002.
- × Polyfairz Group Limited is a passive investor that acquired a 7.815% stake of the Group through a convertible loan arrangement and there is no assurance that it would continue to hold the shares after the counter's debut trading.

Recommendation: Unappealing