

Main Board Listing - Research

華鼎集團控股有限公司

China Ting Group Holdings Ltd. [Stock Code: 3398]

Global Coordinator, Sponsor, Bookrunner and Lead Manager : BNP Paribas Peregrine

Sector : Consumer discretionary
Business : Garment manufacturing and retailing

<p>Total share offer: <u>500,000,000</u> shares (25.13% of the enlarged share capital)</p> <p>Public Offer: 50,000,000 shares (10%)</p> <p>Placing: 450,000,000 shares (90%)</p> <p>Greenshoe: 75,000,000 shares (15%)</p>	<p><u>Business of China Ting ("the Group")</u></p> <p>The Group is a vertically integrated garment manufacturer, exporter and retailer based in China that (1) provides garment manufacturing solutions for middle to high-end fashion apparel, primarily for women, using predominately silk or silk-blended fabric on OEM basis and (ii) engages in the manufacturing and retailing of branded fashion apparel in China.</p> <p>The Group is headquartered in Hong Kong with production facilities in Zhejiang, Jiangsu and Shenzhen. Apart from Hong Kong, the Group also has offices in Hangzhou, Shenzhen, Shanghai, Paris and New York to support its sourcing, manufacturing and distribution activities.</p> <p>The Group's exports of its manufactured fashion apparel are mainly to fashion brands and department stores such as Express, Macy's, Jones Apparel Group, Liz Claiborne, May Department Stores, Saks Inc. and Zara.</p> <p>In addition to OEM businesses, the Group also has established a branded fashion apparel retail business under its own brands namely FINITY, ÉLANIE and Dbni and a licensed brand, MAX STUDIO in China that accounted for 11.2% of its turnover for the year ended 31st December 2004.</p>
<p>Price: HK\$1.80 – HK\$2.20 per share</p> <p>Market Cap.: HK\$3,582 million – HK\$4,378 million</p> <p>Forecast FY2005 P/E: 9.76x – 11.92x</p> <p>Pro forma NTA / share: HK\$0.67 – HK\$0.77</p> <p>Staffing: 11,315</p>	
<p>HK Public Offer period: 30th November 2005 – 8th December 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: 15th December 2005</p>	

Major Shareholders after Listing

Mr. Ting Man Yi, Chairman and family [*Interest via Longerview (BVI)*]

74.87%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$937.0 million.

(Assuming an issue price of HK\$2.0 per share, which is the mid-point of the indicative price range and that the Over-allotment Option is not exercised)

	HK\$ million
For initiatives that are aimed at expanding the Group's branded apparel sales	114.0
For constructing a new dyeing, printing and finishing plant for home textile products	141.7
For constructing a new plant and acquiring weaving machines for production of different home textile products on an OEM basis	102.8
For establishing a design development and exhibition centre in Hangzhou	23.0
For constructing new apparel production plants in Hangzhou and Zhejiang	259.1
For investment in quality projects	120.0
For improving the Group's information systems and upgrading operational efficiency	20.0
For repayment of bank loans	116.3
For working capital requirements and general corporate purposes	40.1
Total	937.0

Financial Highlights

	Year ended 31 st December			5 months ended 31 st May	
	2002	2003	2004	2004	2005
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Revenue	711,903	980,015	1,401,465	621,915	833,481
Gross profit	184,879	277,933	433,658	202,196	326,936
Operating profit	98,215	111,135	243,154	127,482	244,952
Net profit	94,340	95,031	213,168	111,921	211,340

Strengths/Opportunities

- ✓ Having achieved a compounded average growth rate of 31.7% from FY2002 to FY2004, branded fashion apparel retail business will continue to be the major growth driver in the near term given that there is still ample room for the Group to expand its points of sales in China.
- ✓ With its highly skilled labour and a broad customer base, the Group started diversifying into other types of textile products. For instance, the group has successfully diversified into linen products as shown by a jump in sales of linen apparel from HK\$11.2 million in FY2002 to HK\$123.2 million in FY2003.
- ✓ Pricing of this IPO at FY2005E PER of 9.76x -11.92x, is not demanding when compares to other players such as Ports (0589) and Glorious Sun (0393) which are trading at some FY2005E PER of 10.9x - 24.6x.

Weaknesses/Threats

- × The use of silk in textile and clothing is particularly sensitive to fashion trends. Thus, the Group's sales in the near future should be more volatile than its counterparts before it successfully diversifies its product mix.
- × As about 80% of its turnover is dominated in US dollars while majority of its costs and capital expenditure are settled in Renminbi, the potential appreciation of Renminbi could hurt the Group's profit margins if the foreign exchange position is not hedged.

Recommendation: Trading Buy