

**A good deal**

**Banking/Finance**

**Goldbond Group (172 HK, HK\$0.92) STRONG BUY (unchanged)**

**Target price: HK\$1.85 (+101.1%)**

**Niche integrated financing company.** Goldbond Group, an integrated, China-focused financing company, provides loan guarantee services, short-term bridge financing for SME/high net worth customers and project financing. Through its 51.0% owned arm, Rongzhong, it offers consumer loan guarantee services to individuals and major banks, and bridge financing (through Rongzhong's three pawn shops). Its Hong Kong-based headquarters instead of its China subsidiary are in charge of its project financing business.

**Loan to developers in Zhuhai.** The group announced it had agreed to make two three-year loans available: RMB100.0m to PolySanhao, and RMB15.0m to Worldpro. Poly Sanhao owns 85.0% interest in China King, which in turn owns 100.0% interests in a property project (Huaxia Zhongguan City) in Zhuhai. It is 9.0% owned by Guangzhou Poly Warehouse Management, 51.0% by Worldpro and 40.0% by Zhuhai Sanhao. Guangzhou Poly Warehouse Management is 55.0% owned by Mr. Lan Ning, an executive director of the group, who used to be a senior director of China Poly Group Corp and the founder and chairman of Guangzhou Poly Investment Ltd.

**First loan - interest and other fees.** The interest rate on the first loan is set at 10.0% per annum. Poly Sanhao is expected to pay RMB20.0m, RMB5.0m and RMB5.0m in interest, 24, 30 and 36 months, respectively, after the loan is drawn. Poly Sanhao will also pay to the group a loan arrangement fee of RMB10.0m in two equal installments, 24 and 30 months after the loan is drawn.

**Second loan - interest and other fees.** The interest rate on the second loan is set at 40.0% per annum. Worldpro is expected to pay RMB12.0m, RMB3.0m and RMB3.0m, 24, 30 and 36 months after the loan is drawn. Worldpro shall also pay to the group an arrangement fee of RMB1.5m, RMB0.5m after 18 months and RMB1.0m after 30 months after the loan is drawn.

**Deed of undertaking.** In consideration of arranging and making the loan available to Poly Sanhao, Mr. Chan, who owns 100.0% of Worldpro, Mr. Wu, who owns the entire equity interest in Zhuhai Sanhao, and Worldpro itself agreed to pay, in phases, the total loan arrangement fee of RMB78.1m to the group.

**Returns.** A total of RMB137.6m in interest and fee income will be realized on the loan. We expect the group to book HK\$9.5m in FY03/09F, HK\$67.3m in FY03/10F and HK\$65.3m in FY03/11F. The loans annual return rate is estimated at 39.9%.

**Project.** Huaxia Zhongguan City is located south of Lanpu Road, northeast of Qianshan Flyover, north of Jiuzhou Avenue in Qianshan, Zhuhai, Guangdong. The project is owned by China King, which is 85.0% and 15.0% owned by Poly Sanhao and Zhuhai China-King, respectively. It occupies three parcels of land with total site area of 91,642.9 sqm. China-King owns land use rights for about 8,851.9 sq.m. The project will be developed into a large residential/commercial/retail complex with a total GFA (gross floor area) of 350,000.0 sqm. Its ASP/sqm is estimated at RMB7,000.0 upon completion. Besides, the cost of land of is estimated at

**Table 1: Financial summary**

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Mar	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
06A	3.9	0.002	(86.2)	396.1	4.3	107.8	na	1.1	0.6	(66.2)
07A	48.7	0.029	1,161.0	31.4	3.7	38.2	na	12.6	8.1	(20.6)
08F	132.1	0.056	92.5	16.3	2.3	10.4	na	18.3	8.4	Cash
09F	243.3	0.094	67.3	9.8	1.6	5.4	na	19.6	12.9	Cash
10F	337.8	0.131	38.9	7.0	1.2	4.3	na	20.1	14.3	Cash

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RMB3,500.0/sqm. The group will take Poly Sanhao's 85.0% equity interest in China King as collateral. Because the site is only partially vacant, China King cannot obtain land use rights from the Ministry of Land Resources or bank financing. Therefore it had to resort to bridge financing.

**Forecast lifted.** We revise up our earnings forecast to reflect the increase in interest and fee income from the loan. Drivers include a reduction in minority interests (stake in Rongzhong up from 51.0% to 71.0%), increase in number of bridge financing outlets (from three pawn shops to six the end of this month), and an earnings contribution from the project financing division. STRONG BUY reiterated, target price kept at HK\$1.85.

**Table 2: Change in earnings forecasts**

	Net profit (old)	Net profit (new)	Change (%)	F.D. EPS (old)	F.D. EPS (new)	Change (%)
	HK\$m	HK\$m		HK\$	HK\$	
<b>08F</b>	132.1	132.1	-	0.049	0.049	-
<b>09F</b>	233.4	243.3	4.2	0.086	0.090	4.6
<b>10F</b>	270.0	337.8	25.1	0.100	0.125	24.9

Source: SBI E2-Capital

**Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Placing Agent for Goldbond Group (350.5m vendor shares at HK\$1.26) on August 6, 2007.**