

Ming Fai International Holdings Limited

Magic in the making...

to summarize...

- Ming Fai engages in the supply & manufacture of amenity products to high-end hotel chains and airlines. And now it is expanding into the retail consumption market by acquiring the “7 Magic - 七色花” retail networks that sells cosmetics, skin care, fashion and hair accessories.
- Reported strong 1H FY06/11A financial. Revenue increased 54.1% YoY to HK\$706.8m. Gross profit increased 47.6% YoY to HK\$184.4m. Operating profit increased 53.7% YoY to HK\$78.1m and profit for the year increased 39.3% YoY to HK\$66.9m from HK\$48.1m.
- The “7 Magic” retail networks targets young female age between 15 to 25 in the PRC. The sales network had 1,512 POS at the end of 1H FY06/11A. Revenue amounted to HK\$126.5m (18% of turnover) in the 1H of FY06/11A. Gross profit amounted to HK\$44.7m.
- To further become a one-stop hospitality solution for hotel clients, the group begin to offer off-site laundry services. The newly launched laundry service is catering to a hotel clusters around Shanghai area, with total capacity to accommodate up to 15,000 hotel room per day.
- We initiate our coverage with a BUY recommendation at a target price of HK\$1.80. Our target price represents 7.5x FY12/12F P/E and 5.9x FY12/13F P/E.

Investment Highlight

Forecasts: Revenue for FY12/11F should come close to HK\$1,429.4m, a 32% YoY increase. With HK\$1,142.5m contribution from the hotel and airlines amenities business and HK\$277.9m contribution from the retail business. We forecast net profit to be HK\$134.4m for FY12/11F, representing a 22% YoY increase. We estimate that revenue for full year FY12/12F to be HK\$1,603.0m, a 12% YoY increase, with HK\$1,199.6m contribution from the hotel and airlines amenities business and HK\$393.9m contribution from the retail business. We forecast net profit to be HK\$155.1m for FY12/12F which represents a 15% YoY increase.

Significant contribution from retail sales: Retail sector should soon become a major contributor to the group's sales, thus on its way in transforming into a partial retail-play counter. By our estimate, sales from the retail business should contribute approximately 20% of the group's sales in FY12/11F, 25% of the group's sales in FY12/12F and 30% of the group's sales in FY12/13F. On the gross profit level, retail sales should contribute approximately 26% in FY12/11F, 32% in FY12/12F and 38% in FY12/13F.

New shops: We estimate that there should be approximately 1,700 shops by the end of FY12/11F, approximately 2,300 shops in FY12/12F and approximately 3,000 shops in FY12/13F.

Our thesis: Ming Fai has a good stable existing hotel and airlines amenities business and an attractive retail business that's beginning to take shape. We feel that the retail business has a potential of becoming a significant contributor. With Ming Fai's existing expertise, we feel that being able to self-design and self-produce will give them a significant advantage over competitors by offering better quality, and at the same time has flexibility to cater to market demand changes. The counter may under goes a possible re-rating if retail sales becomes the majority contributor.

Ticker	3828 HK
Rating	BUY
Price (HK\$)	1.02
Target Price (HK\$)	1.80
12m Price Range (HK\$)	0.73-3.54
Market cap. (US\$m)	87.5
Daily t/o (US\$m)	0.2
Free float (%)	62.4

Financial summary

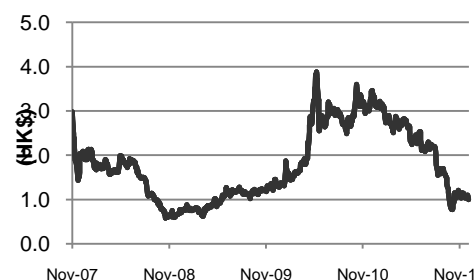
Year to Dec	09A	10A	11F	12F	13F
Turnover (HK\$)	811.3	1,085.9	1,429.4	1,603.0	1,807.2
Net Profit (HK\$)	96.3	109.7	134.4	155.1	180.2
EPS (HK\$)	0.163	0.184	0.214	0.240	0.302
P/E (x)	6.3	5.4	4.5	4.0	3.3
P/B (x)	0.77	0.67	0.65	0.59	0.53
EV/EBITDA (x)	0.8	2.8	2.8	2.1	1.9
Yield (%)	7.8	7.8	9.1	10.6	12.3
ROE (%)	12.4	12.4	13.2	14.0	14.8
ROCE (%)	14.1	14.4	15.4	16.5	17.5
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI

	11F	12F	
Consensus EPS (HK\$)	0.223	0.263	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(0.5)	(34.0)	(63.9)
Actual price changes (%)	(3.8)	(35.4)	(70.3)



Source: Bloomberg

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Chart 1. Hotel and airlines products



Source: Company data

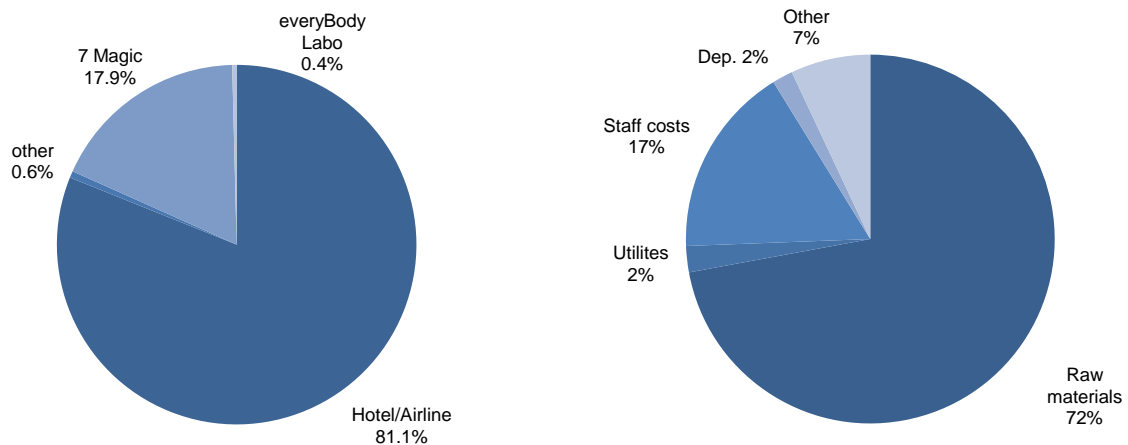
Business Analysis

Description: Ming Fai International engages in the supply and manufacturing of amenity products to high-end hotel chains (4 and 5-star) and airlines. Its product lines include a wide range of personal care, toiletries, rooms and desk accessories. To move further downstream into the retail consumption market, they acquired a cosmetics retail business name “7 magic” or in Chinese “七色花” in the PRC in August of 2010.

Business model: The group owns its own plant facilities in Shenzhen, China to produce comprehensive range of amenity products. Other products that are not produced in-house are sourced from suppliers. Through this model they are able to offer a one-stop shopping service to luxury hotels and airlines operators. The group also has its own design team they allow them to offer a customization of products to enhance the brand image awareness of the hotel and airline operators.

Business segments: The hotel related business accounted for 81.1% of total sales and 60.7% of net profit. The retail business accounted for 18.3% of the sales and 32.3% of net profit. The retail business is a recently acquired business, sales contribution started only from the last four months in 2010. Laundry and Parel business accounted for 0.6% of the sales and a loss of HK\$6.3m. everyBody Labo accounted for 0.4% of the sales and a loss of HK\$2.1m.

Chart 2. Revenue by business categories (left) and cost structure (right)



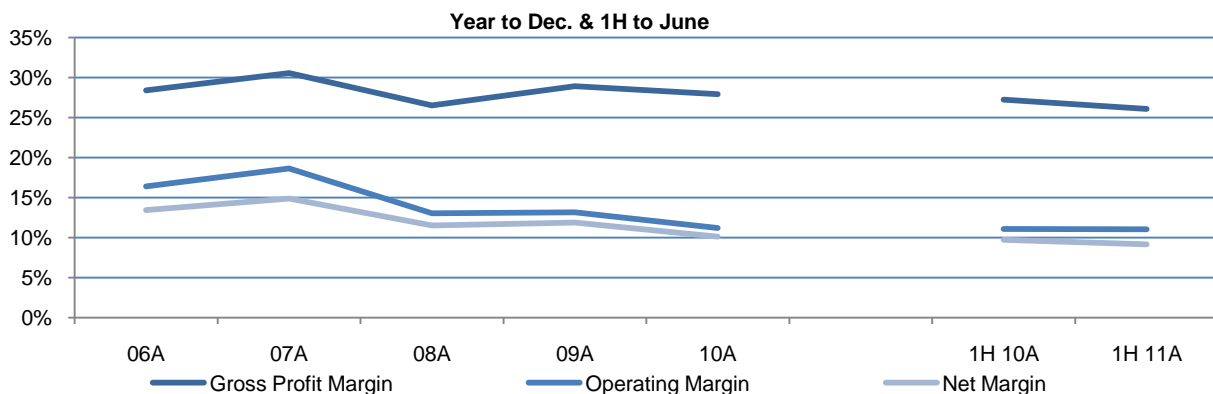
Source: Company data

Financial performance: Revenue has enjoyed an upward trend since FY12/06A from HK\$687.4m to HK\$1,085.9m in FY12/10A. Gross profit has enjoyed an upward trend from HK\$195.3m in FY12/06A to HK\$303.4m in FY12/10A. However operating profit decreased slightly from HK\$112.8m in FY12/06A to HK\$106.7m in FY12/10A. Net profit enjoyed an upward trend from HK\$92.4m in FY12/06A to HK\$135.5m in FY12/10A.

Last reported financials: Last reported earnings was for 1H FY06/11A. Revenue increased 54.1% YoY to HK\$706.8m. Gross profit increased 47.6% YoY to HK\$184.4m. Operating profit increased 53.7% YoY to HK\$78.1m. Profit for the year increased 39.3% YoY to HK\$66.9m. Earnings per share attributable to equity holder increased to HK\$10.5 cents. Gross profit margin decreased 1.1pccp YoY to 26.1%. Operating profit margin decreased 1.9pccp YoY to 11.2%. Net profit margin decreased 1.0pccp YoY to 9.5%.

Costs: Among the cost, raw materials accounted for 72.1% compare to 73.6% in FY12/10A, staff costs accounted for 16.8% increased from 15.6%, utilities accounted for 2.3 decreased from 3.1%, and depreciation accounted for 2.3%. Gross profit margin has slightly decreased from 28.4% in FY12/06A to 27.9% in FY12/10A. Operating profit margin has decreased from 16.4% in FY12/06A to 11.2% in FY12/10A. Net profit margin has decreased from 13.4% in FY12/06A to 10.1% in FY12/10A.

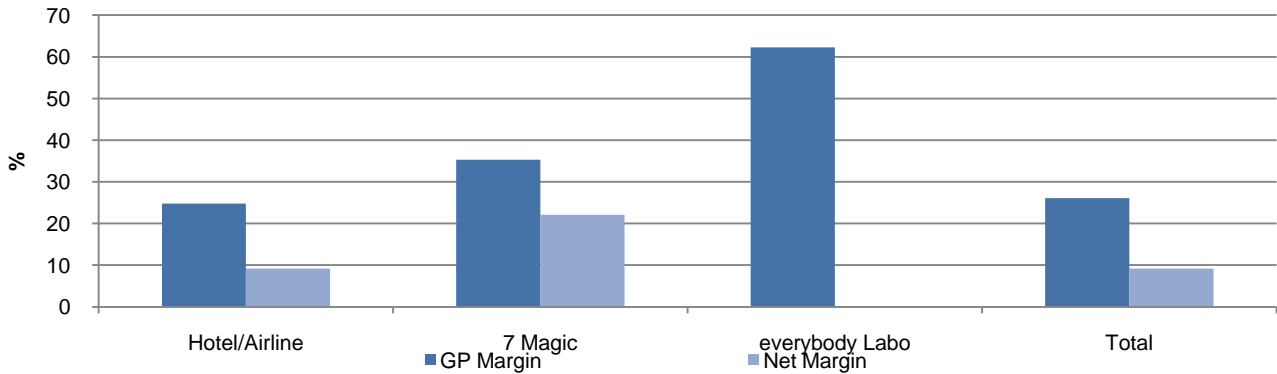
Chart 3. Gross profit margin, operating profit margin and net profit margin of the group



Source: Company data

Margin by business segments: The group enjoyed a health gross and net profit margin for each of the business segment. For the 1H FY12/11A the hotel and airline business segment enjoyed a gross profit margin of 24.8% and net profit margin of 9.2%. The 7 Magic business segments enjoyed a gross profit margin of 35.3% and net profit margin of 22.1%. The everBody Labo segment enjoyed a gross profit margin of 62.3%, but still is lost making for this segment. The Laundry business has gross profit margin of 20% but is currently lost making.

Chart 4. Gross profit margin and net profit margin by business categories



Source: Company data

Forecast: We forecast revenue for full year FY12/11F to be HK\$1,429.4m, a 32% YoY increase from the previous year. With HK\$1,142.5m contribution from the hotel and airlines amenities business and HK\$277.9m contribution from the retail business. We forecast net profit to be HK\$134.4m for FY12/11F, representing a 22% increase from the previous year. We forecast revenue for full year FY12/12F to be HK\$1,603.0m, a 12% YoY increase from the previous year. With HK\$1,199.6m contribution from the hotel and airlines amenities business and HK\$393.9m contribution from the retail business. We forecast net profit to be HK\$155.1m for FY12/12F, which is representing a 15% increase from the previous year. We see retail sector should soon become a major contributor to the group's sales, sales from the retail business should contribute approximately 20% of the group's sales in FY12/11F, 25% of the group's sales in FY12/12F.

Hotel and Airlines Amenities

Description: The hotel and airlines amenities business engages in the supply and manufacturing of amenity products to high-end hotel chains (4 and 5-star) and airlines. Its product lines include a wide range of personal care, toiletries, rooms and desk accessories. The group enjoys a strong market share with approximation of 50% in China among the 4-star and 5-star hotels and approximation of 10% globally among the 4-star and 5-star hotels. The group owns it own the plant facilities in Shenzhen, China to produce comprehensive range of amenity products. Other products that are not produce in-house are sourced from suppliers. Through this model they are able to offer a one-stop shopping service to luxury hotels and airlines operators. The group also has its own design team they allows them to offer a customization of products to enhance the brand image awareness of the hotel and airline operators.

Chart 5. Business flowchart for Hotel/Airlines segment at a glance



Source: Company data

Client profiles: The group's clients comprise of world renowned hotel and airline groups. Its top five customers are Accor Hotel group, Shangri-La Hotel group, and distributors. Together they accounted for close to 30% of this segment's revenue and around 25% of total revenue.

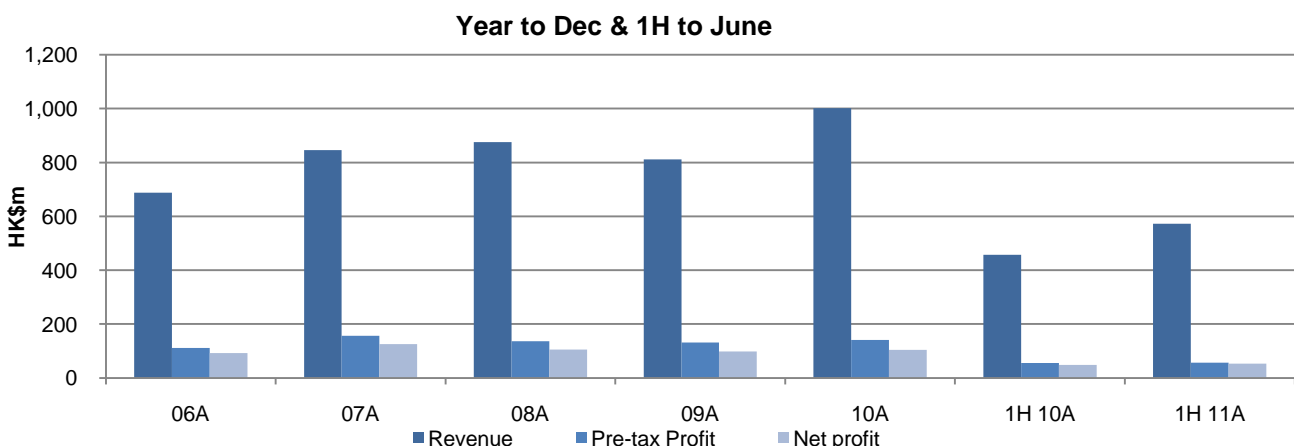
Chart 6. Clientele & brands



Source: Company data

Financial performance: The hotel related business accounted for 81.1% of total sales and 60.7% of net profit. Hotel related business revenue for 1H FY06/11A increased 25.3% YoY to HK\$572.8m. Gross profit increased 14.8% YoY to HK\$142.2m. Net profit for this segment increased 8.7% YoY to HK\$52.5m. Gross profit margin decreased 2.3pcp YoY to 24.8%. Net profit margin decreased 1.4pcp YoY to 9.2%. Revenue has enjoyed an upward trend since FY12/06A from HK\$687.4m to HK\$1,001.1m in FY12/10A. Gross profit has enjoyed an upward trend from HK\$195.3m in FY12/06A to HK\$275.5m in FY12/10A. Operating profit increased from HK\$111.1m in FY12/06A to HK\$140.7m in FY12/10A. Net profit decreased from HK\$92.4m in FY12/06A to HK\$104.2m in FY12/10A.

Chart 6. Revenue, pre-tax profit and net profit of Hotel/Airlines segment



Source: Company data

Hotel and airline profit margin trends: Gross profit margin has decreased from 28.4% in FY2006 to 24.8% in FY2010. Net profit margin has decreased from 13.4% in FY2006 to 10.6% in FY12/10A. For 1H FY06/11A, gross profit margin decreased 2.3pcp to 10.6% and net profit decreased 1.4pcp to 9.2%.

Revenue breakdown: The hotel related business has benefited from the global tourism recovery. Sales to the PRC accounted for 36% (1H FY06/10A: 34.4%). North America accounted for 34.1% (1H FY06/10A: 36.1%). Europe accounted for 16.1% (1H FY06/10A: 13.7%). Asia Pacific accounted for 9.7% (1H FY06/10A: 10.8%) and Australia accounted for 2.6% (1H FY06/10A: 3.7%). Direct client sales accounted for 44% in 1H FY06/11A (1H FY06/10A: 43%) and sales to distributor accounted for 56% (1H FY06/10A: 57%).

Table 1. Revenue breakdown by geographic region

Geographic	31 Dec. 2009 (%)	31 Dec. 2010 (%)	30 June 2010 (%)	30 June 2011 (%)
China	39	35.7	34.4	36
North America	31	35.5	36.1	34.1
Europe	16	14.4	13.7	16.1
Asia Pacific	11	9.7	10.8	9.7
Australia	3	3.6	3.7	2.6
Others	0	1.1	1.2	1.5
Total	100	100	100	100

Source: Company data

Table 2. Revenue breakdown by sales channels

Sales Channels	31 Dec. 2009 (%)	31 Dec. 2010 (%)	30 June 2011 (%)
Distribution Sales	61	57	56
Direct Sales	39	43	44
Total	100	100	100

Source: Company data

Production capacity: The annual production capacity is 853 million pieces at the end of FY12/10A. The toiletries has annual capacity of 420 million pieces, soap production has capacity of 187 million pieces and gift-set production (i.e. toothbrush, vanity, comb, shower cap, etc) has capacity of 246 million pieces. The existing utilization rate is currently running around 80% which outputs around 678 million pieces, with 334 million pieces from toiletries, 156 million pieces from soaps and 188 million pieces from gift-sets. Target utilization for FY12/11F is to run between 85% to 90% with output between 704 to 767 million pieces, of which 336 to 378 million pieces comes from toiletries, 159 to 168 million pieces comes from soaps and 209 to 221 million pieces comes from gift-sets.

Table 3. Production capacity

Product items	Annual Capacity (Dec 31 st , 2010)	Output (million pcs)	Existing Utilization rate (%)	Target Output (million pcs)	Target Utilization in 2011 (%)
Toiletries (item batching & filling)	420	334	79.5	336-378	85-90
Soaps	187	156	83.4	159-168	85-90
Gift-sets (toothbrush, vanity, comb, shower cap, etc)	246	188	76.4	209-221	85-90
Total	853	678	79.5	704-767	85-90

Source: Company data

Forecast: Due to the strong growth from the hotel sector in China with more high-end luxury hotels opening and upgrading trend from lower-end hotels into a 4-star or 5-star hotels. The group will be in a position to capture this opportunity. The group will focus on the core business by increase order from existing and new customers. We forecast revenue from this sector to contribute HK\$1,142.5m for FY12/11F representing a 14% YoY growth from previous year. We forecast a modest 5% growth for 2H of FY2011 from HK\$542.5m in 2H FY12/10A to HK\$569.5m. For FY12/12F we forecast revenue of HK\$1,199.6m representing a 5% YoY growth.

Laundry Services

New Off-site Laundry: To further becoming a one-stop hospitality solution for their customers, Ming Fai has started a new off-site laundry services. The operation was commenced in March 2011. The newly launched laundry service is catering to a hotel clusters in major cities. The new site was open at Jiangsu at the end of 2010. Clients are charged RMB \$18 (HK\$20) per room per day for the service. Currently the Laundry and Parel business amounted to HK\$4.2m accounted for 0.6% of the sales and a loss of HK\$6.3m for the 1H FY06/11A. This sector is targeted to breakeven by the end of FY12/11F. The gross margin for the laundry business is estimated to be around 40% and net margin target to be around 20%.

Table 4. Off-site laundry services capacity

	Capacity	Operation Status
Phase 1	5,000 hotel rooms per day	Operation started
Phase 2	5,000 hotel rooms per day	Expect to start in 2012
Phase 3	5,000 hotel rooms per day	Expect to start in 2013
Total	15,000 hotel rooms per day	

Source: Company data

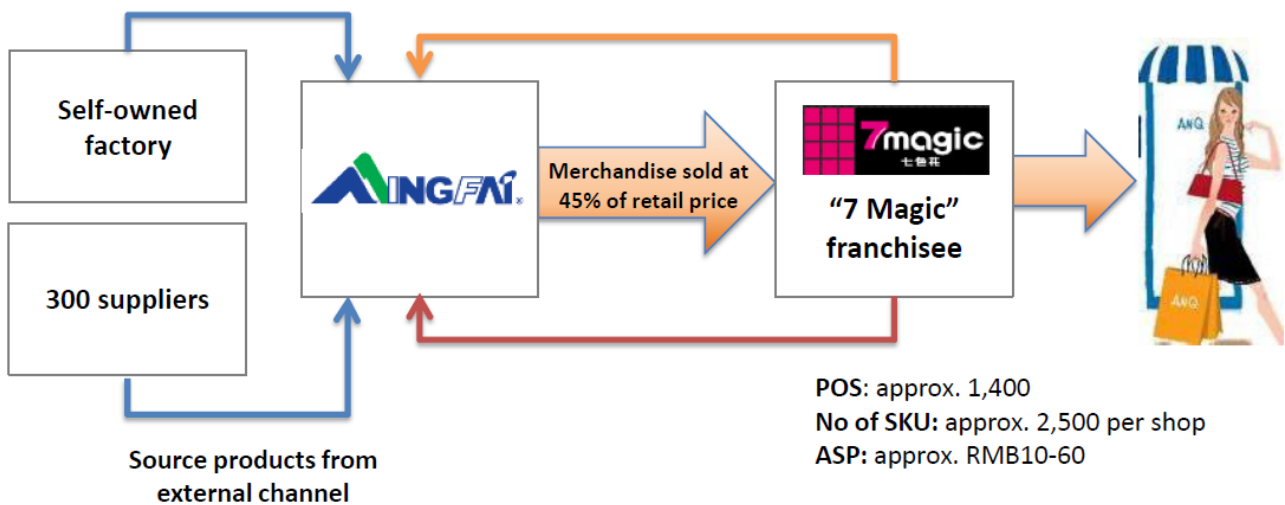
Capacity: Currently they have sign up twelve clients with combine of around 3,500 rooms serviced per day. The target is to sign up between fifteen to twenty hotels for FY12/12F which estimate to have 4,500 to 5,800 rooms for service per day. During the first phase of the operation, the available capacity can accommodate up to 5,000 hotel rooms per day. The second phase of the operation expansion can accommodate another 5,000 hotel rooms per day. For the third phase of the operation expansion, capacity can accommodate further 5,000 rooms, thus the entire capacity can accommodate up to 15,000 rooms per day.

Growth driver: The China hotel industry is experiencing robust growth with overall occupancy rate remain at 49%. Industrial research shows new hotels rooms in the pipeline are more than 120,000 rooms with half of these in the four to five stars hotels. There are also upgrade trend where three-star hotels are converting into a four or five-star hotels. Ming Fai should stand to benefit greatly since most of their clients are mainly four-star and five-star hotels. The group targets to sign up between fifteen to twenty hotels for FY12/12F which estimate to have 4,500 to 5,800 rooms.

Retail Business

About “7 Magic - 七色花”: The “7 Magic” retail networks sell cosmetics and skin care accessories targeting young female consumer age between 15 to 25 in the PRC. As of the end of June 30th, 2011, the sales network had 1,512 POS in China compare to 1,381 at the end of FY12/10A. All of the outlets are operating under a franchise model but three are self-owned. Among the sales network, 96% of the shops are located in second and third tier cities. Each shop has an average size of 50 sq. meter selling on average of 2,500 number of SKU items. The average selling price is ranging approximately from RMB10 to RMB60. Ming Fai is a major supplier of products to all “7 Magic”'s franchise stores. Including the eight series of self-owned label exclusively designed by Ming Fai. The merchandise is sold at 45% of retail prices to the franchisees.

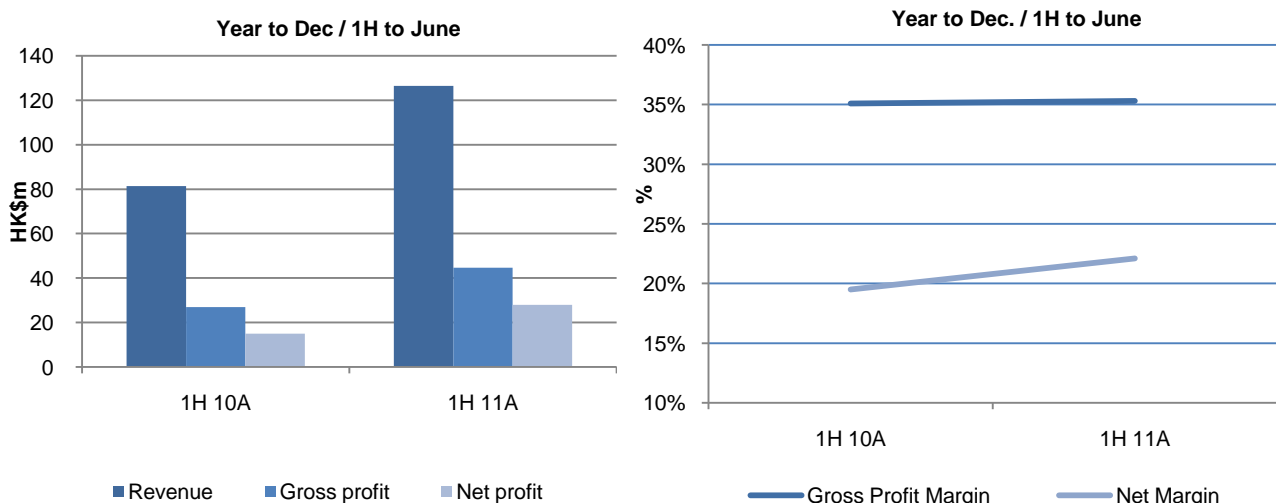
Chart 7. Business flowchart for 7 Magic



Source: Company data

Financials: Revenue for 7 Magic amounted to HK\$126.5m (18% of turnover) in the 1H of FY06/11A compare to HK\$81.4m (8% of turnover) for the last four months of FY12/10A. Gross profit amounted to HK\$44.7m compare to HK\$26.9m for the last four months of FY12/10A. And net profit amounted to HK\$27.9m compare to HK\$14.9m for the last four months of FY12/10A. The 7 Magic business segments enjoyed a gross profit margin of 35.3% at the end of 1H FY06/11A, a 0.2 pcp increase compare to 35.1% at the end of FY12/10A. And net profit margin of 22.1% at the end of 1H FY06/11F, a 2.6 pcp increase from 19.5%.

Chart 8. 7 Magics: Revenue, gross profit and net profit (left) & Gross profit margin and net profit margin (right)



Source: Company data

Products breakdown: Currently the cosmetics and skincare products accounted for 46% of store sales, fashion and hair accessories accounted for 31%, toys and stationary accounts for 15% and other gift items accounts for 8%. The gross margin on the cosmetics &

skincare products ranges from 40% to 50%, fashion & hair accessories gross margin is approximately 20% to 30%, toys & stationary gross margin ranges approximately 20% to 25% and other gift items has gross profit margin is approximately 20% to 30%. Due to the higher margin from the cosmetics and skincare items, future strategies is to increase the sales of cosmetics and skincare items, targeting up to 50% of the retails sales.

Table 5. Product breakdown & gross profit margin

	31 Dec. 2010 (%)	30 June 2011 (%)	31 Dec. 2011 Target (%)	GP Margin (%)
Cosmetics & Skincare	39	46	50	40 – 50
Fashion & Hair Accessories	38	31	25	20 – 30
Toys & Stationary	16	15	10	20 – 25
Other Gifts	7	8	15	20 – 30
Total	100	100	100	

Source: Company data

Franchise model: Majority of the retail chains are operating under a franchise model and will continue to do so. New franchisee can apply for a start-up at a new point of sale by first finding a suitable location and submit to Ming Fai for approval. Ming Fai makes sure that there won't be any overlapping of shops within the 1.2KM radius. Each franchisee pays a franchise fee of around RMB10,000 per year, with the first three years paid up-front. Under the agreement, each shop designs, layouts and promotional activities are coordinated nationwide. Each franchisee must purchase merchandises directly from "7 Magic" at a 45% discount to the retail price.

Table 6. Sales network and profit margins

	31 Dec. 2010	30 June 2011	Profit margin	31 Dec. 2010 (%)	30 June 2011 (%)
Number of outlets					
Shops under franchise contracts	1,013	1,150	Gross profit margin	35.1	35.3
Dealers	366	359	Net profit margin	19.5	22.1
Self-owned shops	2	3			
Total	1,381	1,512			

Source: Company data

New products: With the acquisition of "7 Magic", there will be ample of rooms for Ming Fai to leverage on its expertise in developing new and exclusively products for retail sales. So far, the newly launched skincare line named "QQ Tomato" series targeting at teenagers has become a top-seller. And they have revived an older skincare series named "Little Cucumber" with new packaging, designed and new formula ingredients which also has becomes among the top-sellers.

Marketing strategy: The advertising and promotional expenses are targeting to be around eight percent of the retail sales. The hiring of young and popular celebrities is use to generate brand awareness among the targeted consumer group. Currently the spokespersons are 罗志祥 and 萧亚轩, both are popular pop star among young Chinese market.

Acquisition consideration: In August 2010, Ming Fai completed the acquisition of "7 Magic" brand license and manufacturing facilities in Guangzhou. The total consideration of the acquisition was at RMB250m with RMB50m profit guarantee for FY12/11F. The consideration was paid with RMB150m in cash and RMB100m in shares at issued price of HK3.07 per share.

Chart 8. 7 Retail products: 7 Magic and everyBody Labo



Source: Company data

Increasing POS: The group plans to increase the number of new shops to 1,700 – 1,900 from the current 1,512 by the end of FY12/11F. For FY12/12F, the group target to have total number to shops to 2,400 and 3,000 for FY12/13F. In addition they have signed agreements with Wal-Mart to open shop-in-shop setup in each Wal-Mart outlets. Wal-Mart currently has around 280 stores across the PRC. There are

also plans to setup flagship stores in top tier cities such as Beijing, Shanghai, Chengdu, Dalian and Wuhan with purpose of brand building and introducing expansive product series.

Improving efficiency: Ming Fai will implement a new comprehensive ERP system for all “7 Magic” retail networks in attempt to allow better monitoring of the inventory level of each product. They will upgrade the supply chain system by implementing in-store ERP and POS systems to better manage their franchise operators.

Forecast: For FY12/11F, we forecast revenue from this sector to contribute HK\$277.9m. We forecast revenue for 2H of FY12/11F to be HK\$148.4m compare to HK\$84.8m from 2H FY12/10A, which was contribution for the last four months. We forecast revenue for FY12/12F to be around HK\$393.9m, a 42% YoY increase from the previous year. Our estimate is based on approximately 1,700 shops in FY12/11F and approximately 2,300 shops in FY12/12F.

everyBody Labo

Description: The everyBody Labo brand carries a full line of high-end body care product. Penetration through strategic partners' extensive sales net work. Products are now in sales at Mannings and Harvey Nichols in Hong Kong since the end of 2010. Total points of sales up to over 180 in Hong Kong. Products have also entered the China market through around 80 distributors to counters in cosmetics shops.

Financial: The everyBody Labo business amounted to HK\$3m in revenue and a loss of HK\$2.1m. The amount decreased from HK\$2.8m lost in 2010 as the self-operating store in Causeway Bay was closed in December 2010, resulted in reducing rental expenses. The Mongkok store is schedule to close down by the end of FY12/11F upon the termination of the lease agreement. The target is to achieve breakeven by the end of FY12/11F.

Earnings Outlook

Forecasts: Revenue for FY12/11F should come close to HK\$1,429.4m, a 32% YoY increase. With HK\$1,142.5m contribution from the hotel and airlines amenities business and HK\$277.9m contribution from the retail business. We forecast net profit to be HK\$134.4m for FY12/11F, representing a 22% increase from the previous year. We estimate that revenue for full year FY12/12F to be HK\$1,603.0m, a 12% YoY increase from the previous year, with HK\$1,199.6m contribution from the hotel and airlines amenities business and HK\$393.9m contribution from the retail business. We forecast net profit to be HK\$155.1m for FY12/12F which represents a 15% YoY increase.

Table 7. Sales and earnings forecast

(HK\$m)	2009A	2010A	2011F	2012F	2013F
Hotel & Airlines	811.3	1,001.1	1,142.5	1,199.6	1,259.6
Retails	-	84.8	277.9	393.9	537.7
Other	-	-	9.1	9.5	9.9
Sales Total	811.3	1,085.9	1,429.1	1,603.0	1,807.2
Gross Profit	234.6	303.4	373.9	425.6	487.1
Operating Profit	106.7	121.5	158.94	184.5	215.2
Profit before Tax	119.7	135.9	166.4	192.2	223.2
Tax	23.4	26.2	32.1	37.0	43
Net Profit	96.3	109.7	134.4	155.1	180.2

Source: Company data, SBI E2-Capital

Significant contribution from retail sales: Retail sector should soon become a major contributor to the group's sales, thus on its way in transforming into a partial retail counter. By our estimate, sales from the retail shops should contribute approximately 20% of the group's sales in FY12/11F, 25% of the group's sales in FY12/12F and 30% of the group's sales in FY12/13F. On the gross profit level, retail sales should contribute approximately 26% in FY12/11F, 32% in FY12/12F and 38% of the group's GP in FY12/13F. Our estimate is based on approximately 1,700 shops in FY12/11F, approximately 2,300 shops in FY12/12F and approximately 3,000 shops in FY12/13F.

Table 8. number of existing POS and forecast

	2010A	2011F	2012F	2013F
Shops under franchise contracts	1,013	1,364	1,975	2,682
Dealers	366	359	352	345
Self-owned shops	2	3	3	3
Total	1,381	1,726	2,330	3,030

Source: Company data, SBI E2-Capital

Our view: Ming Fai has a good stable existing hotel and airlines amenities business and an attractive retail business that's beginning to take shape. We feel that the retail business has a potential of becomes a significant contributor to the group's earning. With Ming Fai's existing expertise, we feel that being able to self-design and self-produce will give them a significant advantage over competitors by offering better quality, and at the same time has flexibility to cater to market demand changes. The counter may under goes a possible re-rating as retails sales become the majority contributor overtime.

Target price: Our DCF-derived target price is HK\$1.80 based on 2% terminal growth and 18% discount rate. We initiate with a BUY rating. The target price represents 7.5x FY12/12F P/E and 5.9x FY12/13F P/E.

Peers comparison: The Hong Kong listed cosmetics and personal care peers are currently trading at average 15.0x FY12/11F fwd-P/E

and 11.4x FY12/12F fwd-P/E based on market consensus. With the highest PE from Sa Sa trading at 21x FY12/11F fwd-P/E and 17x FY12/12F fwd-P/E based on market consensus. The China listed peers are currently trading at 41.1x fwd-FY12/11F and 29x FY12/12F fwd-P/E based on market consensus.

Table 9. Valuation comparison

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	Curr-Yr P/E (x)	1-Yr P/E (x)	PB (x)	Est. ROE (%)
L'Occitane	973 HK	2,859.3	15.10	21.3	19.0	16.1	3.8	27.7
Sa Sa	178 HK	1,726.6	4.79	24.1	21.0	17.0	10.2	40.1
Bonjour	653 HK	474.3	1.23	15.4	13.5	10.4	13.6	105.7
Magic	1633 HK	331.8	3.10	15.0	12.8	9.6	2.1	20.4
Natural Beauty	157 HK	292.6	1.14	30.1	19.0	11.4	2.9	3.8
Ming Fai	3828 HK	87.5	1.02	4.7	4.6	3.9	0.6	13.1
Modern Beauty	919 HK	71.4	0.77	8.0	-	-	1.8	15.6
Veeko	1173 HK	63.6	0.23	7.3	-	-	0.9	13.7
Water Oasis	1161 HK	65.6	0.67	9.0	-	-	2.1	28.1
<i>Average</i>					15.0	11.4		
Shanghai Jahwa-A	600315 CH	1983.3	36.57	44.9	41.1	29	9.6	19.6

Source: Bloomberg

Appendix I

P&L (HK\$m)	09A	10A	11F	12F	13F	Cash Flow (HK\$m)	09A	10A	11F	12F	13F
Year to Dec						Year to Dec					
Turnover	811.3	1,085.9	1,429.4	1,603.0	1,807.2	EBIT	118.4	135.8	166.2	191.9	222.9
% chg	(7.4)	33.8	31.6	12.1	12.7	Depre./amort.	13.4	14.6	8.6	11.5	14.4
Gross profit	234.6	303.4	373.9	425.6	487.1	Net int. paid	1.3	0.2	0.2	0.2	0.3
EBITDA	131.8	150.4	174.8	203.4	237.3	Tax paid	(4.5)	(0.8)	(1.0)	(1.1)	(1.3)
Depre./amort.	(13.4)	(14.6)	(8.6)	(11.5)	(14.4)	Dividends received	0.0	0.1	0.0	0.0	0.0
EBIT	118.4	135.8	166.2	191.9	222.9	Gross cashflow	128.6	149.8	174.1	202.6	236.3
Net int. income/(exp.)	1.3	0.2	0.2	0.2	0.3	Chgs. in working cap.	4.2	(139.1)	(62.9)	(2.7)	(74.9)
Exceptionals	0.0	0.0	0.0	0.0	0.0	Operating cashflow	132.1	(13.0)	92.2	178.4	139.9
Associates	0.0	0.0	0.0	0.0	0.0	Capex	(94.7)	(65.3)	(61.1)	(61.1)	(61.1)
Jointly-controlled entit.	0.0	0.0	0.0	0.0	0.0	Free cashflow	37.5	(78.3)	31.1	117.3	78.8
Pre-tax profit	119.7	135.9	166.4	192.2	223.2	Dividends paid	(68.4)	(51.6)	(62.4)	(72.1)	(83.7)
Tax	(23.4)	(26.2)	(32.1)	(37.0)	(43.0)	Net distribution to MI	-	-	-	-	-
Minority interests	0.0	0.0	0.0	0.0	0.0	Investments	(161.7)	(228.4)	(63.5)	(63.3)	(63.1)
Net profit	96.3	109.7	134.4	155.1	180.2	Disposals	(71.0)	0.0	0.0	0.0	0.0
% chg	14.0	22.4	15.5	15.5	16.1	New shares	0.0	0.0	0.0	0.0	0.0
Dividends	(48.0)	(51.0)	(62.4)	(72.1)	(83.7)	Change in bank loans	64.4	11.4	49.4	49.4	49.4
Retained earnings	48.3	58.8	72.0	83.1	96.5	Others	171.6	50.7	21.9	21.9	21.9
EPS (HK\$) - Basic	0.163	0.190	0.228	0.256	0.312	Net cashflow	(27.7)	(296.2)	(23.6)	53.2	3.2
EPS (HK\$) - F.D.	0.163	0.184	0.214	0.240	0.302	Cash reserve - Beg.	482.7	455.0	158.9	135.2	188.4
DPS (HK\$)	0.080	0.080	0.093	0.108	0.125	Cash reserve - End.	118.4	135.8	166.2	191.9	222.9
No. sh.s o/s (m) - W.A.	600.0	637.1	669.4	669.4	669.4	Interim Results (HK\$m)	08A	09A	10A	11A	
No. sh.s o/s (m) - Y.E.	600.0	637.1	669.4	669.4	669.4	Six months to Jun					
No. sh.s o/s (m) - F.D.	601.3	672.8	715.2	715.2	715.2	Turnover	393.9	345.8	458.7	706.8	
Margins (%)						% chg		(12.2)	32.6	54.1	
Gross	30.5	26.5	28.9	27.9	26.2	Profit from operations	58.7	39.7	44.5	64.7	
EBITDA	20.2	15.5	16.2	13.9	12.2	Interest expenses	7.6	1.2	2.2	2.3	
EBIT	18.1	13.1	14.6	12.5	11.6	Associates	0.0	0.0	0.0	0.0	
Pre-tax	18.4	13.9	14.8	12.5	11.6	Jointly-controlled entit.	0.0	0.0	0.0	0.0	
Net	14.9	11.5	11.9	10.1	9.4	Pre-tax profit	66.3	50.5	57.0	83.3	
Balance Sheet (HK\$m)	09A	10A	11F	12F	13F	Tax	(12.4)	(10.7)	(12.5)	(18.6)	
Year to Dec						Minority interests	0.0	0.0	0.0	0.0	
Fixed assets	208.0	281.3	342.4	403.5	464.7	Net profit	54.0	39.7	44.5	64.7	
Intangible assets	0.0	328.7	328.7	328.7	328.7	% chg		(26.4)	12.0	45.4	
Other LT assets	100.5	179.7	179.7	179.7	179.7	EPS (HK\$) - Basic	0.090	0.066	0.070	0.097	
Cash	455.0	158.8	135.2	188.4	191.6	DPS (HK\$)	-	0.050	0.045	0.015	
Accounts receivable	188.2	247.9	326.1	317.6	408.1	Shareholding Structure					
Other receivables	28.7	70.5	70.5	70.5	70.5	Shares o/s (m)					%
Inventories	78.5	148.2	157.6	183.5	198.9	Chairman and Executive directors				174.7	26.1
Due from related co.s	1.3	0.8	0.8	0.8	0.8	Senior managements				56.2	8.4
Other current assets	1.8	8.4	7.1	7.1	7.1	Vendors				36.8	5.5
Total assets	1,062.0	1,424.3	1,548.2	1,679.9	1,850.1	Public				401.6	60.0
Accounts payable	(89.8)	(149.6)	(173.3)	(187.0)	(217.0)	Total				669.4	100.0
Other payable	(98.0)	(178.0)	(178.0)	(178.0)	(178.0)	Background					
Tax payable	(13.7)	(26.0)	(20.5)	(23.6)	(27.4)	Ming Fai International engages in the supply and manufacturing of amenity products to high-end hotel chains (4 and 5-star) and airlines. Its product lines include a wide range of personal care, toiletries, rooms and desk accessories. To move further downstream into the retail consumption market, they have acquired a cosmetics retail business name "7 Magic" or in Chinese "七色花" in the PRC in August of 2010.					
Due to related co.s	(1.3)	(0.8)	(0.8)	(0.8)	(0.8)	Key Ratios	09A	10A	11F	12F	13F
ST debts	0.0	(11.7)	(11.7)	(11.7)	(11.7)	Net gearing (%)	Cash	Cash	Cash	Cash	Cash
Other current liab.	(5.6)	(10.8)	(10.8)	(10.8)	(10.8)	Net ROE (%)	12.4	12.4	13.2	14.0	14.8
LT debts	(57.7)	(51.5)	(51.5)	(45.3)	(39.1)	EBIT ROCE (%)	14.1	14.4	15.4	16.5	17.5
Other LT liabilities	(57.9)	(73.0)	(96.2)	(114.5)	(117.7)	Dividend payout (%)	49.9	46.4	46.4	46.4	46.4
Total liabilities	(323.9)	(501.4)	(542.7)	(571.6)	(602.5)	Effective tax rate (%)	19.6	19.3	19.3	19.3	19.3
Share capital	6.0	6.4	6.4	6.4	6.4	Net interest coverage (x)	-	-	-	-	-
Reserves	789.7	968.0	1,050.5	1,147.2	1,280.4	A/R turnover (days)	83	73	73	73	73
Shareholders' funds	795.7	974.4	1,056.9	1,153.5	1,286.7	A/P turnover (days)	55	56	56	56	56
Minority interest	0.0	0.0	0.0	0.0	0.0	Stock turnover (days)	52	53	53	53	53
Total	795.7	974.4	1,056.9	1,153.5	1,286.7						
Capital employed	853.4	1,037.6	1,120.1	1,210.5	1,337.6						
Net (debt)/cash	512.7	222.1	198.5	245.4	242.4						

Appendix II

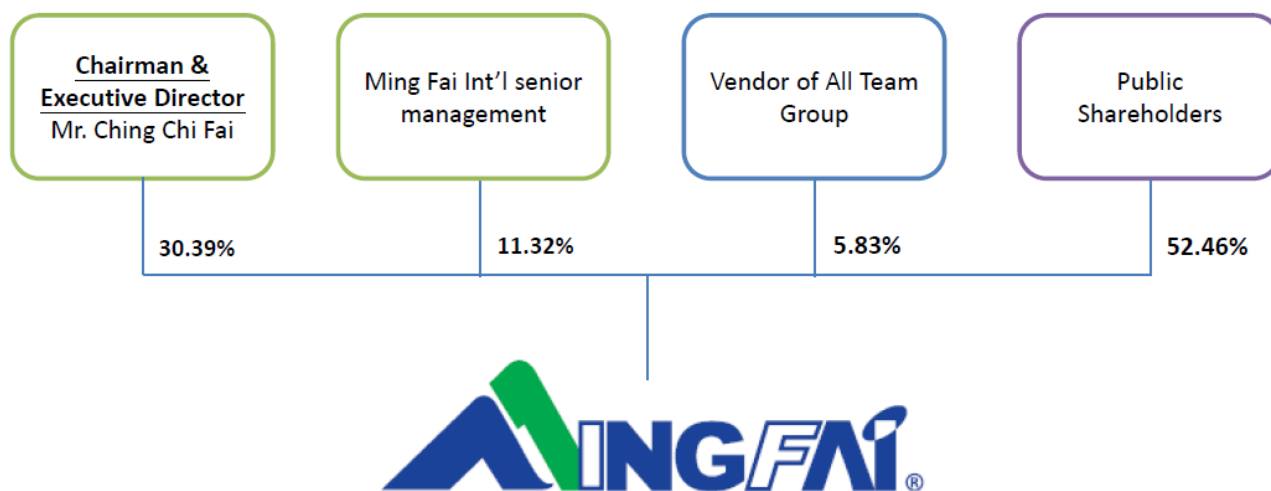
Table 11. Corporate history

Year	Achievements
1980s	<ul style="list-style-type: none"> Originated in 1981 to engage in the manufacture of shower caps in Hong Kong. Moved production to mainland China to enjoy lower production costs and preferential tax treatments.
1990s	<ul style="list-style-type: none"> Commenced products printing and packaging operations. Established sales office in Shenzhen. Established in-house export sales department. Awarded with ISO accreditation. Established sales office in Shenzhen.
2000s	<ul style="list-style-type: none"> Acquired land at Pinghu and began construction of Pinghu production base. Established sales office in Shanghai. Launched in-house branded amenity. Incorporation of Ming Fai Enterprise and Ming Fai Asia Pacific. Upgrade management information system by purchasing FLEX system. Development into a one-stop amenity products supplier and manufacturer. Commenced business relationship with Shangri-La Hotels and Resorts for supply of amenity products. Purchase of land use rights on Luoding and the construction of Luoding Production Base. Rewarded GMPC accreditation. Listed on the Hong Kong Stock Exchange.
2010	<ul style="list-style-type: none"> Acquired cosmetics products and accessories "7 Magic".

Source: Company data

Shareholding structure: The Chairman and Executive director Mr. Ching Chi Fai currently holds 26.1%, senior managements holds 8.38%, Vendors holds 5.5% and the public holds 60.02%.

Chart 9. Shareholding structure



No. of issued shares (as at 31 Dec 2010): 637,130,293 ordinary shares

Source: Company data

Appendix III

Table 12. Risk factors

Category	Types
Business	<p>Production capacities may not be able to meet production demands.</p> <p>May be unable to sustain or manage future growth.</p> <p>Products may contain poisonous materials that are hazardous to health.</p> <p>Dependent on major direct sales customers.</p> <p>Reliance on distributors for sales.</p> <p>Increase in raw materials prices that may not be able to pass on to customers and/or would reduce profit margins.</p> <p>Reliance of quality from sourced party suppliers.</p> <p>Exposed to currency exchange rate fluctuations.</p> <p>Reliance on stable supply of labor and labor cost.</p> <p>Experience shortage in power supply.</p> <p>May involuntarily breach the law and regulation in the course of sales.</p>
Industry	<p>Face competition from existing market players and new entrants.</p> <p>Adversely affected by downturns in hotel, hospitality and travel industries.</p> <p>Outbreak of infectious disease may adversely affect customer's orders from hotel and airline operators.</p> <p>Adversely affected by any reduction in the willingness of people to travel.</p> <p>Changes in existing laws and regulations or additional or stricter laws and regulation on environment protection.</p> <p>Social responsibility standards could affect business.</p>
PRC	<p>Political and economic environment could affect operations and performance.</p> <p>Uncertainties regarding the interpretation and enforcement of the PRC laws and regulations.</p> <p>Changes in policy regarding to tax treatment may have adverse impact on profitability.</p>

Source: Company data, SBI E2-Capital

Appendix IV

Human Resources: As the end of FY12/10A, the group has approximately 5,100 employees.

Chart 10. Selective directors and managements biography**EXECUTIVE DIRECTORS**

Mr. CHING Chi Fai, aged 49, is an executive Director and chairman of the Company. Mr. CHING has been responsible for sales and marketing, production of our products and the formulation of the overall corporate direction and business strategies of our Group. Mr. Ching has over 20 years of experience in the amenity industry. Mr. CHING Chi Keung is the brother of Mr. CHING Chi Fai.

Mr. CHING Chi Keung, aged 46, is an executive Director. Mr. Ching has been responsible for human resources and administrative matters. Mr. Ching joined our Group with Mr. CHING Chi Fai and has over 20 years of experience in the amenity industry. Mr. CHING Chi Fai is the brother of Mr. CHING Chi Keung.

Mr. LIU Zigang, aged 46, is an executive Director. Mr. Liu has been responsible for sales and marketing since he joined our Group in May 1995. He oversees direct sales in the Greater China Region as well as the Southeast Asia markets. Mr. Liu has over 10 years of experience in the amenity industry. Mr. Liu holds a diploma from Shenzhen University, the PRC. Mr. Liu completed a course on International Business Management of Tsinghua University organised by Yangtze Delta Region Institute of Tsinghua University, the PRC.

Mr. LEE King Hay, aged 56, is an executive Director. Mr. Lee is responsible for overseeing manufacturing and business development. Mr. Lee first joined our Group in 1994 and left in 1996 for personal reasons. Subsequently in October 1999, he rejoined our Group as production director overseeing manufacturing. Mr. Lee has over 10 years of experience in the amenity industry. Prior to joining us, Mr. Lee was an aircraft engineer in the Hong Kong and Canadian airline business from 1977 to 1993. Mr. Lee completed the course for Aeronautic Engineering and obtained a Licence in Categories "A" & "C" from Air Service Training in Perth, Scotland and holds aircraft maintenance engineer licences issued by the United Kingdom Civil Aviation Authority, Civil Aviation Department of Hong Kong and Department of Transport Canada.

Ms. CHAN Yim Ching, aged 43, is an executive Director. Ms. Chan has been responsible for sales and marketing since she joined our Group in 1995. She oversees export sales to overseas markets. Ms. Chan has over 20 years of experience in the amenity industry. Prior to joining our Group, she worked in several companies engaged in amenity business.

SENIOR MANAGEMENT

Mr. KEUNG Kwok Hung, aged 38, is our chief financial officer. Mr. Keung joined our group in July 2010 and is responsible for finance and accounting matters. He has 16 years' experience in accounting and financial management. He holds a bachelor degree in Accountancy from the Hong Kong Polytechnic University and is a fellow member of the HKICPA and the ACCA. Prior to joining our Company, he was an executive director of a company, the shares of which are listed on the GEM board of the Stock Exchange.

Ms. CHAN Yick Ning, aged 48, is our research and development director. Ms. Chan is responsible for overseeing various aspects of our chemical production such as chemical production quality control, research and development of product formulations, the operations of our chemical and microbiological laboratory, the performance of our senior chemists and technicians, quality control and research and development. Ms. Chan joined our Group in 2005 and has over 20 years of experience in cosmetics production and laboratory operation. Ms. Chan was awarded a Diploma in Management Studies jointly by The Hong Kong Polytechnic University and Hong Kong Management Association in 1992. Ms. Chan is also a member of Hong Kong Society of Cosmetic Chemists, which is in affiliation to the International Federation of Societies of Cosmetic Chemists in the United States.

Source: Company data

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