

CHINA TIANRUI AUTOMOTIVE INTERIORS COMPANY LTD:

AS IN MANY COUNTRIES OF THE WORLD, IT IS NOT

ALWAYS HOW GOOD IS A COMPANY,

BUT WITH WHOM ONE IS INTIMATE

This company has very heavy reliance on just two customers; and, an even greater reliance on sales to the North-West part of the People's Republic of China (PRC).

The loss of just one of its most-important customer would have an immediate and deleterious effect on revenue and profit and, if Management were to lose its strong position in the North-West part of the PRC, it could be curtains for the company unless it could move operations to other parts of the country, post-haste – which is very unlikely.

The company, to which **TARGET** () is referring, is China Tianrui Automotive Interiors Company Ltd () (Code: 6162, Main Board, The Stock Exchange of Hongkong Ltd).

The Initial Public Offering (IPO) Of

China Tianrui Automotive Interiors Company Ltd

China Tianrui Automotive Interiors Company Ltd published and disseminated its Global Offering Prospectus on Monday, December 31, 2018.

Management Offered 500 million, one-cent Shares at the Indicative Offer Price Per Share, ranging from a low of 25 cents to a high of 31 cents.

Investors of the Hongkong Special Administrative Region (HKSAR) of the PRC were Offered 50 million Shares (the HKSAR Offer tranche) and an International Placing tranche of 450 million Shares were Offered to qualified International Investors – Institutions, Professionals and/or Well-Heeled Individual Investors/Corporate Entities.

On Monday, January 14, 2019, Management announced that the Offer Price Per Share had been determined at 25 cents – the lowest acceptable price of the Indicative Offer Price – and that the net proceeds from the IPO was expected to come in at about \$HK82.10 million.

The official announcement in respect of the Offer Price and Allotment Results referred minority shareholders to the Global Offering Prospectus at Pages 262 and 263 where it was stated as to how Management intended to utilise the net proceeds from the IPO.

The following is copied from these two pages:

- Approximately, \$HK34.73 million, that is about 42.30 percent of the Net Proceeds, *‘for improving our production capabilities and capacity for production’*;
- Approximately, \$HK14.37 million, that is about 17.50 percent of the Net Proceeds, *‘for partial repayment of our bank loans by the end of 2019, details of which are set out as follows:*

<i>Bank</i>	<i>Type of bank loan</i>	<i>Annual interest rate</i>	<i>Maturity date</i>	<i>Outstanding principal amount as at</i>
				<i>(RMB)</i>
<i>Chang’an Bank Company Ltd</i> <i>()’</i>	<i>bank loan</i>	<i>8.10%</i>	<i>June 2020</i>	<i>20 million*</i>

* About \$HK23,223,800

- Approximately, \$HK11.90 million, that is about 14.50 percent of the Net Proceeds, *‘for enhancing our research and development capabilities including product development capabilities and technologies for production’*;

- Approximately, \$HK8.87 million, that is about 10.80 percent of the Net Proceeds, *‘for improving and widening our product offerings’*;
- Approximately, \$HK3.94 million, that is about 4.80 percent of the Net Proceeds, *‘for establishing new offices and warehouses including the hiring of new salespersons and optimising and upgrading our information systems’*; and,
- Approximately, \$HK8.29 million, that is about 10.10 percent of the Net Proceeds, *‘will be used as general working capital of our Group.’*

(**TARGET** has taken the liberty of making certain adjustments to the above-stated statistics in order to comply with the Offer Price Per Share, being struck at 25 cents instead of 28 cents.)

The Business Of China Tianrui Automotive Interiors Company Ltd

An **‘OVERVIEW’** of the business of China Tianrui Automotive Interiors Company Ltd is given at Page 93 of the Global Offering Prospectus as follows:

‘We are one of the leading manufacturers of heavy truck interior decorative products in the PRC. Our products primarily comprise a wide array of automotive interior decorative components and parts and to a lesser extent exterior decorative components and parts, which are designed to be installed on heavy trucks or passenger vehicles. We offer design and development solutions tailored to meet our customers’ specific requirements of automotive interior decorative products including functional specifications and appearance. According to the Frost & Sullivan Report, we were the largest manufacturer of heavy truck interior decorative products in North West China with a market share of 62.7% in 2017 and the third largest manufacturer in the PRC with a market share of 10.8% in 2017 both in terms of sales value of heavy truck interior decorative products, and we were the second largest manufacturer of automotive interior decorative products in North West China with a market share of 15.6% in 2017 and the 14th largest manufacturer in the PRC with a market share of 0.4% in 2017 both in terms of sales value of automotive interior decorative products.

‘Our headquarters and production facility with an aggregate GFA (Gross Floor Area) of approximately 30,684 sq.m. (Square Metres) are strategically situated in Xi’an, Shaanxi Province which, according to the Frost & Sullivan Report, was home to 19 assembly plants of truck and passenger vehicle manufacturers in 2017. As at the Latest Practicable Date (December 22, 2018), we possessed 35 injection-moulding production lines and 14 compression-moulding production lines which manufacture automotive decorative products with thermoplastic materials such as ABS (Acrylonitrile Butadiene Styrene), PP (Polypropylene), PC (Polycarbonate) resins and synthetic fabric materials. We also develop new production techniques and methodologies at our research and development centre located at our headquarters. With our production and product design capabilities,

we provide a wide range of automotive interior decorative products to truck and passenger vehicle manufacturers in Xi'an, Shaanxi Province and its surrounding regions in the PRC...

'We have established and maintained strong relationships with our major customers. For instance, we received the "Outstanding suppliers best protection award ()" in November 2015 and the "Onsite production services first prize award ()" in December 2016 from our customer being the fourth largest heavy truck manufacturer in the PRC in 2017. We believe our well-established relationships with local manufacturers will solidify our market position and foster further business relationships with other truck and passenger vehicle manufacturers and other customers... '.

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