

Main Board Listing - Research

福茂控股有限公司

Linfair Holdings Limited [Stock Code: 0462]

Lead Manager and Book-runner	: TIS Securities (HK) Limited
Joints Sponsors	: Somerley Limited & TIS Securities (HK) Limited
Co-Lead Manager and Underwriter	: Daiwa Securities SMBC Hong Kong
Sector	: Commercial services and supplies
Business	: Engineering systems contracting services

Total share offer: <u>75,000,000</u> shares (25% of the enlarged share capital) Public Offer: 7,500,000 shares (10%) Placing: 67,500,000 shares (90%) Greenshoe: Nil	<u>Business of Linfair ("the Group")</u> The Group is principally engaged in the provision of engineering systems contracting services and supporting services for and sale of related spare parts and consumables to customers in Hong Kong, the PRC and South East Asia (e.g. Malaysia, Singapore and Indonesia, etc.). The following are the four major businesses that the Group involves its core skills of audio, visual and optoelectronics technologies:- <ol style="list-style-type: none"> 1. optical disc manufacturing systems 2. broadcasting and audio-visual systems 3. theme park show systems 4. intelligent traffic management systems. During the track record period, the Group's turnover was mainly derived from contracting services related to optical disc manufacturing systems and the theme park show systems. For the eight months ended 30 th November 2004, Hong Kong, the PRC, Taiwan and South East Asia markets accounted for approximately 8.1%, 57.0%, 6.2% and 28.1% of the Group's turnover respectively.
Price: HK\$0.88 – HK\$1.06 per share Market Cap.: HK\$264 million – HK\$318 million Forecast FY2005 P/E: 5.24x – 6.31x (pro forma) Adjusted NTA per share: HK\$0.3084 – HK\$0.3534 Staffing: 72	
HK Public Offer period: 27 th May 2005 – 1 st June 2005 Receiving bank: DBS Bank (Hong Kong) Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 10 th June 2005	

Major Shareholders after Listing

Mr. Chang Ei Eu, Chairman and *Ms. Hsieh Ming Chiu, Executive Director [interest held via **Polestar Asset Limited (BVI)]	75.0%
	75.0%

*Ms. Hsieh Ming Chiu is the spouse of Mr. Chang Ei Eu.

**Mr. Chang Ei Eu owns 80% stakes in Polestar Asset Limited (BVI) and Ms. Hsieh Ming Chiu owns the remaining 20% stakes.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$57 million.

(Assuming the issue price of HK\$0.97 each, which is the mid-point of the indicative price range)

	HK\$ million
Forming business alliances with upstream suppliers and/or technical institutions	25
Capital expansion of existing subsidiaries	2
Acquiring new office premises in Hong Kong and/or overseas to set up showrooms for promoting the Group's intelligent traffic management systems	4
Setting up a communication network to enhance operation efficiency	1
Repayment of a monthly renewable revolving term loan	15
Research and development	6
General working capital	4

Financial Highlights

	Year ended 31 st March			8 months ended
	2002	2003	2004	30 th Nov 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Optical disc manufacturing systems	178,050	272,579	511,149	369,124
Broadcasting and audio-visual systems	10,901	6,853	-	-
Theme park show systems	92,989	17,039	-	-
Intelligent traffic management systems	-	3,183	-	2,019
Sale of consumable and spare parts	49,401	60,581	129,045	78,385
	331,341	360,235	640,194	449,528
Gross profit				
Optical disc manufacturing systems	8,480	29,878	45,936	36,926
Broadcasting and audio-visual systems	1,360	1,114	-	-
Theme park show systems	3,498	(1,840)	-	-
Intelligent traffic management systems	-	577	-	1,410
Sale of consumable and spare parts	12,999	16,772	31,609	20,431
	26,337	46,501	77,545	58,767
Operating profit	12,233	25,267	39,367	35,397
Net profit	10,080	20,721	34,157	32,980
EPS – Basic	HK¢4.48	HK¢9.21	HK¢15.18	HK¢14.66

Strengths/Opportunities

- ✓ The Chairman's family has a proven track record in running recording studios, radio stations and cinemas in Taiwan. Linfair is a well known record label in Taiwan. Engineering expertise and the brand name gained from these areas has since become the Group's competitive edge.
- ✓ Management of the Group sees opportunities in theme park show systems in the coming years. For the theme park systems business, the Group is now one of the authorized subcontractors of Hong Kong Disneyland that is due to open in September 2005. Given the booming tourism in Hong Kong, the Group is also entering bids related to MTR's Tung Chung cable car projects.

Weaknesses/Threats

- × Optical disc manufacturing systems (that accounted for about 80% of the Group's total turnover in FY2004) is low margin business as optical disc manufacturing is highly competitive under supply glut. The gross margin was only around 10% as shown by the Group's latest figure.
- × Turnover of the Group's business is sporadic in nature and highly depend on general economic conditions given their discretionary nature. In fact, 3 out of 4 business lines did not record any revenue in FY2004.
- × Priced at a FY2005E PER of 5.24x - 6.31x, valuation of the counter is not particularly attractive given the non-recurring nature of its turnover.

Recommendation: Unappealing