

## **Main Board Listing - Research**

佳邦環球控股有限公司

Global Flex Holdings Limited [Stock Code: 0471]

**Sponsor** : Goldbond Capital (Asia) Limited  
**Sole Global Coordinator** : Goldbond Securities Limited  
**Joint Bookrunners and Joint Lead Underwriters** : Goldbond Securities Limited  
Core Pacific – Yamaichi International (H.K.) Limited  
GC Capital (Asia) Limited

**Sector** : Technology Hardware & Equipment

**Business** : Manufacture and sale of flexible printed circuit boards and printed circuit boards

<b>Total share offer:</b> <u>312,500,000</u> shares <b>(25% of the enlarged share capital)</b>  <b>Public Offer:</b> 31,250,000 shares (10%) <b>Placing:</b> 281,250,000 shares (90%) <b>Greenshoe:</b> 46,875,000 shares (15%)	<b><u>Business of Global Flex ("The Group")</u></b>  The Group is principally engaged in the provision of flexible printed circuit board ("FPC") solutions, which include the design, manufacture and sale of FPC and sale of assembled FPC ("FPCA"). The Group is also engaged in the manufacture and sale of printed circuit board ("PCB") and sale of assembled PCB ("PCBA"). As of 31 <sup>st</sup> March 2005, sales of FPC solutions and PCB solutions accounted for 79.4% and 20.6% respectively of the Group's turnover.  The Group's FPC solutions are targeted at the medium-end of the market and its PCB solutions currently rank towards the low-end. The Group's principal FPC product type is 4-layer and above air-gap FPC and FPCA primarily used in mobile phones, while its principal PCB product type is 4-layer PCB and PCBA for computer peripherals.  The Group's customers include electronic products corporations, such as Motorola Group, Kyocera, Lenovo, Askey, Eastcom, BenQ and HP. For each of the 3 years ended 31 <sup>st</sup> December 2004, approximately 61.7%, 69.1% and 80.2% respectively of the Group's turnover were made to these customers.
<b>Price:</b> HK\$1.02 per share <b>Market Cap.:</b> HK\$1,275 million <b>Historical FY2004 P/E:</b> 6.5x <b>Adjusted NTA per share:</b> HK\$0.5874 <b>Staffing:</b> 4,432	
<b>HK Public Offer period:</b> 28 <sup>th</sup> September 2005 – 3 <sup>rd</sup> October 2005  <b>Receiving bank:</b> Hang Seng Bank  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 10 <sup>th</sup> October 2005	

### **Major Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Century Champion (BVI), a subsidiary of Taiwan-listed Vertex Precision Electronics	54.51%
Pre-IPO Investors, including DBS Nominees, Big Ben Industries and other companies which are all Independent Third Parties	9.49%
LPP Holding (BVI), equally owned by Mr. Lin Cheng Hung, Vice Chairman, and Mr. Fang Chang Fa, Assistant General Manager	5.50%
Hero Simmit (BVI), wholly owned by Mr. Hsu Chung, Chief Operating Officer	3.58%
Micropower (BVI), wholly owned by Mr. Chien Wen Guey	1.92%
	<u>75.00%</u>

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$235.0 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.02 each)

	HK\$ million
Construction of a manufacturing plant for the production of FPC, FPCA, PCB and PCBA in Northern China	157.2
Purchase of machinery and equipment for the Group's Suzhou plant	77.8

### Financial Highlights

	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March
	2002	2003	2004	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Turnover	54,108	72,725	165,732	44,506
Gross profit	7,169	10,816	39,280	9,921
Operating profit	3,987	7,082	30,728	7,925
<b>Net profit</b>	<b>3,201</b>	<b>6,193</b>	<b>25,106</b>	<b>6,437</b>
<b>Earnings per share – Basic</b>	<b>US¢0.32</b>	<b>US¢0.62</b>	<b>US¢2.51</b>	<b>US¢0.64</b>

### Strengths/Opportunities

- ✓ The Group is one of the leading FPC and PCB solution providers in the PRC in terms of sales, production capacity and product design capability. The provision of FPCA and PCBA enables the Group to provide total solution to its customers, and thereby gives it an edge in competing for contracts against those without such capabilities. At the same time, the Group is one of the global FPC suppliers of the Motorola Group. The relationship with Motorola allows it to keep abreast of the FPC development for mobile phones, in addition to providing a stable source of revenue.
- ✓ The Group has significantly increased its FPC production capacity through adapting its PCB facilities for production of FPC products to cope with a growing demand for FPC solutions. Turnover contributed by FPC and FPCA, as a result, experienced a CAGR of 208.1% from FY2002 to FY2004. Owing to higher unit gross profits of FPC products, the Group's overall gross profit margin has been widened from 13.2% in FY2002 to 23.7% in FY2004.

### Weaknesses/Threats

- × The PCB segment, which accounted for 20.6% of the Group's turnover as of 31<sup>st</sup> March 2005, is highly mature and competitive. Pricing pressure from customers and an increase in raw material prices, such as copper foils, have lowered gross profit margin of PCB from 24.3% in FY2002 to 2.6% in FY2004 and even to a negative number in the first 3 months of FY2005. This implies the Group's profitability would hinge on its ability to maintain a high proportion of FPC products in its business portfolio.
- × The Group's controlling shareholder, Century Champion, has entered into several sale and purchase agreements with the Pre-IPO Investors in April 2005 that if the actual profit after taxation of the Group calculated based on HK GAAP for FY2005 is less than US\$36 million, the Pre-IPO Investors will have a right to adjust the investment amount paid by them.
- × Valuation of the counter at 6.5x FY2004 P/E is not particularly attractive, compared with 4.3x for AKM Industrial (stock code: 8298) and 4.0x for Sinotronics Holdings (stock code: 1195), though lower than 11.6x for larger player Kingboard Chemical (stock code: 0148).

**Recommendation: Caveat Emptor**