

Analyst: Stanley Lau

Main Board Listing – Research

達進精電控股有限公司

TC Interconnect Holdings Limited [Stock Code: 0515]

Sponsor, Bookrunner and Lead Manager	: CAF Securities Company Limited
Co-Lead Managers	: CIMB-GK Securities (HK) Limited VC Brokerage Limited
Co-Managers	: Quam Securities Company Limited Sun Hung Kai International Limited

Sector : Technology Hardware & Equipment

Business : Manufacturer of printed circuit boards in the PRC

Total share offer: <u>60,000,000</u> shares (25% of the enlarged share capital) Public Offer: 6,000,000 shares (10%) Placing: 54,000,000 shares (90%) Greenshoe: 9,000,000 shares (15%)	<u>Business of TC Interconnect</u> The Group was ranked tenth amongst all PCB (Printed Circuit Board) manufacturers originated from Hong Kong and the PRC based on revenue, according to an independent survey published in September 2005. The Group's products can be broadly classified into three categories, namely single-sided PCBs, double-sided PCBs and multi-layered PCBs. They are sold to various EMS (Electronic Manufacturing Services) companies and OEMs (Original Equipment Manufactures) that manufacture products for international electronics brand operators in the application of consumer electronic appliances, computer and computer peripherals, and communications equipment. The Group's current production plant is located in Sanjiao Town, Zhongzhan City, Guangdong Province. As at 31 st December 2005, the annual production capabilities of the Group for its single-sided, double-sided and multi-layered PCBs were approximately 24.0 million square feet, 10.8 million square feet and 1.8 million square feet, respectively.
Price: HK\$1.0 per share Market Cap.: HK\$240 million Pro Forma FY2005 P/E: 4.76x Adjusted NTA per share: HK\$0.83 Staffing: 1,632	
HK Public Offer period: 12 th June 2006 – 15 th June 2006 Receiving bank: Hang Seng Bank Share registrar: Tricor Investor Services Limited Listing date: 23 rd June 2006	

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

Mr. Yeung Hoi Shan, Chairman

75%

Note: Kingboard Chemical Holdings (stock code: 0148) has agreed to subscribe for 23,760,000 shares in the offering, representing 9.9% of the Group's enlarged share capital.

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, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$51.5 million.

(Based on an offer price of HK\$1.0 per share, and assuming the over-allotment option is not exercised)

	HK\$ million
Expansion of the production facilities	27.0
Construction of a new two-floor factory building as an extension to the existing plant	19.4
General working capital	5.1

Financial Highlights

	Year ended 31 st December		
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
Turnover	329,612	420,965	495,632
Gross profit	65,726	77,744	98,769
Operating profit	29,274	49,978	51,563
Net profit	22,211	37,361	37,289
Owner's equity	73,569	110,930	148,159

Strengths/Opportunities

- ✓ The Group has accumulated years of experience in manufacturing a variety of PCBs. The high level of automation employed in its production gives it a competitive edge in terms of shortening production lead-time and responsiveness to market needs. Such capability is particularly important in dealing with large-scale EMS companies and OEMs, which usually require timely delivery of bulk orders.
- ✓ The Group will commence the construction of new production facilities in August 2006. Upon its completion by the end of 2006, the new production facilities will allow the Group to increase its capacity in the production of PCBs.
- ✓ Priced at 4.76x FY2005 P/E, valuation of the counter is not demanding compared with around 6x for Sinotronics Holdings (*stock code: 1195*) and AKM Industrial (*stock code: 8298*).

Weaknesses/Threats

- × The Group's business is dependent on the development of the consumer electronics appliances, computer peripherals and communications industries, which is subject to rapid technological changes, short product life cycle, intense competition and pricing pressure.
- × The PCB market in the PRC is highly fragmented as there are more than 1,000 PCB manufacturers scattered around the PRC.
- × The markets for single-sided and double-sided PCBs are relatively saturated. Companies competing in these two product categories might experience industry consolidation in the foreseeable future where dominant players will benefit from economies of scale and therefore seize more market shares.
- × As at 31st December 2005, the Group had a net debt to equity ratio of over 100%.

Recommendation: Unexciting

Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA and / its associated or affiliated companies may from time to time have interests in securities of the company or companies mentioned herein.

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report 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 East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.