

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8097 Facsimile: 3608 6132

**HONG KONG RESEARCH****29<sup>th</sup> September 2006**

Analyst: Kevin Tam

**Main Board Listing – Research**

力勁科技集團有限公司

L.K. Technology Holdings Ltd. [Stock Code: 0558]**Sole Bookrunner and Lead Manager**

: Tai Fook Securities Co. Ltd.

**Sponsor**

: Tai Fook Capital Ltd.

**Co-lead Manager**

: UOB Kay Hian (Hong Kong) Ltd.

**Sector** : Capital Goods**Business** : Machinery

<b>Total share offer:</b> <u>250,000,000</u> shares (25% of the enlarged share capital)  <b>Public Offer:</b> 25,000,000 shares (10%) <b>Placing:</b> 225,500,000 shares (90%) <b>Greenshoe:</b> 37,500,000 shares	<b><u>Business of L.K. Techonolgy</u></b>  L.K. Technology principally engages in the design, manufacture and sale of hot chamber and cold chamber die-casting machines and plastic injection moulding machines. The Group offers 15 product series comprising a total of 80 different product models. Die-casting machines are used for producing metallic parts and products whilst the plastic injection moulding machines are used for manufacturing plastic parts or castings. Focusing on the middle- to high- end segment, the Group sold mainly to manufacturers of different industries in the PRC.  The Group's current annual production capacity is around 4,800 standard units of machines with clamping force of 160 tons. The Group sold approximately 1,500 die-casting machines in the PRC in 2005, about 44% of the total sold in China. The Group has a total sales network of 40 sales offices ad liaison points in China, Hong Kong, Taiwan, Canada and the US.  The Group was established in 1985 in Hong Kong. As at the Latest Practicable Date, the Group has 7 manufacturing plants, 2 in each of Shenzhen and Ningbo and 1 in each of Shanghai, Zhongshan and Fuxin, the PRC.
<b>Price:</b> HK\$0.91 – HK\$1.13 per share <b>Market Cap:</b> HK\$910 – HK\$1,130 million <b>FY06 PER:</b> 8.46X – 10.5X <b>Adjusted NTA per share:</b> HK\$0.67 – HK\$0.73 <b>Staffing:</b> 3,474	
<b>HK Public Offer period:</b> 29 <sup>th</sup> September 06 – 5 <sup>th</sup> October 06 noon  <b>Receiving bank:</b> Hang Seng Bank Ltd.  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited.  <b>Listing date:</b> 16 <sup>th</sup> October 2006	

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

Girgio Industries Ltd. (BVI) - (5% owned by Liu Siong Song, founder of the Group, and 95% owned by The Liu Family Unit Trust)

75%

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$230 million. *(Being the mid-point of the offer price range [HK\$1.02 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For the expansion of production capacity	82
For the purchase of various testing equipment for production use	34
For the development and commercial production of new models of machinery and related systems and for enhancement of research capabilities	15
For expansion of sales network in the PRC	2.6
For horizontal and vertical integration	30
For the repayment of loans	52.7
For general working capital	13.7

### Financial Highlights

	Year ended 31 <sup>st</sup> March		
	2004 HK\$ million	2005 HK\$ million	2006 HK\$ million
Turnover	602	668	852
Gross profit	255	244	287
Operating profit	123	116	133
<b>Net profit</b>	<b>114</b>	<b>103</b>	<b>108</b>
Gross margin	42.4%	36.6%	33.7%
Operating margin	20.4%	17.3%	15.6%
Net margin	18.9%	15.4%	12.6%

### Strengths/Opportunities

- ✓ The Group's business is a direct beneficiary of China's industrial boom. In particular, management views the automobile application as major growth driver, where the application of aluminium materials will become increasingly popular.
- ✓ Rising material cost (80's% of cost of goods sold) had been contributing to declining margins over the past few years. The recent reversal in steel prices is expected to stabilize gross margin at least.
- ✓ The historical PER range of 8.46X to 10.5X as indicated by the IPO price range is reasonable for a mid-sized industrial stock with leading position and decent growth prospect. Hong Kong listed-comparable Chen Hsong (HKEx: 0057) is trading at historical PER of 9.5X.

### Weaknesses/Threats

- × The Group is quite highly geared. As of 31/03/06, total banking borrowings amounted at HK\$353 million, of which HK\$261 million is due within one year. Pre-IPO debt to equity ratio stood at 74% while the pro-forma post-IPO debt to equity ratio is estimated at 46%.
- × The Group's inventory turnover days and accounts receivable turnover days for FY06 were at high 133 days and 106 days respectively. The inefficient cash conversion contributed to negative operating cash inflow for FY06.

**Recommendation: Trading Buy**

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