

## **Main Board Listing - Research**

晨訊科技集團有限公司

SIM Technology Group Limited [Stock Code: 2000]

**Sponsor, Global Co-ordinator, Bookrunner and** : CLSA

**Lead Manager**

**Co-Lead Managers**

: DBS Asia Capital  
Nomura International (Hong Kong)

**Sector** : Technology Hardware & Equipment

**Business** : Mobile handset and wireless communications module developer and LCD module manufacturer in China

<p><b>Total share offer:</b> <u>375,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>Public Offer:</b> 37,500,000 shares (10%)</p> <p><b>Placing:</b> 337,500,000 shares (90%)</p> <p><b>Greenshoe:</b> 56,250,000 shares (15%)</p>	<p><b><u>Business of SIM Technology</u></b></p> <p>Based in Shanghai, SIM Technology is a mobile handset and wireless communications module developer and LCD module manufacturer in China. Its customers are mainly producers of domestic branded mobile handsets and sourcing agent in China. Its current focus is on the design, development, production, marketing and sale of:</p> <p>(i) LCD modules for mobile handsets and other portable electronic devices;</p> <p>(ii) GSM/GPRS/EDGE modules for wireless communications applications;</p> <p>(iii) SKD/CKD Turn-key Solutions for mobile handsets; and</p> <p>(iv) mobile handsets.</p> <p>SIM Technology's in-house handset design capability, development of Turn-key Solutions and manufacture of LCD modules provide a cost-efficient platform with a commonality of design and key components, enabling both the company and its customers to introduce new models in a timely manner. In 2004, SIM Technology successfully launched over 50 different models of mobile handsets to the market.</p>
<p><b>Price:</b> HK\$1.68 – HK\$2.17 per share</p> <p><b>Market Cap.:</b> HK\$2,520 million – HK\$3,255 million</p> <p><b>Historical 2004 P/E:</b> 12.16x – 15.70x</p> <p><b>Adjusted NTA per share:</b> HK\$0.51 – HK\$0.63</p> <p><b>Staffing:</b> 1,185</p>	
<p><b>HK Public Offer period:</b> 21<sup>st</sup> June 2005 – 24<sup>th</sup> June 2005</p> <p><b>Receiving bank:</b> Hang Seng Bank</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 30<sup>th</sup> June 2005</p>	

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

<p>Info Dynasty (BVI) – 49.95% owned by Mr. Wong Cho Tung, Executive Director, President &amp; CEO, 49.95% by Mrs. Wong Yeung Man Ying, Chairperson &amp; Executive Director, 0.05% by Mr. Wong Sun, Executive Director, and 0.05% by Mr. Wong Hei, Executive Director &amp; Executive Vice President</p>	<p>67.245%</p>
<p>Simcom (BVI) – wholly owned by Mr. Wong Cho Tung, Executive Director, President &amp; CEO</p>	<p>4.5%</p>
<p>Intellipower (BVI) – wholly owned by Mr. Wong Cho Tung, Executive Director, President &amp; CEO</p>	<p>3.255%</p>
	<p><u>75%</u></p>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$ 597.82 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.68 each, being the lowest end of the indicative price range)

	HK\$ million
Development and launch of next generation mobile handsets (such as 3G mobile handsets)	219.77
Development of new chipset technology platforms	125.35
Repayment of existing bank loans and other borrowings	113.49
Operation of a new LCD panel back-end production and assembly line	73.14
Establishment of a new design and development centre in Shanghai	34.76
General working capital	31.31

### Financial Highlights

	Year ended 31 <sup>st</sup> December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover	206,361	494,810	1,661,098
Gross profit	29,373	71,170	271,251
Profit from operations	12,441	44,370	230,395
<b>Net profit</b>	<b>7,983</b>	<b>31,139</b>	<b>164,866</b>
<b>Earnings per share – Basic</b>	<b>RMB0.71</b>	<b>RMB2.77</b>	<b>RMB14.65</b>

### Strengths/Opportunities

- ✓ SIM Technology's one-stop manufacturing platform enables its customers to launch new mobile handsets to the market in a timely manner, thereby capturing higher profits when such new models can be sold at higher selling prices in the early stage of the product life-cycle and lengthening the product life-cycle. SIM Technology, in turn, enjoys higher profit margins through orders from such customers.
- ✓ The company has its own manufacturing facilities for LCD modules, enabling it to compete with other competitors in terms of cost control. Having its own LCD modules manufacturing facilities allows the company to provide an assured supply of LCD modules and adjust the proportion of self-manufactured LCD modules and third party supplies in response to market conditions.
- ✓ SIM Technology utilises common electronic component inventories in the production process and therefore benefits from the increased negotiation power, reduced unit costs arising from bulk purchases of components, thereby reducing the risk of inventory obsolescence or shortage.
- ✓ The valuation of SIM Technology at 12.16x to 15.70x 2004 P/E is not too demanding when compared with players like Foxconn International (stock code: 2038) of 19x current P/E.

### Weaknesses/Threats

- × Intense competition within the Chinese telecommunications industry is exerting downward pressure on mobile handset prices and sequentially driving down the prices of their basic components. In order to retain competitiveness, SIM Technology is under pressure to reduce the prices of many of its products.
- × Given the short product life-cycle, inventory obsolescence remains one of the major risks affecting the profitability of the company.
- × Major telecommunications service providers in China are currently developing 3G network technologies. The company's future growth is built on its ability to develop and provide 3G products that are well accepted by the market.

**Recommendation: Caveat Emptor**