

## **Main Board Listing - Research**

映美控股有限公司

Jolimark Holdings Limited [Stock Code: 2028]
**Sponsor, Global Coordinator and Bookrunner** : Kingsway

**Co-Lead Manager** : SinoPac

**Sector** : Information Technology

**Business** : Manufacture and sale of business equipment and tax control equipment

<b>Total share offer:</b> <u>125,000,000</u> shares <b>(25% of the enlarged share capital)</b>  <b>Public Offer:</b> 12,500,000 shares (10%) <b>Placing:</b> 112,500,000 shares (90%)  <b>Greenshoe:</b> 18,750,000 shares	<b><u>Business of Jolimark</u></b>  The Group is the PRC's top domestic serial dot matrix (SDM) printer manufacturer in terms of unit shipment and also the 2 <sup>nd</sup> largest VAT invoice printer maker. The Group principally engages in the design, manufacture and sales of business and tax control equipment under its brand name "Jolimark", the distribution in the PRC of Epson branded SDM printers and the manufacture of business equipment, tax control equipment and other electronic products on EMS (electronics Manufacturing Business) /ODM/OEM basis.  The products of the Group can be categorised into 3 major segments, namely business equipment (SDM printers and related products and LCD projectors), tax control equipment (tax invoice printers and related devices) and other electronic products (printed circuit boards, mail folder inserter machines and car audio products).  Since commencing business in the PRC in 1989, the Group has established an extensive distribution network covering all provinces in the PRC except Xizang Autonomous Region, with sales offices located in major cities. The Group's production facilities are located in Jiangmen in the Pearl River Delta area, occupying about 17,000-sq-m gross floor area.
<b>Price:</b> HK\$1.14 per share <b>Market Cap.:</b> HK\$570 million  <b>FY2004 P/E:</b> 7.0x (On a pro forma basis)  <b>Adjusted NTA per share:</b> RMB0.62  <b>Staffing:</b> 1,396 (as of 30 <sup>th</sup> April 2005)	
<b>HK Public Offer period:</b> 20 <sup>th</sup> June 2005 – 23 <sup>rd</sup> June 2005 noon  <b>Receiving bank:</b> Standard Chartered Bank  <b>Share registrar:</b> Computershare Hong Kong Investor Service Limited  <b>Listing date:</b> 29 <sup>th</sup> June 2005	

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

Kytronics Holdings*	72.84%
Legend Capital Management, a subsidiary of Legend Holdings Limited	2.16%
	<u>75.00%</u>

Remarks (\*): Kytronics Holdings is owned by Mr Au Pak Yin, chairman of the Group, Mr Au Kwok Lun, the Group's CEO and other three Au's family members, with each holding 20% in Kytronics.

*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\$120 million.

	HK\$ million
For the Group's marketing and promotional activities in the PRC and overseas markets and enhancing brand recognition of the Group's own branded products in the PRC.	35
For research and development.	35
For potential acquisition of companies engaged in business equipment, tax control equipment and related business.	20
For expanding its sales and distribution network in the PRC.	15
For developing overseas EMS business; primarily for establishing of a larger business development team for overseas EMS business, establishing overseas sales offices in Singapore, Hong Kong and Japan, and the appointment of sales agents in the US, Europe and Korea.	10
For capital expenditure relating to the acquisition of new machineries and equipment for the development and production of new products and for the enhancement and expansion of the Group's production capacity.	5

### Financial Highlights

	Year ended 31 <sup>st</sup> December		
	2002	2003	2004
	RMB '000	RMB '000	RMB '000
Turnover	565,923	814,127	965,972
Operating profit / (loss)	78,647	94,106	105,243
Net profit / (loss)	68,219	77,480	86,225

### Breakdown of Turnover by Products

	Year ended 31 <sup>st</sup> December					
	2002		2003		2004	
	RMB (million)	%	RMB (million)	%	RMB (million)	%
Printers – for general printing purposes	314.2	55.5	383.6	47.1	465.0	48.1
Projectors	146.5	25.9	189.4	23.3	230.6	23.9
Other electronic products	11.3	2.0	71.7	8.8	98.1	10.2
Printed circuit board assembly (PCBA)	38.0	6.7	94.2	11.6	80.3	8.3
Tax control equipment – tax control and antifraud invoice printers	55.9	9.9	75.1	9.2	91.9	9.5
Turnover	<u>565.9</u>	100.0	<u>814.1</u>	100.0	<u>966.0</u>	100.0

### Breakdown of Gross Profit by Business Activities

	Year ended 31 <sup>st</sup> December					
	2002		2003		2004	
	RMB (million)	Gross profit margin	RMB (million)	Gross profit margin	RMB (million)	Gross profit margin
Sales of business equipment and tax control equipment under Jolimark brand	36.8	38.8%	57.4	32.4%	86.1	31.0%
Sales of Epson branded SDM printers	23.5	16.5%	21.2	11.7%	17.5	7.2%
EMS/ODM/OEM Businesses	53.5	16.3%	61.8	13.6%	51.5	11.6%
Total gross profit	<u>113.8</u>	20.1%	<u>140.4</u>	17.2%	<u>155.0</u>	16.1%

**Strengths/Opportunities**

- ✓ The phase three of the PRC's "Golden Tax Project", a project in establishing a nationwide computerised VAT monitoring system, is expected to kick-start in the second half of this year. It is expected to boost the demand for tax control equipment exponentially during the next couple of years.
- ✓ The Group is the second largest provider of tax control equipment, after Epson, during the phase two of the Golden Tax Project, grasping a market share of 26% in 2004. The phase three of the PRC's Golden Tax Project would only allow domestic suppliers to participate, which would give the Group a comparative advantage in competing business and enlarging its share in the tax control equipment market.
- ✓ The Group is the largest domestic SDM printer manufacturer, occupying a market share of over 8% in 1H2004. SDM printers are used extensively in the commercial sector for printing invoice, certificate, accounting spreadsheet, etc. Economic expansion and industrial modernization in the Mainland should help maintain a solid and steady growth in the Group's core business.
- ✓ The Jolimark brand SDM printer products are highly recognized in the PRC. Moreover, since conducting business in the PRC in 1989, the Group has established a countrywide distribution network with branches in major cities/provinces, which should make the Group well-positioned in marketing its branded products.
- ✓ The Group anticipated that the dividend payout would not be less than 40% for the year ended 31<sup>st</sup> December 2005. Assuming zero bottom-line growth in 2005, the planned payout ratio would transform into a generous dividend yield at 5.7%. As profit is expected to grow further this year, thanks to a strong demand for tax control equipment, the dividend yield for 2005 would be at even higher levels.

**Weaknesses/Threats**

- × Sales of printers accounted 48.1% of the Group's turnover and 47.9% of total gross profit in 2004. Despite a 5.3% rise in average selling price (ASP) of printers sold, the gross profit margin of sales of printers dropped 3.4 percentage points to 16.0% in 2004, making the Group reported a mild 0.4% drop in overall gross profit last year. It was mainly due to a weak gross margin from the sales of Epson branded SDM printers. In order to overcome this weakness and boost the profit margin in printer sales, the Group plans to promote and strengthen the sales of its own branded products, which has shown a much higher gross margin (>30%) during the last couple of years.
- × The Group's gearing ratio widened to 21.7% as of 31<sup>st</sup> December 2004, from 2.0% as at 31<sup>st</sup> December 2002, mainly due to a rise in short-term bank loans over the period. The Group's short-term bank loans rose from RMB 8 million as of 31<sup>st</sup> December 2002 to RMB100 million as of 31<sup>st</sup> December 2004. The proceeds raised from the loans were used for fixed asset purchase, settlement of dividend payments and fulfilling cash flow needs after the Group extended the credit period for its clients.

**Recommendation:     Trading Buy**