

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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HONG KONG RESEARCH**26th January 2006****Analyst: Ernest Tan****Main Board Listing - Research**

精熙國際(開曼)有限公司

Yorkey Optical International (Cayman) Ltd. [Stock Code: 2788]**Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager** : Sinopac Securities (Asia) Limited**Sector** : Technology**Business** : Manufacturing of plastic and metallic parts for optical and opto-electronic products

Total share offer: <u>200,000,000</u> shares (25% of the enlarged share capital) Public Offer: 20,000,000 shares (10%) Placing: 180,000,000 shares (90%) -140,000,000 new shares - 40,000,000 sale shares Greenshoe: 30,000,000 shares (15%)	<u>Business of Yorkey Optical ("the Company")</u> The Company is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including digital still cameras (DSCs), copiers (including copier-based multi-function peripherals), computer peripherals, handsets, traditional film cameras and others, and subsequently related accessories. The Company was established in 1995 and currently has five major business divisions, namely i) plastics injection and moulding division; ii) metal stamping division; iii) coating and printing division; iv) cases and bags division; and v) mould design and fabrication division. The customer base of the Company comprises PRC and Hong Kong subsidiaries of well known optical instrument manufacturers in Japan and Korea including CANON, KONICA MINOLTA, NIKON, OLYMPUS, PENTAX, RICOH, SAMSUNG and TOSHIBA. Its production facilities are located in Dongguan, PRC, with a total gross floor area of approximately 29,618.88 sq.m.
Price: HK\$1.63 – HK\$2.35 per share Market Cap.: HK\$1,304 million – HK\$1,880 million Pro Forma FY2005 P/E: 9x – 13x Pro Forma NTA / share: HK\$0.85 – HK\$1.01 Staffing: 2,634	
HK Public Offer period: 26 th January 2006 – 3 rd February 2006 Receiving bank: Standard Chartered Bank (Hong Kong) Limited Share registrar: Tricor Investor Services Limited Listing date: 10 th February 2006	

Major Shareholders after Listing

<i>Ability Enterprise (Taiwan)(2347.TT) [Interest via Ability Enterprise BVI (BVI)]</i>	24.75%
<i>*Asia Promotion (BVI)</i>	30.25%
<i>Asia Optical (Taiwan)(3019.TT) [Interest via Richman International (BVI)]</i>	5.0%
<i>*Fortune Lands (BVI)</i>	15.0%
	<u>75.00%</u>

*Asia Promotion (BVI) is jointly owned by Mr. Cheng Wen Tao, founder (49.3%), his spouse (26.2%) and Mr. Liao Kuo Ming, executive director (24.5%). **Fortune Lands (BVI) is the trustee of The Yorkey Employees' Trust, a discretionary trust for eligible employees of Yorkey.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$243.5 million and HK\$355.8 million based on the offer price of HK\$1.63 and HK\$2.35 per share respectively.

(Assuming that the Over-allotment Option is not exercised)

HK\$ million	Based on offer price of HK\$1.63 per share	Based on offer price of HK\$2.35 per share
Enhancement of production facilities in various divisions (75%)	182.5	266.8
Purchase of quality control equipment to meet the requirements of international customers (10%)	24.4	35.6
Introduction of computerized systems to enhance management efficiency and integration of resources (5%)	12.2	17.8
Working capital and other general uses (10%)	24.4	35.6
Total (100%)	243.5	355.8

Financial Highlights

	Year ended 31 st December			7 months ended 31 st July	
	2002 US\$ '000	2003 US\$ '000	2004 US\$ '000	2004 US\$ '000	2005 US\$ '000
Revenue	41,311	56,285	66,855	36,829	44,697
Gross profit	13,643	19,559	24,457	13,080	18,567
Operating profit	6,911	10,740	10,814	7,200	12,200
Net profit	6,464	10,084	11,193	7,081	11,511

Strengths/Opportunities

- ✓ The Company has an established customer base with reputable companies in the industry of optical and opto-electronic products, such as Canon, Epson, Konica Minolta, Nikon and Toshiba, etc. This solid client base shall secure the Company with a stable demand and lowers its risk of default payment.
- ✓ Sales related to digital still camera (DSC) industry that represented 60% of the Company's sales is expected to maintain its growth momentum in the near future given the increase in outsourcing of Japanese brands and the potential new orders from mobile handsets, particularly 3G phones that feature high resolution cameras.
- ✓ As of the end of July 2005, the Company was in a net cash position with US\$30.5 million cash-on-hand with no outstanding debt.
- ✓ Pricing of this IPO at FY2005E PER of 9x -13x is not too demanding when compares to its Taiwanese counterparts that are trading at an average FY2005E PER of 19x.

Weaknesses/Threats

- × The entry barrier to the industry in which the Company operates is not high and the business is intensely competitive. Moreover, as the average selling price of digital still camera is widely expected to fall gradually as the market matures, the margins of component suppliers are likely to be squeezed.
- × Plastic resins and steel foils are the most important raw materials that account for over half of the cost of goods sold. As prices of plastics resins are affected by surging crude oil prices and metal foils prices are impacted by rising steel prices, profitability of the Company will be adversely affected as a result.

Recommendation: Speculative Buy

**Important Disclosure / Analyst Certification / Disclaimer**

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