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HONG KONG RESEARCH**22nd January 2007****Analyst: Vincent Leung****Main Board Listing – Research****Meadville Holdings Limited [Stock Code: 3313] 美維控股有限公司**

**Joint Global Coordinators, Joint Bookrunners,
Joint Lead Managers and Joint Sponsors**
Co-Lead Manager
Co-Managers

: Citigroup HSBC
 : DBS Asia
 : BCOM Securities VC Brokerage

Sector : Industrials – Capital goods**Business** : Design and manufacture of printed circuit boards (PCBs) in the PRC

Total share offer: 526,600,000 shares
(26.3% of the enlarged share capital)

Public Offer: 52,660,000 shares (10%)**Placing:** *473,940,000 shares (90%)**Greenshoe:** 78,990,000 shares

*Comprising 447,340,000 New Shares and
 26,600,000 Sale Shares

Price: HK\$1.90 – HK\$2.40 per share**Market Cap:** HK\$3,800 million – HK\$4,800 million**Pro-forma FY2006E P/E:** 12.3x – 15.5x**Adjusted NTA per share:** HK\$1.20 – HK\$1.32**Staffing:** 7,612 (as of 30th September 2006)**Public Offer period:**22nd January 2007 – 25th January 2007 noon

Receiving banks: HSBC,
 Standard Chartered Bank (HK)

Share registrar: Tricor Investor Services Limited**Listing date:** 2nd February 2007**Business of Meadville**

Founded by Mr. Tang Hsiang Chien (the father of HKSAR Financial Secretary Henry Tang) in 1985, Meadville is one of the leading printed circuit board (PCB) manufacturers in the PRC, with focus on producing high-end PCB products. According to N.T. Information, Meadville is the 7th-largest PCB manufacturer in terms of turnover in the PRC in 2005.

The Group's products include double-sided and multi-layer PCBs, high-density interconnect (HDI) PCBs and IC substrates. Meadville's major customers are multinational and PRC OEMs, EMS providers and PCB traders. The usage includes communication equipment, computers and computer peripherals, cellular phones, high-end consumer electronics, automotive components as well as medical and industrial equipment. PCBs currently accounted for 90% of the Group's total turnover.

The Group currently operates a total of 5 PCB plants, 2 laminate plants and 1 drilling & routing plant in Shanghai and Dongguan in the PRC and in Hong Kong, with a combined monthly available production capacity of 1.4 million sq. ft. of PCB products, 3.4 million sq. ft. of laminate and 12.8 million sq. ft. of prepreg.

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Mr. Tang Hsiang Chien (Honorary Founding Chairman and executive director of Meadville Holdings) (Note 1)	68.3%
1,729 employees of the Group (through a trust held by Mr. Tang Hsiang Chien) (Note 2)	2.8%
Mr. Chung Tai Keung, Canice (CEO of Meadville Holdings) (Note 1)	2.4%
Keen Astute Limited (Notes 1 & 3)	0.2%
Public shareholders	26.3%
	<u>100.0%</u>

Notes:

1. Shares held by Mr. Tang Hsiang Chien, Mr. Chung Tai Keung, Canice and Keen Astute Limited are subject to a lock-up period of 6 months from the listing date. Shares held by Mr. Tan Hsiang Chien are subject to a further 6-month lock-up period.
2. Shares held by the 1,729 employees are subject to lock-up periods of 6 months to 4 years from the listing date.
3. Keen Astute Limited is a consultant to Mr. Tang Hsiang Chien's wholly-owned investment holding company Su Sih (BVI) Limited, which holds 56.5% of Meadville Holdings. Keen Astute Limited provides management consulting services on corporate affairs and governance in relation to Su Sih and its subsidiaries (covering the Group).

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,010 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.15 each, being the midpoint of the indicative price range)

	HK\$ million
For the construction of the first phase of the Group's new GME (Note a) plant for the production of advanced HDI PCB products	294
For the construction of the building for the Group's new plant in Dongguan for the production of conventional PCB products intended for the PRC market and for the installation of certain equipment and facilities for part of this plant	229
For capacity expansion at the Group's DMC (Note b) plant intended for the overseas market	227
For the construction of the first phase of the Group's new MAGL (Note c) plant for laminate and prepreg product	157
For capacity expansion and/or upgrade and replacement at the Group's existing product plants	103

Notes:

- a. Guangzhou Meadville Electronics Co., Ltd. ("GME") is a wholly-owned subsidiary of Meadville Holdings.
- b. Dongguan Meadville Circuits Limited ("DMC") is owned as to 80% by Meadville Holdings and as to 20% by Shanghai-listed Guangdong Shengyi Sci Tech Co., Ltd (stock code: 600183.SS; 22.18% owned by Meadville Holdings' wholly-owned subsidiary).
- c. Mica AVA (Guangzhou) Material Company Ltd. ("MAGL") is a wholly-owned subsidiary of Meadville Holdings.

Financial Highlights

	Year ended 31 st December			Nine months ended 30 th September
	2003	2004	2005	2006
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Turnover	1,261,303	1,643,856	2,216,914	2,191,289
Gross profit	212,763	364,545	424,273	458,272
Operating profit	61,647	173,300	254,308	314,370
Attributable profit	49,255	170,853	210,822	208,610
Gross margin	16.9%	22.2%	19.1%	20.9%
Operating margin	4.9%	10.5%	11.5%	14.3%
Net margin	3.9%	10.4%	9.5%	9.5%

**Turnover Breakdown (% of Total Turnover)**

	Year ended 31 st December			Nine months ended 30 th September
	2003 %	2004 %	2005 %	2006 %
Conventional PCBs	83.0%	67.4%	65.2%	63.1%
HDI PCBs	7.1%	19.8%	23.3%	23.6%
IC substrates	0.5%	1.9%	2.2%	2.2%
Value-added services	0.1%	0.0%	0.2%	1.0%
PCBs total	90.7%	89.1%	90.9%	89.9%
Prepreg and laminate	9.3%	10.9%	9.1%	10.1%
Total	100.0%	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ The PRC (including Hong Kong) is expected be the fastest growing PCB market in the world, with a CAGR of approximately 15.5% from 2004 to 2009, according to BPA Consulting. As the 7th-largest player in the PRC, the Group should be able to capitalise on this strong growth.
- ✓ The Group has been shifting its product mix to focus more on the high-end high density interconnect (HDI) PCBs with higher profit margins. This should help mitigate the margin pressure resulting from competitions.
- ✓ The Group has established strong customer relationships. Its key OEM customers include ZTE Corp (stock code: 0763), ATI Technologies, Ningbo Bird and Huawei Technologies. It also supplies PCB products directly to leading EMS providers, including Plexus, Celestica, Flextronics and Inventec.
- ✓ Relative to its competitors in Taiwan, Japan, South Korea, North America and Europe, the Group has access to skilled and cost-efficient labour in China.

Weaknesses/Threats

- × The PCB market is highly competitive and intensifying competitions between industry players will harm the Group's profit margins.
- × The Group is in a net-debt position, with net debt-to-equity ratio of 106.1% as of 30th September 2006.
- × Given its future expansion plan, the Group only intends to pay out not more than 20% of its net profit as dividends.
- × To be priced at 12.3x-15.5x FY2006E P/E, Meadville's valuation is not particularly attractive when compared with sector peers, including Singapore-listed Elec & Eltek International (stock code: EELT.SI) as well as smaller Hong Kong-listed peers Global Flex Holdings (stock code: 0471), HannStar Board International (stock code: 0667) and Topsearch International (stock code: 2323). Elec & Eltek, the leading PCB player in the region, is trading at 5.2x FY2006/07E P/E. Global Flex and Hannstar Board are trading at 6x and 11.3x their respective FY2006E P/Es while Topsearch is trading at 6.8x historical FY2005 P/E. Meanwhile, recently-listed Kingboard Laminates (stock code: 1888), which is the largest rigid laminate manufacturer globally in 2005, is trading at 16.9x FY2006E P/E.

Recommendation: Caveat Emptor



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