

# Combine Will International Holdings Ltd

KOSPI – 안녕하세요 (Hello Korea, or KOSPI to be exact)

<b>RECOM</b>	BUY
<b>PRICE/TARGET PRICE</b>	S\$0.28/S\$0.50
<b>MKT CAPITALISATION</b>	S\$91.8m
<b>BOARD</b>	Main
<b>SECTOR</b>	Manufacturing

COMW SP

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**Synergistic businesses.** Combine Will is an ODM/OEM manufacturer of plastic and die-cast products including premiums, collectibles, toys and consumer products. Its niche is mainly in premiums. To complement this business, Combine Will has also grown into a leading supplier of plastic injection and die-cast moulds for internal usage and for the growing automobile industry. Its third arm is involved in the distribution and installation of advanced machines and precision tools for the mould related industry.

**Catalyst 1 – earnings ramp in FY10.** A new customer for automatic soap dispenser is expected to boost sales and profit in FY10. The customer's product is already on sale in the US and is slated to go on sale in Europe soon. This is a mass volume product. Given that Combine Will is currently the sole source for this product, margins and volume allocation will be good. It took Combine Will 3 years to clinch this business and as such, it could also take a while before new suppliers are qualified by the customer.

**Catalyst 2 – Korea listing.** Combine Will also hope that its proposed Korean dual listing will improve valuation and help penetrate into Korean customers. Prior to the Korean listing, Combine Will will undergo a share consolidation exercise. Every 10 shares will be consolidated into 1 share.

**Initiate with BUY and target price of S\$0.50.** With the return of demand from existing customers and contribution from new customers, earnings could see double growth for FY10-FY11. We derive a target price of S\$0.50, based on a 10% discount to our regional tech sector average CY12 P/E of 7.8x.

## Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (HK\$ m)	1,344.7	1,058.2	1,597.7	1,860.5	2,059.9
EBITDA (HK\$ m)	119.7	102.3	199.9	239.1	258.7
EBITDA margins (%)	8.9	9.7	12.5	12.9	12.6
Pretax profit (HK\$ m)	84.3	61.1	139.2	173.1	191.9
Core net profit (HK\$ m)	72.9	45.2	104.6	124.2	138.1
Core EPS (HK cts)	25.5	13.8	31.9	37.9	42.1
EPS growth (%)	-28%	-46%	+131%	+19%	+11%
P/E (x)	6.5	12.1	5.2	4.4	3.9
Gross DPS (HK cts)	5.1	5.4	5.8	5.8	5.8
Dividend yield (%)	3.1	3.3	3.5	3.5	3.5
P/NTA (x)	1.3	1.2	1.0	0.8	0.7
ROE (%)	20.9	10.3	20.9	20.8	19.5
Net gearing (%)	13.1	32.7	42.7	41.5	24.6
P/CF (x)	4.0	5.8	3.4	2.9	2.7
EV/EBITDA (x)	8.9	10.4	5.3	4.5	4.1

Source: Company, CIMB Research estimates

## Market capitalisation & share price info

Market cap	S\$91.8m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.09/S\$0.30	Relative	9.6	36.7	86.4
3-mth avg daily volume	S\$0.19m	Absolute	14.3	51.4	124.0
# of shares (m)	328.0	Major shareholders			% held
Est. free float (%)	27	DJKS Holdings			73.5
Wrts/ICULS o/s (m)	None				
Conv. price (S\$)	None				

Source: Company, CIMB Research, Bloomberg

## Background

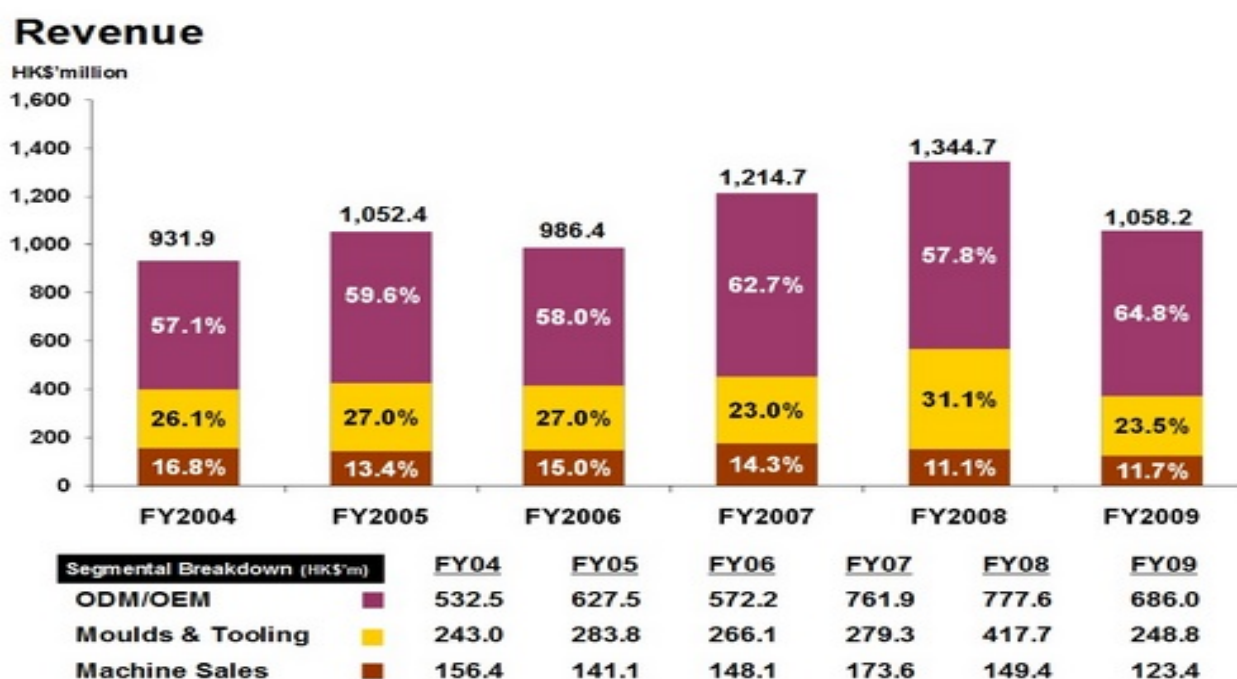
Based in Dongguan, Guangdong province, Combine Will International Holdings was incorporated on 8<sup>th</sup> October 2007. Operations were started in 1992, with the incorporation of Combine Will HK in Hong Kong. Presently, the company's main production base is in Guangdong with factory space covering more than 159,000 sqm and employs more than 10,000 workers.

ODM/ OEM manufacturing operations have increased over the years and manufacturing capabilities have expanded into production of other consumer goods. The ODM/OEM segment has been vertically integrated with the Moulds and Tooling, and Machine sales business segments.

Combine Will is one of the leading suppliers of plastic injection and die-casting moulds in southern China, and a distributor of machines and tools used for the manufacture of moulds, die-cast and automobile products.

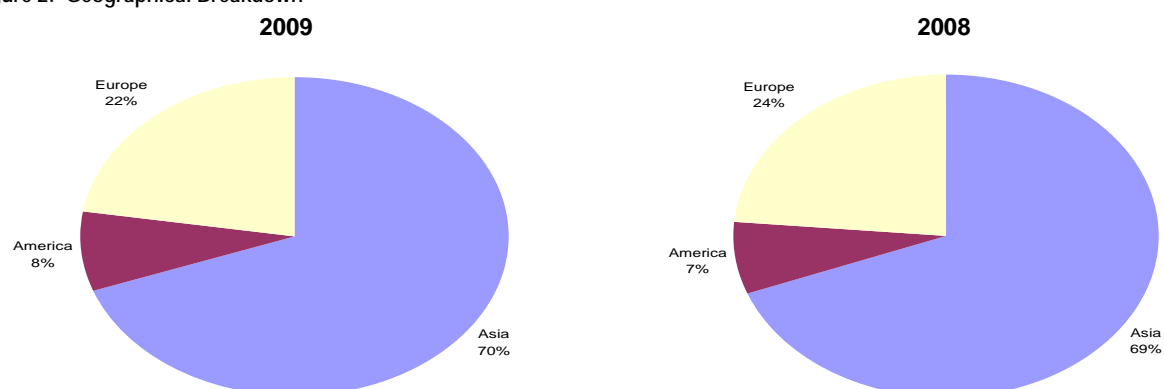
Combine Will International Holdings was listed on the Singapore Mainboard on 23 June 2008, at S\$0.23.

Figure 1: Revenue breakdown



Source: Company

Figure 2: Geographical Breakdown



Source: Company

## Key segments

Combine Will has 3 key business segments: ODM/ OEM, Moulds and Tooling, and Machine Sales.

**ODM/OEM manufacturing.** Combine Will manufactures; premiums, collectibles, toys and consumer products. The company is a one-stop integrated manufacturer of plastic and die-cast products. Customers of ODM/OEM products typically hold the rights and licenses for sale and distribution. Hence, customers provide the concept or prototype, while Combine Will's design and development team will advise on material suitability and functional capabilities of products. The fully integrated manufacturing structure of Combine Will allows for a one-stop seam-less development of customers' product, from the drawing board to final production. Major Clients of this business segment are: The Marketing Store, a global brand activation agency; Sieper GmbH, the maker of the Siku brand of replica cars; Liberty Classics, Hasbro and Hong Kong-listed Playmates Inc.

**Moulds and Tooling.** The company is one of the leading suppliers of plastic injection and die-casting moulds in southern China, possessing the ISO/TS16949:2002 certification. Moulds are for both internal use and for the automobile and consumer products industry. Moulds and tooling are manufactured with precision and detail, with a material and design team assisting customers in production and technical advice.

Combine Will is an approved supplier to international automobile manufacturers; Honda, Volvo, General Motors, and Tier 1 suppliers such as Valeo, Delphi and Faurecia. In the consumer and household segment, Combine Will counts manufacturers like Toshiba, Honeywell SEB and Whirlpool as customers.

**Machine Sales.** The machine sales segment was set up in 2000, in response to demand for precision machinery. Combine Will distribute and install advanced machines and precision tools. These customers are primarily involved in manufacturing of mould and die-cast products and auto-mobile parts. The machines distributed are mainly from equipment manufacturers in Japan, USA, Germany, UK, Taiwan and Italy, whose products are renowned for consistency and quality. Combine Will offers a total solutions package, installing machines with the required operating software and after-service sales service.

**Production capacity and marketing footprint.** Combine Will's five production facilities are located in Dongguan, China. The processing factory (leased) is located in Heyuan, China. Total factory floor space is more than 159,000 sq m.

**Figure 3: Production equipment strength (ODM/OEM segment)**

Types of Machinery and Equipment	Quantity
Injection Moulding Machine	152 sets
Die Casting Machine	19 sets
Centrifugal/Spin Casting Machine	4 sets
Vibratory Deburring/Polishing Machine	11 sets
Electro-Static Spraying Conveyors	3 sets
Pad Printing Machine	332 sets
Hand Spraying Booth	663 booths
Hot Stamping Machine	12 sets
Vacuum Metallising Machine	2 sets
Surface Mounting Machine	2 sets
Reflow Soldering Machine	2 sets
IC Bonding Machine	16 sets
Sonic Welding Machine	55 sets
Blister Sealing Machine	37 sets
Assembly Conveyor Line	62 sets
XRF Chemical Analysis Machine	1 set
CMM	1 set
Optical Measurement Machine	2 sets
Electricity Generator	10 sets

Source: Company

**Figure 4: Production equipment strength (moulds/tooling)**

Types of Machinery and Equipment	Quantity
CNC Machine	55 sets
5-Axis CNC Machine	2 sets
EDM Machine	68 sets
Precision Wire Cut EDM Machine	29 sets
Grinding Machine	35 sets
CMM	5 sets
Generators	3 sets

*Source: Company*

**Track record.** Over its years of existence, Combine Will has established a good track record in terms of quality, punctual delivery and corporate social responsibility. It has won strong referrals from industry players with repeat customers accounting for over 90% of sales. In addition, many of Combine Will customers are market leaders in their own sectors.

**Competitors.** The ODM/OEM industry is characterized by bulk order-volumes, predictable order flows, low seasonal effects and relatively high barriers of entry. At present, Combine Will identifies the following as its main competitors in this business segment:

- Early Light Industrial Company Limited;
- Forward Winsome Industries Limited;
- Jetta Company Limited;
- Lung Cheong International Holdings Limited;
- The Merton Company Limited;
- Wah Shing Toys Company Limited.

Other than HK-listed Lung Cheong International Holdings Limited, the rest of the companies are not listed.

The Moulds and Tooling business segment of Combine Will is focused on automobile parts, with both domestic and international competitors. Competitive pricing is the key competitive edge of Combine Will. Main competitor's are:

- Ace Mold Co. Ltd;
- CIM Precision Molds (HK) Ltd;
- Ngai Cheong Mould Company Limited;
- TK Moulds Co. Ltd;
- Ultratech Mould Design & MFG Co. Ltd.

In Machine Sales business segment, competition is primarily from distributors of rival machinery and equipment brands. Key competitors are:

- Deckel Maho Gildemeister;
- Fair Friend Ent. Group;
- Kao Fong Machinery Co. Ltd;
- Makino Milling Machine Co. Ltd and
- Okuma Corporation.

## Industry outlook

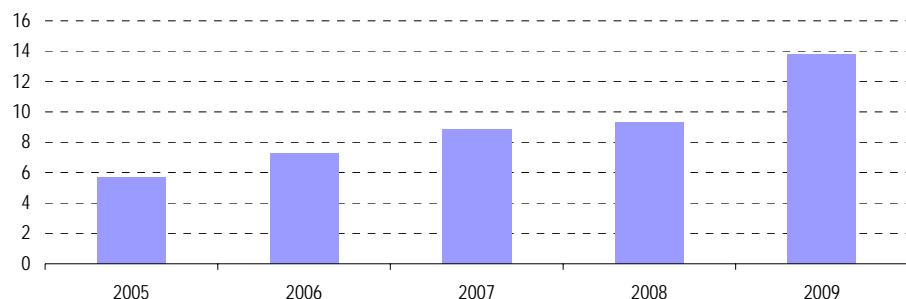
**Growing outsourcing trends.** OEMs prefer to focus on core competencies such as design and marketing, instead of manufacturing, so as to better utilize their resources and retain cost competitiveness. Resources can instead be used to improve other areas of the business such as marketing and design. Through outsourcing, companies are able to reduce capex requirements and shorten the timeframe required to bring products to market. Outsourcing trends are likely to continue into the next decade, creating growth opportunities for OEM/ODM manufacturers.

**Growth in die-casting and mould industries.** The die-casting industry in the PRC is continues to expand. Despite the global financial crisis, total sales revenue of China's Die & Mould sector reached US\$14.3bn, according to the China Die & Mould Industry Association (CDMIA). Exports and Imports of Die & mould products holding steady at around US\$1.9bn for 2008 and 2009. China continues to be a large importer of machine tools, with the Die & Mould industry accounting for a tenth of 2009's sales revenue of US\$19.4bn.

The Industry also enjoys preferential policies as the Chinese government has deemed the industry integral to the manufacturing sector and hence, the national economy. Government incentives such as tax-free import of machinery and equipment, alongside preferential enterprise income tax rates of 7.5% have fuelled growth of this industry. Moulds and moulded parts are predominately used by the auto industry although moulded plastic parts are also used in the manufacture of home appliances and IT equipment. Guangdong remains at the forefront of manufacturing, accounting for 40% of total moulds produced. Low to mid grade products are prevalent in China, while there is a shortage of high quality, precision cut mould products. There is thus much room for growth for the manufacture of high precision products, which Combine Will occupies.

Car manufacturing in China continues to grow rapidly, passing the 13m mark, as of 2009. Demand for cars likely to accelerate as the citizens grow more affluent, average income per capita has risen an average of 13% from 2005 to 2009 (RMB 18,364 – RMB33,736). With the automobile industry being the largest consumer of moulded parts, and, demand for high quality moulded parts are likely to increase.

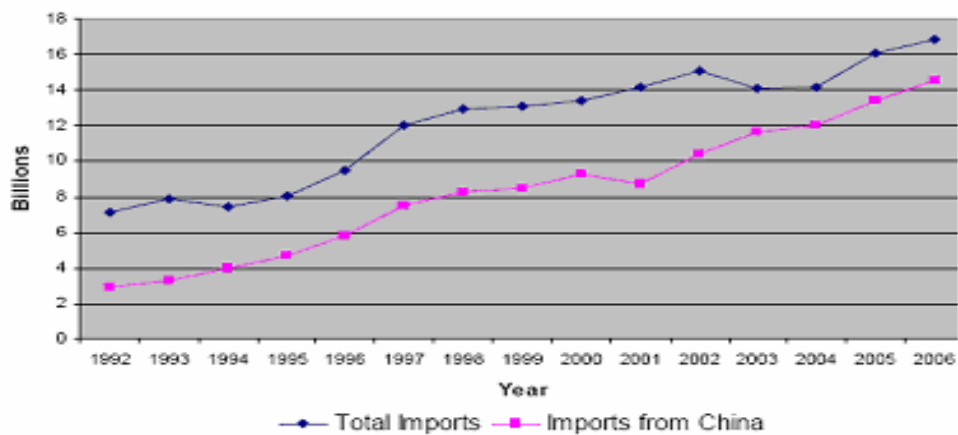
**Figure 5: Car Production (m units)**



*Source: China Association of Automobile Manufacturers*

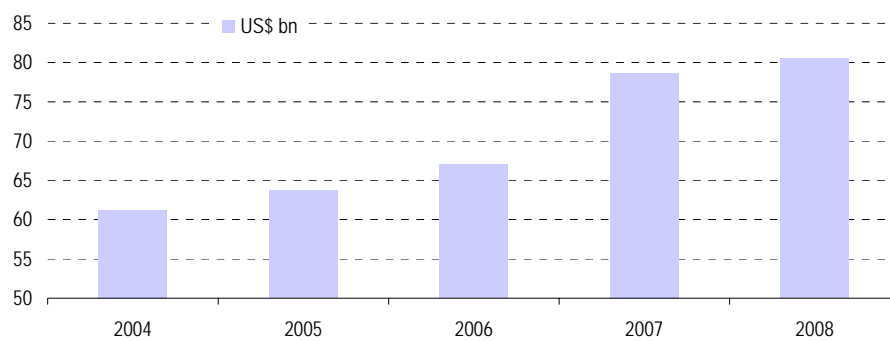
**Toy products.** China is presently one of the world's largest exporters of toys, accounting for 60% of world's toy export market and 90% of US toy imports. Total exports of toys reached approximately US\$7.7b in 2009, with the US, Hong Kong and Germany as the main export markets. Safety issues, however, continue to dog the PRC's toy export industry. During October 2007, the Consumer Product Safety Commission (CPSC) in US recalled several million "Made in China" toys, sold by major brands like Mattel and Marvel Toys. These toys were found to contain unsafe levels of lead. Toys were recalled on other instances due to unsafe parts such as loose magnets that could be swallowed by kids and other safety issues. More recently in August 2010, the Consumer Association of Singapore (CASE) conducted random checks on toys, and found that 46% of the sample size of 50 toys, contained excessive amounts of phthalates, lead or both. Many of the toys which failed the tests carried the "CE" designation, which states that the toy meets EU safety standards. Although these recalls represent an insignificant percentage of total Chinese toy exports, but the damage to China's toy manufacturing industry reputation is far-reaching. This negative attention to the industry, conversely, has benefited reputable companies like Combine Will, with a good safety and track record an even more attractive supplier.

Figure 6 : US Toy imports – Total vs. China



Source: TIA 2006, [http://www.ivey.uwo.ca/AMI/Research/Toy\\_Import&Recall\\_Levels.pdf](http://www.ivey.uwo.ca/AMI/Research/Toy_Import&Recall_Levels.pdf)

Figure 7 : World toy market size (in US\$ b)



Source: NPD Group

## Company outlook

**Vertically integrated manufacturing capabilities.** With a vertically integrated manufacturing process, Combine Will is able to engage in mould fabrication, manufacture of moulds and tooling, maintaining quality control and assurance. This allows the company to customise and deliver the products according to customers' requirements. The plastic and die-cast manufacturing capacities of ODM/OEM business segment complements the Moulds and Tooling business segment. This vertical integration of manufacturing process enables Combine Will to take advantage of new business and product opportunities. These initiatives also enable them to develop the know-how to the new businesses and in the process satisfy customers' needs and delivery timeframe.

**Established customer relationships.** Combine Will works hard to retain customer loyalty, with repeat customers accounting for more than 95% of total sales in FY2004, FY2005, FY2006 and HY2007. These repeat customers have a long established history with Combine Will, enjoying close working relationships. The customer-orientation of Combine Will ensures that customers enjoy customised solutions, with requirements fulfilled. Combine Will also believe in interdependency with customers, working together towards common growth. This is evident in the growing sales that Combine Will derives from major customers.

**Expanding sales and marketing network.** Combine Will intends to increase its presence in China, with the setting up of a factory in the Zhejiang province to supply products and provide better after-sale services to customers around the Shanghai region. This new tooling factory will also give Combine Will a foothold to expand northwards, expanding towards China's north east. Expansion is not limited to the PRC, with a sales office established on Feb 2010, in Seoul, South Korea.

**In-house design capability.** Combine Will has an in-house design and development team comprising designers who are innovative and highly skilled. With their in-house team, the company is able to offer design ideas which are specifically tailored to the requirements of customers. Also, this capability allows Combine Will to create new and innovative designs for their existing products, giving them a valuable competitive edge over their competitors.

**A new customer.** In the ODM/OEM segment, Combine Will has successfully penetrated a new customer for the manufacture of a hand soap dispenser product. The Company has mentioned in its 1H results that this customer is expected to contribute significantly to its FY10 performance.

**Dual Listing in Korea.** Combine Will previously intended to spin-off its Moulds and Tooling unit on the Korean Exchange, "the KOSDAQ". In light of regulatory and economic issues, Combine Will has decided not to proceed with the spin-off but instead, dual list itself on the KOSDAQ, with the aim of widening the investor base and the raising capital for further growth. The Company intends to consolidate its existing shares at 10 to 1, at an indicative price of S\$2.30 for each new consolidated share, and subsequently issue 11m of the newly consolidated shares on the KOSDAQ. The dual-listing process is currently in the works, we expect the dual-listing to serve as a positive catalyst on the stock, as more details on the dual-listing are confirmed.

Figure 8: SWOT analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Ability to provide one-stop service with in-house design capability</li> <li>• Established track record and long customer relationships</li> <li>• Professional and experienced management</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Sustained economic growth in China</li> <li>• Customers growth</li> <li>• Government support for the industry</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Industry is intensely competitive</li> <li>• Lack of differentiation</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Dependent on a few major customers</li> <li>• Rising labour costs</li> <li>• Slowdown in US, EU demand</li> <li>• Risk of default by customers</li> </ul>

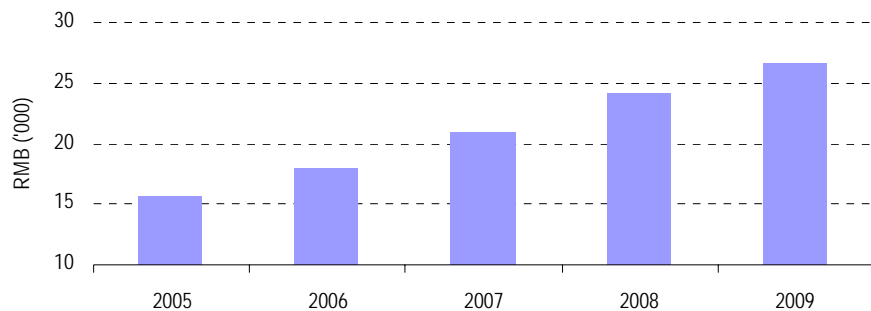
Source: CIMB Research

## Risks

**Dependent on major customers.** Major customers are TMS and Siku. Back in FY06 and HY2007, TMS accounted for 25.3% and 39.1% of group sales while Siku accounted for 10.3% and 8.7% of sales. TMS designs, markets and supplies premiums for international brands while Siku is involved in the marketing and sale of toys. Today, TMS and Siku remain key customers in the ODM/OEM segment. Management has recently penetrated a new customer for a hand soap dispenser product. This should reduce the reliance on TMS and Siku.

**Inherent labour risks.** The operations of Combine Will are labour intensive in nature, with workers sourced from Southern China. Wage costs have increased and job-hopping have been observed. According to CEIC, the average wage of urban workers in the manufacturing industry reached RMB26,500 in 2008, representing a year on year increase of 10%. This tightening of the labour market is expected to perpetuate in the near future, with continuing wage-price pressures. There has also been an increase in labour activism as workers demand better working conditions and remuneration, which cumulated in strikes in South China in early to mid 2010. To retain workers and quell worker's dissatisfaction, Combine Will may have to increase wages of its employees, which could have a negative impact on margins. To mitigate rising labour costs, the Company has been exploring a shift to inner regions as well as some automation.

Figure 9: Annual Manufacturing Wage in China



Source: CEIC, Ministry of Human Resources and Social Security

**Fluctuations in raw material prices.** Combine Will is susceptible to changes in raw material prices, particularly for zinc alloy, plastic resins, electronic parts and steel.

**Slowdown in US, EU demand.** Combine Will has seen a reversal of trends in demand, with 2Q10 showing strong demand from the US, EU regions. However, given that the US and EU regions have been badly affected by the economic fallout, economic growth in these regions is likely to remain muted. However, Combine Will can counter some of this slowdown given that the PRC/ Asia market contributes more than 70% of total revenue.

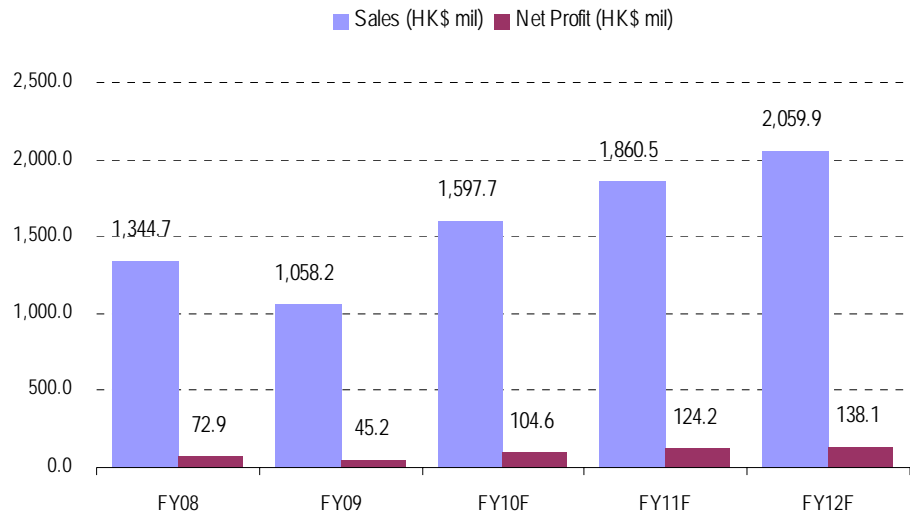
**Appreciation of RMB against USD.** The gradual appreciation of RMB against the USD raises the average selling price of goods manufactured in China. This reduces the price competitiveness of Chinese made goods vis-à-vis other competing countries. Low margins and rising inflation in China could pose a challenge to Combine Will.



## Financials

**Earnings spurt in FY10.** We expect a strong earnings spurt in FY10 driven by the successful penetration into a new customer for hand soap dispenser. Apparently, Combine Will has been working to be the supplier for this customer since IPO time. The Company has also mentioned in its first half results commentary that it has signed on new substantial customers and that these customers are expected to ramp up production in 2010.

Figure 10: Revenue and earnings trend

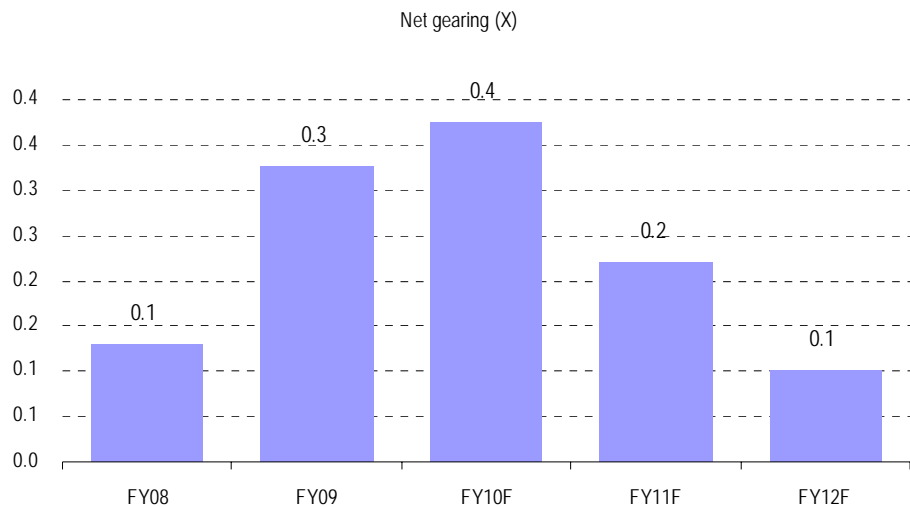


Source: Company, CIMB Research

**Dividends likely to stay barring unforeseen capital needs.** Combine Will has been paying dividend since its listing and we believe that the Company will continue to pay a 1 Sing ct DPS unless cashflow requirements from supporting its new significant customers are too demanding. However, note that Combine Will still has unused IPO proceeds and potential new IPO proceeds from its proposed Korea dual listing.

**Net gearing remains healthy.** Net gearing has increased from 0.3x at end FY09 to 0.4x at end 1H10. However, with the significant increase in profitability, we expect cashflow to improve and reduce net gearing from 0.4x in FY11 to 0.1x by FY12. If the Korea listing goes ahead, there will be additional cash inflow which would reduce gearing.

Figure 11: Net gearing still manageable



Source: Company, CIMB Research

## Valuation and recommendation

We believe Combine Will is set for double digit earnings growth over the next 2 years. As such, we have valued it on CY12 P/E of 7.0x, a 10% discount to our regional tech sector CY12 average P/E of 7.8x. There is no reason not to pencil in a discount given the more established track record of the companies in our tech sector coverage. Target price **S\$0.50**, initiate with **BUY**.

As a matter of interest, one can also look at its closest listed competitor on SGX, Wah Shing International Holdings which was taken over by South China (China) Limited (413 HK). The deal was announced on 16th November 2005 and was completed on 5th May 2006 (source: Bloomberg). Based on details available from Bloomberg, the deal then valued Wah Shing at a historical CY04P/E of 6.0x.

Figure 12: CIMB regional tech sector valuation

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Upside %	Mkt cap (US\$ m)	Core P/E (x) CY2011	Core P/E (x) CY2012	PIBV (x) CY2011	ROE (%) CY2011	Div yield (%) CY2011
<b>Singapore</b>											
Armstrong	ARMS SP	O	0.44	0.55	26.44	172	7.3	6.5	1.9	27.6	4.5
Broadway	BWAY SP	O	1.17	1.86	58.97	186	5.0	4.6	0.9	18.8	2.6
Elec & Eltek	ELEC SP	O	2.88	4.04	40.28	539	5.7	5.3	1.2	22.1	8.7
TPV - SG	TPV SP	O	0.83	0.98	18.07	1,489	9.3	7.3	0.8	9.5	3.5
Venture	VMS SP	O	9.75	10.91	11.90	2,045	12.5	10.6	1.3	10.2	5.1
						<b>Simple average</b>	<b>8.0</b>	<b>6.9</b>	<b>1.2</b>	<b>17.6</b>	<b>4.9</b>
<b>Hong Kong</b>											
Ju Teng Int'l	3336 HK	U	3.86	3.58	(7.25)	556	6.3	4.5	0.9	14.9	1.9
Kingboard Laminates	1888 HK	O	8.22	10.18	23.84	3,180	9.7	8.8	2.2	24.6	4.6
Kingdee	268 HK	N	3.83	3.10	(19.06)	1,030	25.2	17.1	4.0	18.9	1.3
TPV - HK	903 HK	O	5.04	5.61	11.31	1,525	9.5	7.5	0.8	9.5	3.5
						<b>Simple average</b>	<b>12.7</b>	<b>9.5</b>	<b>2.0</b>	<b>17.0</b>	<b>2.8</b>
<b>Thailand</b>											
Cal-Comp	CCET TB	N	3.88	3.86	(0.52)	515	7.9	6.5	0.8	11.9	7.4
Delta	DELTA TB	O	26.75	33.05	23.55	1,115	8.4	8.0	1.6	21.1	7.8
Hana Microelectronics	HANA TB	O	25.00	34.18	36.72	694	7.2	6.6	1.2	18.1	5.6
						<b>Simple average</b>	<b>7.9</b>	<b>7.0</b>	<b>1.2</b>	<b>17.1</b>	<b>6.9</b>
						<b>Total average</b>	<b>9.5</b>	<b>7.8</b>	<b>1.5</b>	<b>17.2</b>	<b>4.9</b>

Source: Company, CIMB Research

## Management

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Figure 13: Board of Directors

Mr Tam Jo Tak Executive Chairman & CEO	Mr Tam was appointed to the board on 27 December 2007. He is responsible for business and management activities of the company. Mr Tam has over 25 years of experience in toys product development and the manufacturing industry. Before founding Combine Will, he was product development director at Zindar Industrial Co. From 1982 to 1988, Mr Tam held senior positions with many US companies based in Hong Kong. He graduated from Loughborough University, UK in 1980 with a Bachelor of Science Honours degree in production engineering and management.
Mr Yau Hing Wah, John Executive Director	Mr Yau is the co-founder and Executive Director of the group with responsibility for ODM/ OEM business segment. He was appointed to the board on 27 December 2007. Mr Yau has over 20 years of experience in toy industry. Before founding Combine Will, he was a director at Wah Sing Toys Co Ltd with responsibility for production and operations of the company. Mr Yau obtained a Higher certificate in production and industrial engineering from the Hong Kong Polytechnic, majoring in Production Engineering, in 1981.
Mr Zheng Naiqiao, Koulman Executive Director	Mr Zheng is an Executive Director of Combine Will and is responsible for market and technological development, operations and quality control for Moulds and Tooling Business segment. He was appointed to the board in 27 December 2007. Prior to joining Combine Will in 200, he was manager of production and operations at Dyna Mechtronics Inc. Mr Zheng graduated with a Master of Science in Mechanical Engineering from the Northeastern University in Boston Massachusetts, USA.
Mr Chiu Hau Shun, Simon Executive Director	Mr Chiu is an Executive Director Combine Will. He was appointed to the board on 8 October 2007. In his previous appointment in the group, he was responsible for the company's finance and accounts. Presently, he is principally engaged in Human resources, Administration and Corporate Affairs. He is also a director in Simon Chiu and Associates Limited, a PRC consultancy business he founded in 1997. Prior to founding his own company, he was the CFO of various companies. Mr Chiu started his career as an accountant at Arthur Andersen. He received his education from Indiana University School of Business, USA.

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*Source: Company*

<b>Financial tables</b>					
<b>PROFIT &amp; LOSS (HK\$ m, FYE Dec)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Revenue	1344.7	1058.2	1597.7	1860.5	2059.9
Operating expenses	(1,225.0)	(955.9)	(1,400.8)	(1,625.4)	(1,805.2)
EBITDA	119.7	102.3	196.9	235.1	254.7
Depreciation & amortisation	(45.7)	(48.0)	(53.0)	(58.0)	(58.0)
EBIT	74.0	54.2	143.8	177.1	196.6
Net interest & invt income	10.3	6.8	(4.6)	(4.0)	(4.7)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>84.3</b>	<b>61.1</b>	<b>139.2</b>	<b>173.1</b>	<b>191.9</b>
Tax	(10.8)	(15.3)	(29.2)	(43.3)	(48.0)
Minority interests	(0.7)	(0.6)	(5.4)	(5.6)	(5.8)
<b>Net profit</b>	<b>72.9</b>	<b>45.2</b>	<b>104.6</b>	<b>124.2</b>	<b>138.1</b>
Wt. shares (m)	286.1	328.0	328.0	328.0	328.0
Shares at year-end (m)	328.0	328.0	328.0	328.0	328.0
<b>BALANCE SHEET (HK\$ m, 31 Dec)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Fixed assets	224.3	228.2	225.2	217.1	209.1
Intangible assets	2.4	2.4	2.4	2.4	2.4
Other long-term assets	12.2	13.4	13.4	13.4	13.4
<b>Total non-current assets</b>	<b>239.0</b>	<b>244.0</b>	<b>241.0</b>	<b>233.0</b>	<b>224.9</b>
Cash and equivalents	105.8	179.1	111.9	172.2	254.3
Stocks	266.4	276.0	407.6	476.3	528.8
Trade debtors	129.2	256.3	394.6	459.5	508.8
Other current assets	86.0	91.6	91.6	91.6	91.6
<b>Total current assets</b>	<b>587.3</b>	<b>803.0</b>	<b>1,005.8</b>	<b>1,199.6</b>	<b>1,383.5</b>
Trade creditors	105.4	125.6	191.7	223.3	247.2
Short-term borrowings	162.4	299.5	287.2	287.2	287.2
Other current liabilities	123.4	117.3	166.4	205.2	238.1
<b>Total current liabilities</b>	<b>391.2</b>	<b>542.3</b>	<b>645.3</b>	<b>715.7</b>	<b>772.5</b>
Long-term borrowings	0.1	32.7	32.7	32.7	32.7
Other long-term liabilities	3.1	3.1	4.7	5.5	6.1
<b>Total long-term liabilities</b>	<b>3.2</b>	<b>35.9</b>	<b>37.5</b>	<b>38.3</b>	<b>38.8</b>
<b>Shareholders' funds</b>	<b>422.5</b>	<b>458.5</b>	<b>544.1</b>	<b>649.4</b>	<b>768.6</b>
Minority interests	9.4	10.4	15.8	21.4	27.2
<b>CASH FLOW (HK\$ m, FYE Dec)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Pretax profit	84.3	61.1	139.2	173.1	191.9
Depreciation & non-cash adjustments	62.0	58.7	56.4	77.9	87.1
Working capital changes	(34.8)	(119.8)	(152.8)	(77.2)	(58.9)
Cash tax paid	(4.5)	(23.8)	(15.3)	(29.2)	(43.3)
Others	(12.5)	(10.2)	(15.7)	(15.1)	(15.1)
<b>Cash flow from operations</b>	<b>94.6</b>	<b>(34.0)</b>	<b>11.8</b>	<b>129.4</b>	<b>161.7</b>
Capex	(65.4)	(50.2)	(80.0)	(150.0)	(60.0)
Net investments & sale of FA	0.2	0.0	0.0	0.0	0.0
Others	0.0	(1.4)	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(65.3)</b>	<b>(51.6)</b>	<b>(80.0)</b>	<b>(150.0)</b>	<b>(60.0)</b>
Debt raised/(repaid)	(42.5)	169.7	(12.3)	0.0	0.0
Equity raised/(repaid)	103.6	0.0	0.0	0.0	0.0
Dividends paid	(54.3)	(17.3)	(17.8)	(18.9)	(18.9)
Cash interest & others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>6.7</b>	<b>152.4</b>	<b>(30.1)</b>	<b>(18.9)</b>	<b>(18.9)</b>
Exchange rate impact	0.0	6.5	0.0	0.0	0.0
<b>Change in cash</b>	<b>36.1</b>	<b>73.3</b>	<b>(98.3)</b>	<b>(39.5)</b>	<b>82.7</b>
<b>Change in net cash/(debt)</b>	<b>78.7</b>	<b>(96.4)</b>	<b>(86.0)</b>	<b>(39.6)</b>	<b>82.7</b>
<b>Ending net cash/(debt)</b>	<b>(56.7)</b>	<b>(153.1)</b>	<b>(239.1)</b>	<b>(278.7)</b>	<b>(196.0)</b>
<b>KEY RATIOS (FYE Dec)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Revenue growth (%)	10.7	(21.3)	51.0	16.4	10.7
EBITDA growth (%)	26.9	(14.6)	95.4	19.6	8.2
Pretax margins (%)	6.3	5.8	8.7	9.3	9.3
Net profit margins (%)	5.4	4.3	6.5	6.7	6.7
Interest cover (x)	7.5	6.9	9.4	11.8	13.0
Effective tax rates (%)	12.8	25.0	21.0	25.0	25.0
Net dividend payout (%)	74.6	38.3	17.0	15.3	13.7
Debtors turnover (days)	43	66	74	84	86
Stock turnover (days)	73	94	78	87	89
Creditors turnover (days)	35	40	36	41	42

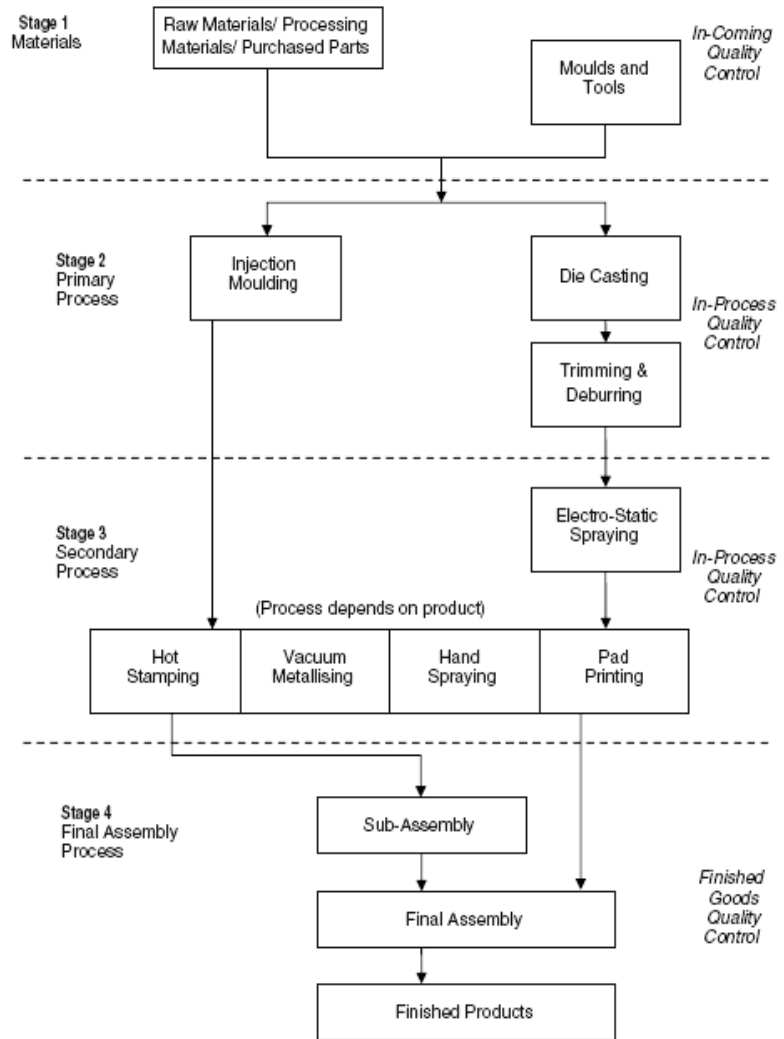
Source: Company, CIMB Research estimates

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# Appendix 1

## Manufacturing process of ODM/ OEM products

### Process flow chart



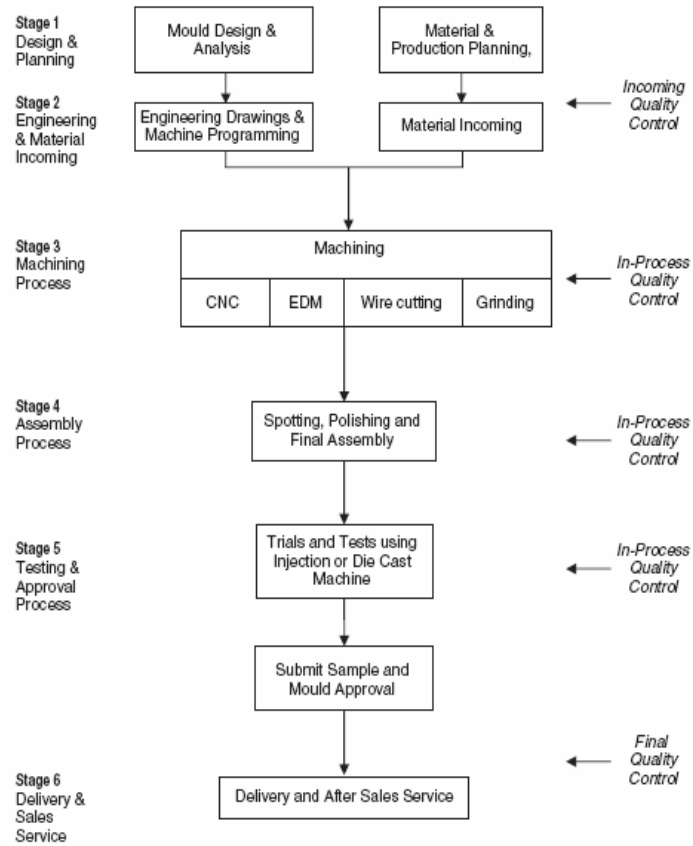
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## Appendix 2

### Moulds and Tooling manufacturing process

#### Moulds and Tooling

#### Process flow chart



## Appendix 3

### Key Subsidiaries & Associates

Subsidiaries Name	Main Business	Shares Holding
Combine Will (Dongguan) Ind. Co. Ltd.	Manufacture of premiums and consumer products	100%
Loong Run Industrial Co. Ltd.	Trade premiums and consumer products	100%
Bliss Electronic (China) Co. Ltd.	Manufacture of electronic parts	70%
Altrust Precision Tooling (Dongguan) Co. Ltd.	Manufacture of molds	100%
Advanced Precision Tooling USALLC	Trade molds	60%
Altrust Japan Corp.	Trade molds	70%
Headonway Ind. Co. Ltd.	Manufacture of models and molds	60%
Unifaith Machine Tools Co. Ltd.	Trade machinery and tools	60%
Hopewell Precision Machine Tools Co. Ltd.	Trade machinery	60%

Source: Company

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