

# HannStar Board International Holdings Limited

## 瀚宇博德國際有限公司

13 September 2006

### OFFERING STATISTICS

Company	◆ HannStar Board International Holdings Limited (“the Group”)
Sector	◆ PCBs manufacturers
Stock code	◆ 0667 (Main Board)
Number of Offer Shares	◆ 325,000,000 Shares (subject to the Over-allotment Option) ◆ 90% Placing & 10% Public Offer
Number of Placing Shares	◆ 292,500,000 Shares (subject to reallocation and the Over-allotment Option)
Number of Public Offer Shares	◆ 32,500,000 Shares (subject to reallocation)
Price range	◆ HK\$1.37 – HK\$1.77
Board lot	◆ 2,000 Shares
P/E	◆ 7.9x – 10.2x (pro forma fully diluted)
Market Capitalization	◆ HK\$1,781 million – HK\$2,301 million
Total issue size	◆ HK\$445.25 million – HK\$575.25 million
Joint Sponsors	◆ TSC Capital & Polaris Securities
Joint Bookrunners	◆ Taiwan Securities & Polaris Capital
Joint Lead Managers	◆ Taiwan Securities & Polaris Securities

### TENTATIVE TIMETABLE

Book building	11 - 22 September 2006 (17:00 HKT)
Price determination	22 September 2006
Public offers	26 – 29 September 2006 (12:00 HKT)
Announcement of allotment result	6 October 2006
Listing (HKSE)	9 October 2006

### FINANCIAL DATA

	For the year ended 31 December,			Three months ended 31 March,	
	2003	2004	2005	2005 (Unaudited)	2006
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Turnover	22,228	76,362	170,279	30,434	58,883
Cost of sales	(17,569)	(58,057)	(135,610)	(24,307)	(48,149)
<b>Gross Profit</b>	<b>4,659</b>	<b>18,305</b>	<b>34,669</b>	<b>6,127</b>	<b>10,734</b>
Other income	150	1,075	6,632	336	3,090
Distribution costs	(344)	(2,291)	(5,629)	(934)	(1,980)
Administrative expenses	(2,367)	(6,391)	(6,929)	(1,167)	(1,560)
Finance costs	(470)	(1,588)	(4,600)	(700)	(1,844)
<b>Profit before taxation</b>	<b>1,628</b>	<b>9,110</b>	<b>24,143</b>	<b>3,662</b>	<b>8,440</b>
Taxation	-	-	(712)	(276)	(655)
<b>Profit for the year/period</b>	<b>1,628</b>	<b>9,110</b>	<b>23,431</b>	<b>3,386</b>	<b>7,785</b>
GP Margin	20.96%	23.97%	20.36%	20.13%	18.23%
Net Margin	7.32%	11.93%	13.76%	11.13%	13.22%

Source: Company, Taiwan Securities

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### COMPANY DESCRIPTION

#### Overview

The Group is one of the leading manufacturers of PCBs for the notebook computer industry worldwide. The Group produces a wide range of double-sided PCBs and multi-layer PCBs of up to 12 layers which are principally used in notebook computers. The Group also supplies PCBs for the consumer electronics and communication industries for the use in game consoles, STBs, servers and mobile phones.

The following table shows the Group's turnover by application during the Track Record Period:

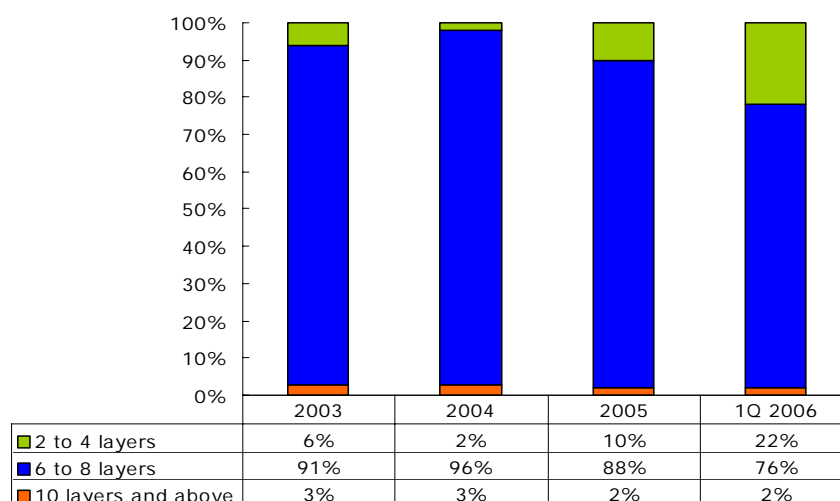
	For the year ended 31 December						For the three months ended 31 March 2006	
	2003		2004		2005		2006	
	US\$ '000	%	US\$ '000	%	US\$ '000	%	US\$ '000	%
Notebook computers	21,248	95.6	75,714	99.2	149,627	87.9	42,712	72.5
Game consoles	-	-	-	-	6,613	3.9	4,700	8.0
STBs	-	-	-	-	8,116	4.8	7,542	12.8
Servers	-	-	-	-	1,532	0.9	1,696	2.9
Mobile phones	-	-	-	-	2,523	1.5	964	1.6
Others	980	4.4	648	0.8	1,868	1.1	1,269	2.2
<b>Total</b>	<b>22,228</b>	<b>100.0</b>	<b>76,362</b>	<b>100.0</b>	<b>170,279</b>	<b>100.0</b>	<b>58,883</b>	<b>100.0</b>

Source: Company, Taiwan Securities

The Group's customers comprised mainly ODMs and EMS providers engaging in the production of a diverse range of products for industries such as notebook computer, consumer electronics and communication industries. For each of the three years ended 31 December 2005 and the three months ended 31 March 2006, approximately 95.6%, 99.2% 87.9% and 72.5% of the Group's turnover was attributable to sales of PCBs manufactured for notebook computers respectively. The Group's principal customers include Quanta, Compal and Wistron, which are the leading notebook computer ODMs in the world.

#### Products

The following table shows the Group's turnover categorized by type of PCBs during the Track Record Period:



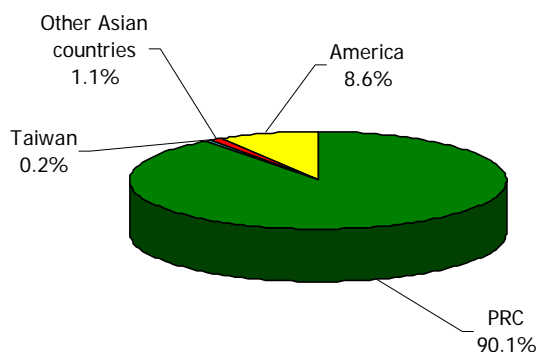
Source: Company, Taiwan Securities

# HannStar Board International Holdings Limited 瀚宇博德國際有限公司

## COMPANY DESCRIPTION (con't)

### The Group's sales breakdown by region

During the past three years, over 90% of the Group's turnover were attributable to sales in the PRC. The following graph is a geographical analysis of the Group's turnover for the 3 months ended 31 March 2006:



Source: Company, Taiwan Securities

### Competitive Strengths

**Strong and stable relationships with reputable ODMs of leading international brands in the notebook computer industry.** The Group's customer base include reputable notebook computer industry such as Compal, Quanta and Wistron. According to DigiTimes' report, Compal, Quanta, Wistron, Inventec and Asustek, the top five Taiwanese notebook computer ODMs, together accounted for more than 72% of the world total production output of notebook computers in 2005. As Compal, Quanta and Wistron are the Group's major customers, these manufacturers' dominant position in the world notebook computer market has a significant impact on the demand for the Group's PCB products.

**Major beneficiary of the continued growth in the notebook PC market.** Declining product prices and the introduction of new functions have been the major drivers for the strong momentum in the notebook PC shipments. The CAGR for shipments of the notebook computer industry is forecast to be 17.1% from 2005 to 2010 and the Group set to benefit from this favorable industry trend with its dominant position in the world notebook computer market.

**Relocation of production bases to the PRC.** In order to take advantage of the competitive labour and production cost, many Taiwanese notebook computer manufacturers have shifted their production bases from Taiwan to the PRC over the recent years. Based on the report published by MIC in March 2006, the total output of notebook computers produced in the PRC increased from approximately 67.0% of the total output of notebook computers produced in the Greater China region in 2003 to approximately 92.8% in 2005.

Based on the increasing market share held by the Taiwanese manufacturers in the world notebook computer market, the continuing relocation of their production facilities from Taiwan to the PRC and the declining price trend of the notebook computers produced in the PRC, the Taiwanese notebook computer manufacturers will continue to play a dominant role in the global notebook computer manufacturing industry.

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### COMPANY DESCRIPTION (Con't)

#### Brief history of the Group and HannStar Taiwan

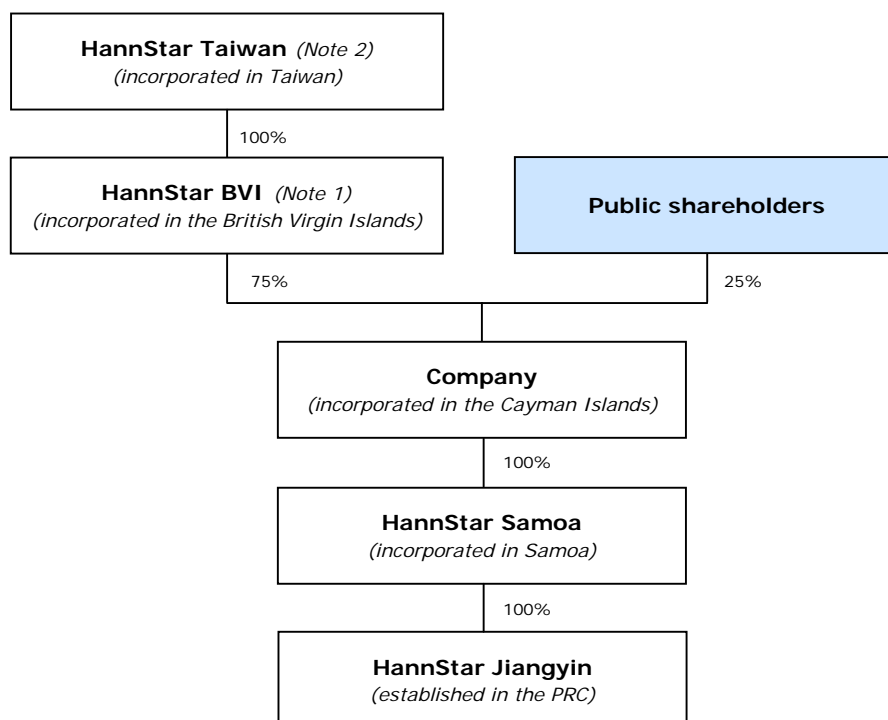
In 1989, HannStar Board Corporation (“HannStar Taiwan”), the holding company of the Company, began its PCB manufacturing business in Taiwan. In order to serve customers who have relocated manufacturing bases to the PRC, capture the huge potential demand in the PRC’s PCB market and take advantage of the relatively low production cost in the PRC, HannStar Board Technology (Jiangyin) Corporation (“HannStar Jiangyin”) was established in Jiangyin, Jiangsu province in 2002. The Plant I of HannStar Jiangyin commenced production in 2003 and the expansion of production capacity of HannStar Jiangyin has continued since then.

1989	HannStar Taiwan, the holding company of the Company began its PCB manufacturing business in Taiwan
Apr 2002	HannStar Jiangyin was established in the PRC
Apr 2003	Plant I commenced production
Dec 2003	The construction of Plant II commenced
Jul 2004	Plant II commenced production
Jan 2005	Plant I reached its designed maximum monthly production capacity of 500k sq.ft.
Oct 2005	Plant III commenced production
1Q 2006	Plant II reached its designed maximum monthly production capacity of 1,200k sq.ft.

Source: Company, Taiwan Securities

#### Group Structure

The following chart sets out the structure of the Group immediately after completion of the Reorganisation, the Share Offer (assuming the Over-allotment Option is not exercised and no Shares are issued pursuant to the options which may be granted under the Share Option Scheme) and the Capitalisation Issue:



Notes:

- HannStar BVI is a wholly owned subsidiary of HannStar Taiwan. By virtue of the SFO, HannStar Taiwan is deemed to be interested in the Shares held by HannStar BVI.
- HannStar Taiwan is owned as to approximately 40.3% by Walsin Lihwa and its associates. By virtue of the SFO, Walsin Lihwa is deemed to be interested in the Shares held by HannStar BVI.

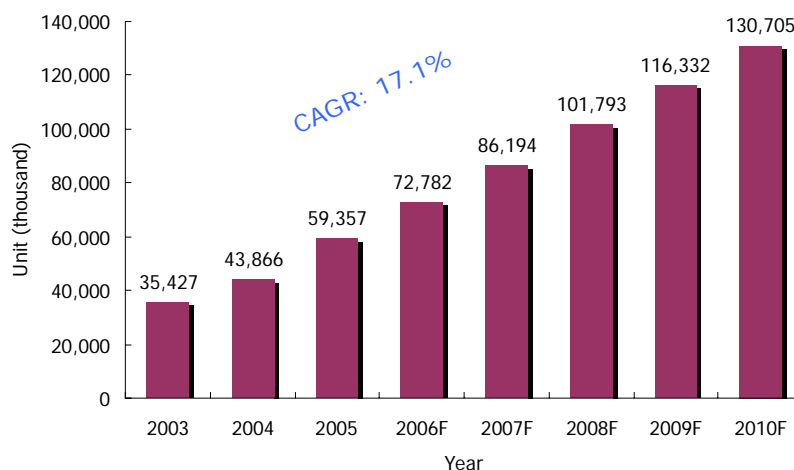
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### THE NOTEBOOK PC INDUSTRY

#### Worldwide notebook PC shipments

The following chart illustrates the worldwide notebook computer shipments market from 2003 to 2005 and its forecast figures from 2006 to 2010:

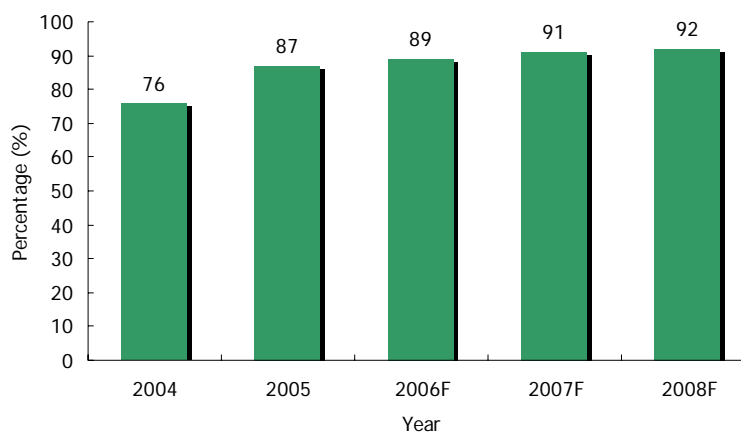


Source: IDC, Taiwan Securities

#### Taiwanese notebook PC manufacturers

Taiwanese manufacturers have been the main suppliers in the notebook computer manufacturing industry. According to a report published by DigiTimes in July 2006, the notebook computers manufactured by Taiwanese manufacturers accounted for approximately 76% of the world's market share of notebook computers in 2004 and further reached approximately 87% of the world's market share of notebook computers in 2005 in terms of units shipped. Furthermore, with the increase in orders outsourced by Japanese notebook computer manufacturers, the Taiwanese notebook computer manufacturers are expected to account for almost 90% of the world's market share in 2006, which effectively positioned them as the global leader in the world notebook computer manufacturing industry.

The following chart illustrates the Taiwanese manufacturers' market share of the world notebook computer market in terms of shipments from 2004 to 2008:



Source: DigiTimes, Taiwan Securities

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#### VALUATION

Given the favorable trend of the notebook PC industry in recent years and the Groups rapid expansion of production capacity, the Group has seen robust sales growth. We believe the growth prospect of the Group will remain strong going forward and the Group could trade at a valuation ranging from FY06 PER of 8x to 10x.

	Stock Code	Historical gross margin (%)	Historical EBIT margin (%)	Historical EBITDA margin (%)	Historical PER (X)	Current PER (X)
<b>Hong Kong</b>						
Kingboard	148.HK	24.3	15.4	21.7	11.8	10.7
Fittec Int'l	2662.HK	14.9	13.2	15.1	6.6	6.6
Topsearch	2323.HK	19.3	7.4	17.0	6.2	6.4
Sinotronics	1195.HK	39.8	29.7	34.1	6.9	5.5
Daisho Microline	567.HK	44.6	20.8	27.0	10.4	N/A
AKM Industrial	8298.HK	24.6	13.3	18.6	6.5	N/A
<b>Taiwan</b>						
Nan Ya PCB	8046.TT	21.1	16.4	23.0	32.1	13.1
Unimicron	3037.TT	20.1	11.9	20.6	13.9	9.2
Tripod Tech	3044.TT	22.6	14.3	15.5	16.5	11.8
Gold Circuit	2368.TT	21.4	11.3	19.9	8.8	7.5
HannStar Taiwan	5469.TT	17.7	9.4	19.0	9.0	N/A
<b>Average</b>		<b>24.6</b>	<b>14.8</b>	<b>21.0</b>	<b>11.7</b>	<b>8.9</b>

Source: Bloomberg, Taiwan Securities  
Data as of 11 Sep 2006

#### EXPANSION PLAN AND USE OF PROCEEDS

Based on an Offer Price of HK\$1.57 per Share (the mid-point of the indicative Offer Price range of HK\$1.37 to HK\$1.77), the estimates net proceeds of the Share Offer, after deducting the underwriting fees and other related estimated expenses and assuming the Over-allotment Option will not be exercised, are estimated to be approximately HK\$482 million.

Items	Use of Proceeds (HK\$m)
1. Capital expenditures on the construction of a new factory building for Plant IV	138
2. Acquisition of new equipment and machinery for the production of HDIs	101
3. Acquisition of new equipment and machinery for the production of PCBs to be installed in Plant IV	101
4. Repayment of the Group's banking borrowings	142
<b>Total (assuming the Over-allotment Option is not exercised)</b>	<b>482</b>

#### DISCLAIMER

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