

## Huaqiao in the Middle Kingdom

**Anthony C.H. LOK**

(852) 2905 2108  
anthony.lok@bocigroup.com

**CHENG Manjiang**

(8610) 6622 9128  
mj.cheng@bocigroup.com

### Key Market Indices

	Value	1M	YTD
HSI	19,933	(9.2)	(28.3)
HSCEI	10,696	(10.5)	(33.7)
HSCCI	3,822	(15.4)	(37.5)
MSCI HK	9,628	(5.5)	(31.2)
MSCI China	55	(10.0)	(36.1)
FTSE-Xinhua A50	8,240	(16.3)	(59.7)
Shanghai A	2,312	(18.1)	(58.1)
Shenzhen A	637	(23.2)	(58.1)

	P/E (x)		EPS (chg %)	
	08E	09E	08E	09E
HSI	12.2	11.5	(1.3)	6.5
HSCEI	12.1	10.5	13.4	15.9
HSCEI ex oil	12.1	10.6	18.4	14.6
MSCI HK	13.0	13.1	(19.0)	(0.3)
MSCI China	11.9	11.5	14.9	15.0
FTSE-XinhuaA50	12.5	11.4	20.7	10.0

Sources: Bloomberg, BOCI Research



#### China-HK recommended stocks:

In - CIH, Hengan International.  
Out - China Everbright, Angang New Steel.

#### HK-HK recommended stocks:

In - Oriental Press, CLP Holdings.  
Out - Dah Sing Financial, Lee & Man Paper.

#### China-A recommended stocks:

In - Huadong Medicine, Beijing Capital Tourism.  
Out - Tangshan Steel, Wuhan Iron & Steel.

Sector Data	1M % chg.			YTD % chg.			2008E P/E (x)			Rating			Top Recommendations		
	China -HK	HK	China -A	China -HK	HK	China -A	China -HK	HK	China -A	China -HK	HK	China -A	China -HK	HK	China -A
Agriculture (0,0,1)	-	-	(34)	-	-	(68)	-	-	6	-	-	-	China Green	-	None
Automotive (8,0,17)	(9)	-	(21)	(47)	-	(66)	6	-	9	MP	-	MP	Denway	-	King Long
Chemicals (4,0,18)	(15)	-	(14)	(47)	-	(27)	13	-	23	MP	-	MP	Sinofert	-	Y. Wanhua
Consumer - F & B (10,0,17)	0	-	(12)	(19)	-	(27)	10	-	12	MP	-	OP	Xiwang Sugar	-	Swellfun
Consumer - Durables (2,0,12)	0	-	(8)	(4)	-	(19)	2	-	9	MP	-	OP	Haier	-	Haier
Consumer - Textiles (3,11,1)	0	(13)	(1)	(6)	(5)	(2)	3	13	1	U	MP	-	Ports Design	Lifestyle	None
Consumer Services (7,11,8)	(3)	(12)	(21)	(17)	(40)	(47)	10	14	33	U	MP	OP	GOME	Shun Tak	Beijing Tour
Energy (10,0,12)	(8)	-	(18)	(35)	-	(56)	12	-	18	OP	-	OP	Fushan	-	Pingdingshan
Financials (12,15,19)	(8)	(8)	(14)	(16)	(16)	(54)	16	11	15	MP	MP	MP	ICBC	Hang Seng	ICBC
Industrial (15,14,39)	(19)	(2)	(20)	(34)	(25)	(51)	17	9	17	OP	OP	-	Lonking	VTech	Sany
Media (3,7,6)	(11)	(2)	(25)	(36)	(11)	(61)	13	14	14	U	MP	U	None	Next Media	None
Metals & Mining (11,0,19)	(20)	-	(19)	(52)	-	(59)	13	-	8	OP	-	OP	Zijin	-	Shandong Gold
Pharmaceuticals (4,0,16)	(8)	-	(11)	(12)	-	(30)	1	-	15	OP	-	OP	TRT	-	Yabao
Property (11,14,16)	(15)	(7)	(15)	(43)	(33)	(60)	10	13	12	MP	MP	MP	COLI	MTRC	Vanke
Technology (10,4,6)	(19)	(10)	(30)	(13)	(27)	(40)	5	10	16	OP	U	OP	Lenovo	ASM Pacific	Shengyi Sci
Telecoms (4,4,1)	(19)	(6)	(28)	(39)	(14)	(61)	13	16	20	MP	OP	MP	China Mobile	SmarTone	China Unicom
Transport - Aviation (5,2,9)	(4)	(2)	(4)	(10)	(9)	(18)	2	2	4	MP	-	MP	Air China	-	SIA
Transport - Land (6,2,11)	(4)	(2)	(5)	(12)	(9)	(21)	3	2	4	OP	MP	OP	Shenzhen Exp	None	Dagjin Railway
Transport - Marine (7,2,8)	(5)	(2)	(4)	(13)	(9)	(16)	3	2	3	MP	U	MP	COSCO Pac	Pacific Basin	CSD
Utilities (10,3,16)	7	3	(15)	(31)	9	(58)	35	16	57	OP	U	OP	Datang	HK & C Gas	SDIC Huajing

(-,.) represents the number of stocks under China-HK, Hong Kong and China-A respectively. Sector share price movement weighted by free float market capitalisation.  
NB: Outperform (OP) = >=10% compared with the relevant benchmark index over a 6-month period. Underperform (U) = <-10% compared with the relevant benchmark index over a 6-month period.  
Marketperform (MP) = <-10% and >=10% compared with the relevant benchmark index over a 6-month period. Not Rated (NR), arrows indicate change in rating. bold red is a change in top recommendations

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## Huaqiao's 4<sup>th</sup> Anniversary Contest

The Olympic flame has been doused in Beijing and, despite some continued sour grapes, the Middle Kingdom put on a great show for the world. In honour of the Beijing Games, I have assembled a list of 10 multiple-choice questions about the Olympics. Readers who answer the most correctly will have a chance to win one of 10 sets of the commemorative Bank of China HK\$20 Olympic banknotes that people lined up for days to buy (retail value HK\$138). All entries and submissions should be sent to shirley.cheung@bocigroup.com along with your name, organisation and contact details. Submissions must be received before 1 October 2008. Awards will be given to those with the most correct answers and ties will be resolved through a random draw. The answers and winners will be in next month's *Huaqiao*. Good Luck!

- |  |   |
|--|---|
| 1. Most gold medals in 2008            | 6. Most career total Olympics gold (male)   |
| a) China                               | a) 10                                       |
| b) USA                                 | b) 12                                       |
| c) Russia                              | c) 14                                       |
| d) United Kingdom                      | d) 16                                       |
| 2. Most total medals in 2008           | 7. Most career total Olympics gold (female) |
| a) China                               | a) 8  |
| b) USA                                 | b) 9  |
| c) Russia                              | c) 10                                       |
| d) United Kingdom                      | d) 11                                       |
| 3. Most gold in one Olympics (country) | 8. Most career Olympics medals (male)       |
| a) China                               | a) 12                                       |
| b) USA                                 | b) 14                                       |
| c) USSR/CIS/Russia                     | c) 16                                       |
| d) Germany                             | d) 18                                       |
| 4. Most gold in one Olympics (male)    | 9. Most career Olympics medals (female)     |
| a) 6                                   | a) 12                                       |
| b) 7                                   | b) 14                                       |
| c) 8                                   | c) 16                                       |
| d) 9                                   | d) 18                                       |
| 5. Most gold in one Olympics (female)  | 10. China joined the Olympic Games in:      |
| a) 6                                   | a) 1976 Montreal                            |
| b) 7                                   | b) 1980 Moscow                              |
| c) 8                                   | c) 1984 Los Angeles                         |
| d) 9                                   | d) 1988 Seoul                               |

Front of HK\$20 BOC Olympic Banknote\*



Back of HK\$20 BOC Olympic Banknote\*



Note: Staff of BOCI group companies are not eligible

\* Don't worry, its below the US\$100 threshold for gift giving

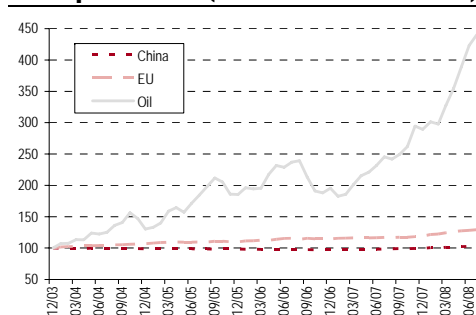
## Déjà Vu All Over Again

***"Our economic struggle with the Chinese is critical to our future [but] the field where this game is being played is not level. Their currency manipulation is enough to bring you to your knees... [We must] replace free trade with fair trade. We have to take action. If China - or any other nation - protects its markets, we should be doing the same."* — Lee Iacocca, former Chairman of Chrysler Corp.**

Yes, once again I have distorted the quote above and, while Lee Iacocca actually did write this in his autobiography published in 1984, you have to replace the words "Chinese and China" with "Japanese and Japan". Still, the main point is that we have seen this sort of political backlash in the United States before, and we are certainly seeing it again because it pertains to China's trade surplus with the US. Having said that, the US-Japan trade problem in the 1980s was somewhat simpler, as Lee Iacocca himself observed in 1985 that 75% of the US\$37bn trade deficit with Japan was for autos and parts (interestingly though, US census statistics put the 1985 Japanese trade deficit at US\$46bn against a total trade deficit of US\$122bn, which meant that Japan accounted for about 38% of the total). In the same year, China managed to post a trade surplus with the US of ... a massive US\$6m.

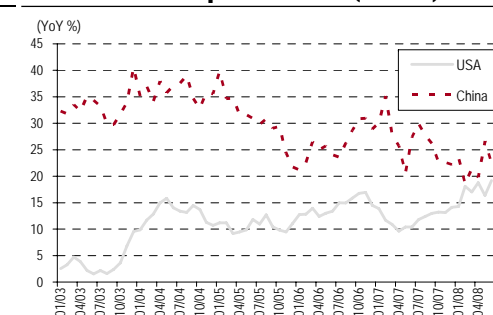
In fact, 1985 could be seen as an inflection point as China's trade surplus with the US jumped to US\$1.7bn in 1986 and kept rising for the next two decades (except a small fall in 2001) to reach US\$256bn in 2007 or 31% of the total trade deficit of US\$819bn (Japan came a distant second accounting for US\$83bn of the deficit). I could get caught up in the minutia, such as whether to count Hong Kong as China (the US\$8bn surplus is not included) or add back the US\$119bn surplus on services, but I think that adds little value. However, the winds of change blow strong and, as always, politicians, investors and ordinary men too often fight yesterday's battles.

US Import Prices (Rebased Dec 03 = 100)



Source: U.S. Department of Labor

US and China Export Growth (3mma)



Source: CEIC

For American politicians in an election year, “red” China has become the lightning rod for all trade issues. The view from Washington DC is that all of America’s woes from the hollowing out of the manufacturing sector to the loss of jobs are due to the Chinese unfairly competing because they are paying slave-wages, rigging their currency, or have closed their market to US exports. Incredulously, there are even economists who say that China is to blame for the huge US Government and personal debt levels given that China is one of the principal purchasers of US Government securities (yes, those evil Chinese not only sell us poisonous pet food and toxic toys, they force us to buy it and then lend us the money to do so, as well). To add insult to injury, other economists (where do these people get their education?) are now saying that China is to blame for inflation because just as those low-cost toys and clothes from the Middle Kingdom kept costs down in the past, China’s voracious appetite for resources have pushed up commodity prices globally and, thus, have caused inflation in America. I am sure someone will find some esoteric argument to blame the US housing bubble and the current American financial crisis on the Chinese, as well.

However, as the chart above shows, one can clearly see that it is not those inscrutable Chinese who are pushing American import costs up (thus causing inflation), but those darned Europeans and, even worse, OPEC. The rising euro is probably a big factor (if the not primary factor) in the inflation being imported from Europe, while soaring oil prices are obviously to blame for the increase in prices from OPEC. China only accounts for 15.9% of all US imports, Europe 17.4%, Canada 16.0%, Latin America 18.0% and Japan 8.0%. If anything, China is still helping to keep US inflation from going up higher than it already is (more on this later). In a twisted sort of way, pushing for a rise in the renminbi may not be in America’s best interest if combating domestic US inflation is the primary goal.

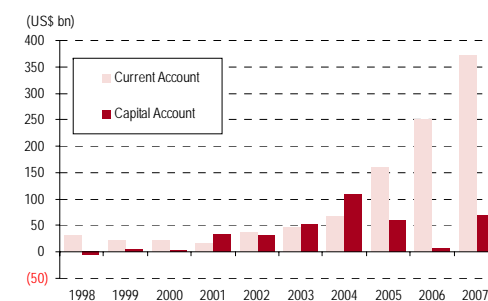
Moreover, rising anti-China trade concerns come at a time when US exports are just starting to recover, while Chinese exports are starting to slow (a great example of fighting yesterday’s battle). The US trade deficit is beginning to show a decline; probably a reaction to both the falling US dollar boosting US exports and reducing imports, as well as weak domestic consumption. However, China’s trade surplus is only showing a modest decline; likely due to the fact that Chinese goods are still cheap as suggested by the low import inflation number and the fact that they are made up of fast-moving consumer items that suffer least in a downturn. The flipside of the low Chinese import inflation number is, as we all know, severe margin weakness for the light-industrial export manufacturing base in China as it is likely that higher labour and raw material prices, as well as the stronger renminbi, are being absorbed primarily by the manufacturers and not Wal-Mart.

So, where does the US run most of its massive trade deficit? So far in 1H08, heavy industrial goods and technological items, such as vehicles (US\$43.2bn), ADP equipment and office machines (US\$34.0bn), electrical machinery (US\$14.4bn), medicinal chemicals (US\$11.6bn), iron and steel (US\$8.1bn) and general industrial machines (US\$7bn). While some of this could be from China, I think it is safe to guess that the bulk of it is from Japan, Korea, Taiwan and Europe.

For consumer goods, TVs, VCRs, etc (US\$50.5bn), clothing (US\$34.6bn), toys, games and sporting goods (US\$10bn), textile yarns, fabrics (US\$5bn), footwear (US\$9.2), furniture and bedding (US\$13.6bn) are probably areas that are dominated by China (except maybe for consumer electronics which, despite US\$29 DVD players, is likely to be heavily skewed towards large flat screen TVs from Japan and Korea). Even then, China is hardly the only culprit because US textile imports from China were just under US\$15bn versus total textile imports of US\$45bn meaning China accounted for just under a third of the total.

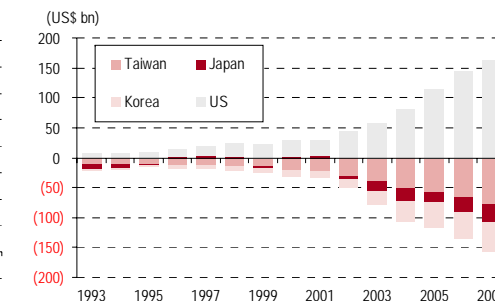
Wait a second; looking at the second list of labour-intensive light industrial consumer goods, other than clothes, the trade deficits are generally much smaller than the first list of heavy industrial and technological goods. So, how can China be the culprit behind the US’s massive trade deficit? The answer to this is the so-called processing trade (i.e. China assembles parts imported from elsewhere) that is estimated to account for over half of China’s exports. Thus, America’s big trade deficit is not really with China, but with Japan, Korea and Taiwan, which take advantage of low-cost Chinese labour to put their expensive large flat screen panels into boxes. I illustrated this three years ago in the charts below (updated with current numbers) showing that America’s big trade deficit with China is the mirror image of China’s trade deficit with the other three major economies in North Asia. In other words, North Asia has “outsourced” its US trade deficit to China.

China’s Current and Capital Account



Sources: NBS

China’s Trade Balance North Asia and US



Sources: CEIC

Looking at the US trade deficit by country, the “outsourced” trade deficit is pretty much invisible as neither Korea nor Taiwan shows up in the top 10, but Japan still makes the cut, which, I guess, is partially because it still exports a lot of cars to the US and also because it is less inclined to outsource all its assembly and production to China than its two neighbours. That the US also runs a big trade deficit with Canada, Mexico and Germany, as well, is not a big surprise, given that it has historically tended to run trade deficits with these countries. However, there has been a major change in the US trade patterns over the past two years.

**Largest Trade Deficit with US (Top 10 in 1H08)**

	1H08	% Total	2H07	% Total	1H07	% Total	2007	% Total	2006	% Total
China	(117,463)	33.4	(138,768)	40.6	(117,501)	32.8	(256,269)	36.6	(232,549)	30.9
Canada	(39,014)	11.1	(30,504)	8.9	(34,170)	9.5	(64,674)	9.2	(73,159)	9.7
Japan	(39,694)	11.3	(42,617)	12.5	(40,182)	11.2	(82,799)	11.8	(88,442)	11.7
Mexico	(35,702)	10.2	(40,412)	11.8	(33,845)	9.4	(74,258)	10.6	(64,092)	8.5
Venezuela	(20,238)	5.8	(17,617)	5.2	(12,081)	3.4	(29,697)	4.2	(28,153)	3.7
Germany	(22,692)	6.5	(23,388)	6.8	(21,324)	6.0	(44,712)	6.4	(47,753)	6.3
Saudi Arabia	(21,478)	6.1	(14,484)	4.2	(10,743)	3.0	(25,227)	3.6	(24,050)	3.2
Nigeria	(19,456)	5.5	(17,276)	5.1	(12,708)	3.5	(29,984)	4.3	(25,630)	3.4
Russia	(8,672)	2.5	(6,168)	1.8	(5,781)	1.6	(11,949)	1.7	(15,127)	2.0
Angola	(8,750)	2.5	(5,475)	1.6	(5,752)	1.6	(11,227)	1.6	(10,169)	1.3
Others	(18,235)	5.2	(5,187)	1.5	(64,275)	17.9	(69,462)	9.9	(144,159)	19.1
<b>Total</b>	<b>(351,394)</b>	<b>100.0</b>	<b>(341,896)</b>	<b>100.0</b>	<b>(358,362)</b>	<b>100.0</b>	<b>(700,258)</b>	<b>100.0</b>	<b>(753,283)</b>	<b>100.0</b>

Source: U.S. Department of Labor

In 2006, Saudi Arabia and Nigeria did not even make the top 10 on this list, while Russia and Angola only entered the list in 1H08. Wait a second; did I say Angola? It turns out that Angola has been ramping up oil production since the end of its civil war in 2002 and actually joined OPEC in December 2006. And that is a not-so-subtle hint as to what the main driver of America’s current trade deficit is. Aside from the “outsourced” trade deficit from North Asia, the US trade deficit in 1H08 for oil was US\$177.1bn, which, when combined with deficits of US\$24.3bn for petroleum preparations and US\$14.7bn for natural gas, puts the US “energy” trade deficit at well over US\$200bn or just over 60% of the total.

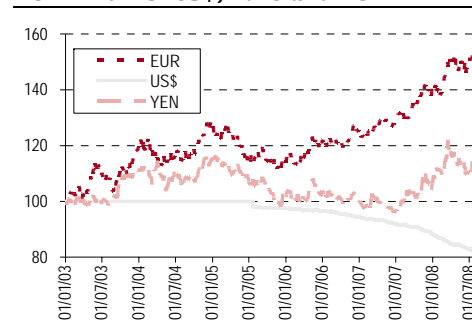
In fact, OPEC aside, a large portion of the trade deficit with Canada and Mexico is also energy and resource related. In other words, while US politicians zero in on China and the renminbi as a convenient scapegoat, the truth is that not only is China not to blame for its own direct trade surplus (as we saw above), but the real problem for the US trade deficit now is its dependence on imported oil.

Let us briefly look at the other side of the equation; namely US exports. What does the US export? Well, in 1H08, the US posted its biggest trade surplus of US\$27.2bn in airplanes and parts. Other major US export categories include US\$17.9bn in agricultural products, US\$11.4bn in plastics, US\$10.3bn in metal ores and scrap, US\$7.4bn in non-monetary gold, US\$7.6bn in specialised industrial machines, US\$3.4bn in scientific instruments, and US\$2bn in pulp and waste paper.

Wait another second; most of these are things that China imports. Certainly scrap metal, waste paper and plastics are major imports, as China needs these raw materials for its burgeoning manufacturing sector. And we also know that China is a major market for Boeing, needs industrial machines and has a voracious appetite for gold, given that it passed South Africa last year to be the largest producer of the metal in the world. While Japan may have been reluctant to import American rice, I have never heard of the Chinese trying to limit US soya bean imports.

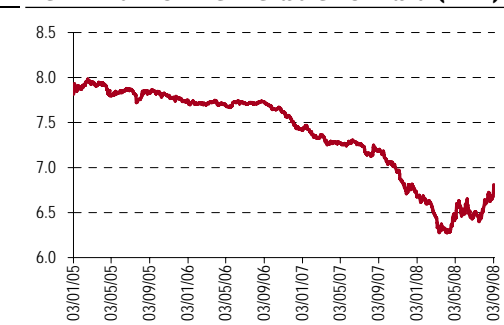
In summary, the US-China trade relationship is not nearly as one-sided as the numbers suggest. However, in an election year, with unemployment rising, one can be nearly certain that it is likely to become a highly charged political issue and that the anti-China rhetoric is, undoubtedly, going to rise over the next few months. With the rise in the renminbi now slowing, I would guess it is only a matter of time before the shrill cries of “rigged currency” from Washington become even louder. Our forecast for a 10% rise in the renminbi remains unchanged, which suggests that it will continue appreciating, albeit at a rate much slower than in 1H08. Look at it another way, the renminbi actually appreciated recently against the euro and the yen due to the dollar rally and China trade with Europe is bigger than with the US. We also believe that the renminbi will likely continue to appreciate in 2009 (again at a slower pace than that already seen), although there is a growing chorus of economists who think that China should now devalue its currency.

**Renminbi vs. US\$, Euro and Yen**



Source: Bloomberg

**Renminbi Non-Deliverable Forward (NDF)**



Source: Bloomberg

Let us face it though, no matter what the Chinese do with the renminbi, the inexorable decline in the textile and furniture manufacturing industry in North Carolina is unlikely to reverse. Even if China becomes uncompetitive in these areas, the jobs are not going to go back to the US. They may be transferred to Vietnam, India or Honduras, but American consumers, spoiled by cheap COSTCO socks and underwear, are unlikely to start paying a huge premium for "Made in U.S.A".

Some Americans may be tempted to join Sara Bongiorni, author of the book "A Year Without 'Made in China'" in boycotting Chinese goods, although I doubt that this will be substantial. The book itself is an entertaining read as Bongiorni manages to fill over 200 pages with colourful anecdotes about running out of toner for her printer and unable to buy toys for her kids. It is also full of the legal and moral ambiguity that makes such a boycott suspect at best (Taiwan, or the Republic of China, apparently does not count as being China in Bongiorni's book, while Hong Kong and Macau do). However, the main thesis "can my family live without buying stuff from China for a year" is hardly a real challenge.

Is it really that difficult to live without all the cheap Chinese stuff that lines the shelves of Wal-Mart and Target? Yes, if you want to maintain your cushy suburban middle-class lifestyle as "Everyday Low Prices", crass consumption and material endowment are hallmarks of the American dream. Please bear in mind that this is not a value judgement as I, and a growing number of Chinese it seems, are all in favour of crass consumption and material endowment. However, given that there are Amish and Hutterites living their whole lives in the US and Canada without electricity or cars, the absence of Chinese toys, clothes and furniture is hardly an insurmountable obstacle if you are willing to change your lifestyle dramatically.

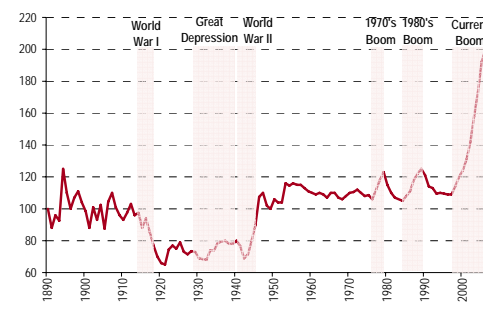
In fact, I challenge Bongiorni to try to live a year without OPEC instead, given that oil accounts for nearly two thirds of the US trade deficit today. I personally will not take up either challenge as I have never taken a moral high ground on trade issues (for the record I firmly believe in free trade with very few exceptions) nor am I one to sacrifice my creature comforts easily (just try to take away my air-conditioner in Hong Kong's sizzling summer and see what happens). I do not go out of my way to destroy the environment and I like to think, if it is convenient, I try to do my little bit to reduce pollution and waste, but neither do I hypocritically pretend that I am trying to save the planet when, by virtue of enjoying a developed world standard of living, I am, by automatic default, one of the biggest consumers of the world's resources. Now, if only Wal-Mart can bring its "Everyday Low Prices" to "Everyday Overpriced" Hong Kong...

## Lies, Damned Lies, and Statistics

***"Figures often beguile me, particularly when I have the arranging of them myself; in which case the remark attributed to [Benjamin] Disraeli would often apply with justice and force: 'There are three kinds of lies: lies, damned lies, and statistics'." – Mark Twain***

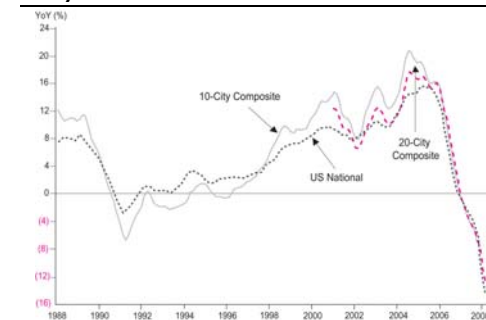
For the record, I remain mostly pessimistic. Just over a year ago, I published the chart of the left below showing the inflation-adjusted US housing price index for over a century as calculated by Robert Schiller (one of the co-creators of the S&P Case-Schiller Index). As I am a big fan of long-term reversion to the mean, I came to the simple conclusion that inflation-adjusted US housing prices must fall by about 30-40% for equilibrium to be achieved. With US housing prices down 15.9% YoY (about 18% from the peak; see chart on the right below), we are about halfway down this adjustment road, which suggests that we have probably another year of declines to look forward to. A year ago, my view was considered heresy; today, it might even be seen as optimistic. Not the stuff that bull markets are made from.

**American Housing Prices (inflation adj.)**



Source: "Irrational Exuberance", 2nd edition, Robert Shiller

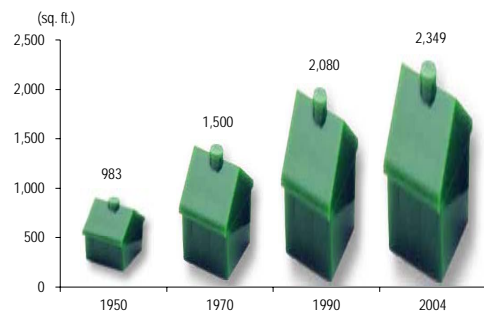
**S&P/Case-Schiller Home Price Indices**



Source: Standard & Poor's

Not surprisingly, all the smart alocs are coming out of the woodwork trying to pick holes in the figures and logic citing everything from flaws in the Case-Schiller Index methodology to the fact that housing markets are regional and cannot be generalised to a national level. To these, I answer: who cares. Yes, I know that different regions in the US (and countries around the world) are not the same. What makes this situation special is that it is the first nationwide decline in US housing prices since World War II (all other previous market corrections were indeed only regional). Moreover, the decline seems to have infected the whole planet, including much of Europe (with bubbles in Britain, Ireland, Denmark and Spain popping quite dramatically), as well as Japan, Singapore, Hong Kong and even China (where Shenzhen property has collapsed some 30-50% depending on who you talk to, while transactions in Beijing and Shanghai have plummeted).

**Average Sq. Ft. of New Single-Family Home From Modest (1950) to McMansion (2007)**



Source: National Association of Home Builders



Source: Washington Post

As for the numbers themselves, indices and statistics are rarely 100% accurate. The fact that the average American now lives in a house that is more than twice the size that of their grandparents 50 years ago (despite average household size shrinking by a similar magnitude during the same timeframe) does not show up well in the statistics. Neither does the fact that my mobile phone today has more computing power than an IBM mainframe in the 1970s. On the other hand, even if I am technically wrong and US property prices only fall 29% rather than 30%, who cares? The end result is pretty much the same; dead is dead and you cannot be “more” dead. For investors, the difficulty in making accurate judgements is always constantly being compounded by distorted facts and statistics.

As far as I can remember (and this dates back to the early 90s), foreign economists have always complained that Chinese economic numbers are not accurate. Even former Premier Zhu Rongji complained in March 2000 that falsification and exaggeration of official statistics was rampant. Be that as it may, it does not absolve us from our duty as investment professionals to try to make the best decisions possible using limited tools. Besides, being consistently inaccurate is not as big a problem as some may think. As any golfer will tell you, a consistent slice shot is not really a problem; just aim to the left and most of your shots will still land on the fairway. The real problem comes when you are inconsistent, which makes it difficult for one to adjust; you aim to the left and suddenly the shot goes straight instead – off the edge of a cliff. And this is where Americans, being the inventors of the field of marketing, excel. Any set of statistics, like CDOs, can be sliced, diced and re-packaged until it looks like it is an investment-grade AAA-rated bond or even an economic recovery as the 3.3% growth in 2Q08 GDP may suggest.

How bad is the housing inventory situation in the US? The National Association of Realtors (not an unbiased source to begin with) says that housing inventories in July rose 3.9% to 4.67m existing homes for sale, representing a historical high of 11.2 months of supply (on current sales which also had a jump in July); up from 11.1% in June. That is pretty bad news on its own, but US housing inventory numbers do not include foreclosed bank properties (which, we all kind of know, are rising really fast) nor does it include those who have just given up trying to sell and have taken their houses off the market. As the old market saying goes, most long-term investments are just short-term punts gone bad.

How bad is unemployment? The US Department of Labour says that unemployment reached a four-year high of 6.1% in August, up from 5.7% in July. Non-farm payrolls fell 84,000 in August and the number of unemployed has risen by 2.2m over the past 12 months, most of it over the last four months. However, unemployment numbers are generally “seasonally adjusted” in an attempt to smooth out distortions from seasonal factors, such as student’s looking for jobs in the summer or agricultural workers working only during harvest time. Moreover, unemployment rates do not include workers who have given up looking for work (which totals 1.6m) or underemployed as they do part-time jobs and cannot find full-time ones (the latter group rose 308,000 in July to 5.7m).

However, unemployment is only one part of the equation for the consumer. According to the Census Bureau, the median real income for working-age middle-income families actually fell US\$2,000 over the last seven years to US\$56,500 from US\$58,500. The report goes on to state “as a result, the 2000-2007 business cycle was the first ever in which the nation’s middle-class families had less real income at the end than when they started... That’s a stark change from 1989 to 2000, when the median income for working-age middle-class families rose 10%.”

How bad is inflation? Urban CPI rose 0.8% in July, down from 1.1% in June on a seasonally adjusted basis, but was still up 5.6% over the last 12 months. Moreover, the past three months show CPI in the US growing at 10.6% on an annualised compounded basis. However, “core CPI” (or CPI excluding food and energy or what I like to call inflation excluding all inflationary items) rose only 0.3% to 2.5%. And, just as in China, July PPI (finished goods) in the US rose at 9.8% over the past 12 months, from 9.2% in June. PPI for intermediate goods was even worse at 16.6%. However, get this, despite the collapse of the US housing market, the official statistics have housing inflation rising 0.6% in July or 3.9% annually.

So, if you are a fully-employed American worker who avoided taking on too much debt buying over-priced housing in the past few years... actually you are still hurting as the cost of food and filling your gas tank has skyrocketed at the same time that your real wages have stagnated (but, at least, you can take solace in the fact that all this extra out of pocket expenses is not “core inflation”). If you are among the unemployed or underemployed and/or you are unfortunate enough to have taken on a huge debt for a house you cannot afford filled with large flat-screen TVs with mortgage rates rising; then you are basically doomed.

Now, everyone is really confused as creative economic statistics and even more creative interpretations have wrecked havoc on the markets. Do we have to worry about inflation or deflation? Is the US doomed or is the rest of the world doomed even more? Is the worst over, or is it yet to come? Personally, I do not know how bad the US economy is. My trip to Vancouver and Calgary in July did not give me the feeling of economic hardship, but, then again, Western Canada’s economy is probably least affected given the boom in resources. Over the next month, I will hopefully be visiting New York, Las Vegas and California; some of the hardest hit areas as far as the property collapse goes. From this, I hope to get a better feeling whether America is still in denial about the depth of this downturn or if expectations of hard times ahead are already well entrenched. Stay tuned.

I wrote in June that, “Global currency strategists have been calling for a major rebound of the US dollar this year; an assertion that I have, generally, agreed with, using the age-old logic that anything that falls as hard and as fast as the greenback has in the past few years is bound to bounce some time... While there may be a bigger recovery in the US dollar than we have seen over the past month, my medium-term view for the next several years is unchanged. I am still a bear on the US dollar; short-term rebound notwithstanding.”

My view remains unchanged and the US dollar has indeed been on a major tear recently against the euro and most other major currencies including, to a tiny extent, the renminbi. The bounce in the greenback has caused collateral damage in the commodity markets, as well, pushing down gold and oil prices.

This tug-of-war between deflation (think falling property and share prices) and inflation (think rising commodity prices and weakening greenback) seems to have swung back and forth over the past two years like a pendulum. With the US dollar rebounding and oil prices retreating, I think that there are now three main schools of thought about the US and global economy:

Scenario one is probably most in vogue now and is relatively optimistic. This view has it that 2Q08 US GDP grew at a whopping annualised rate of 3.3% (hooray, recession averted) and the worst is over. At the same time, the US economic slowdown (how this jives with 3.3% GDP growth I am not sure) has taken the pressure off commodity prices. This is also aided by the strengthening US dollar, which is believed to have hit bottom. The logic behind this is that, even though the US is not in great shape, the Europeans managed to beat the Americans in the great economic race downwards with the Euro-area posting a 0.8% annualised decline in GDP in 2Q08, with Germany alone posting a 2% annualised contraction. The Japanese are hardly better off posting an annualised 2.4% GDP decline in 2Q08. With the US dollar recovering and commodities in retreat, inflationary pressure is abating and, as long as inflation is not a problem, the Fed does not have to raise rates - which will keep the slowdown from hitting the US too hard.

I do not believe this scenario for even one minute. Readers may remember a little macro-economic formula from their economics 101 class that says  $GDP = C + I + G + (X - M)$ . In plain English, this is GDP equals consumption (private) + investment + government spending + net exports (exports minus imports). I have always had an intellectual problem with GDP numbers. For example, from a GDP point of view, a country that exports US\$100bn and imports US\$100bn is that same as one that does US\$1trn of both when clearly economic activity (all the warehouses, truck drivers, ports, ships, trains and planes) is 10 times bigger in the latter. Even more bizarre, if exports shrink to US\$900bn, but imports shrink faster to US\$800bn, then GDP actually rises, when, in fact, overall economic activity is clearly declining.

In China’s case, import growth (due to high commodity prices) is rising faster than exports (still growing, albeit slower) causing GDP to contract, despite continued absolute growth in trade. Conversely, I am guessing that the surge in US exports and collapse in US demand (and, thus, imports of consumer goods and oil) are the prime culprits behind the unexpected 3.3% growth in 2Q08 GDP as the rest of the economy is clearly in the dumps. Even this is overly optimistic, as a good part of the surge in exports is just pure price inflation and manufacturing is not in rude health because jobs in that sector continue to fall. Let us stop being economists for a second and assume that we never were brainwashed by business schools and CFA programmes and put on our “common-sense” hat. With rising unemployment, high inflation, stagnant consumption, falling housing prices, declining stocks and real wages, how does that miraculously turn into a 3.3% “above-trend” GDP growth rate? If you believe that, then I have some AAA-rated sub-prime CDOs you can buy.

Bill Gross of PIMCO puts it best in a fictitious open letter to President Obama. “Gross private domestic investment (machines, houses, inventories) has declined by \$200 billion since its peak in late 2006. Due to higher unemployment and energy costs, domestic consumption will soon be \$300 billion less than it should be if we are to return to historical economic growth rates. According to that old C + I + G formula (scratch the trade deficit for now) when C + I is reduced by \$500 billion, then G should increase by that amount in order to fill the gap. The G, Sir, is you [Barack Obama] the government deficit, the fiscal stabilizer popularized by Keynes following the Depression. And since the fiscal deficit for 2008 is likely to press \$500 billion even before you take the oath of office, well there you have it: \$500 billion + \$500 billion = \$1 trillion big ones, probably by sometime in 2011 or so.”

Wait a second, how does running a US\$1trn fiscal deficit jive with a strengthening US dollar? How can it be that, if the US continues to spend money like a drunken sailor to bail out investment banks and mortgage companies, as well as fight wars overseas and pump-prime the economy through tax rebates, the US dollar continues to rally? The answer is, it probably does not (unless Europe and Japan really go into the toilet, in which case you are probably better off buying gold bullion, farmland and a shotgun with extra ammo) and this current dollar rally will be short-lived, meaning inflation and interest rate hikes are still on the cards.

There is a second, more middle-of-the-road school of thought that says that the US is “Turning Japanese” like the title of the 1980 hit song by the British rock band “the Vapors”. As *The Economist* puts it, “as falling house prices and tightening credit squeeze America’s economy, some worry that the country may suffer a decade of stagnation, as Japan did after its bubble burst in the early 1990s.” This scenario would only be plausible if the US had the ability to slog through a “lost decade” like the Japanese, which I rather doubt. Unlike America, Japan had huge savings and continued to run massive trade surpluses through the 1990s and into the new century. In 1991, “Japan’s households saved 15% of their income. By 2001 saving had fallen to 5%, which helped to prop up consumer spending. America’s saving rate of close to zero leaves no such cushion.” In other words, the reason Japan could endure a decade of stagnation is the same as why children born to wealth can get away with not working – they have money. However, the US is just like the stereotypical yuppie with a huge (and mostly empty) McMansion and expensive foreign cars parked out front sporting the bumper sticker “I owe, I owe, it’s off to work I go” (sung to the tune Hi-Ho from Walt Disney’s Snow White). Debt means he does not have the luxury of taking a decade off work.

Deflation on one side, inflation on the other; I am confused as to which is the greater threat to the global economy. However, I am not the only one, as “PIMCO has for many years now debated the tightrope walking of the U.S. economy on the knife’s edge between reflation and deflation. A serious case can be argued for either side.” In the June 2006 issue of *Huaqiao* entitled “America – the 19th century’s greatest emerging market” (incidentally, I think its one of the better pieces I have written so if you missed it you can download that edition and have a read) I wrote about deflation and the US. However, to refresh your memory, that piece basically made a comparison between the rise of China today with that of America over a century ago. In summary, the huge surge in US production and exports exerted deflationary pressure around the world (principally Europe) and, despite this, America continued to grow robustly. However, I was wise enough to also write:

“As I see it, there are two substantial differences between the emergence of China today and the US in the 19th century. First is the nature of the emergence. At the beginning of the 19th century, the US was a vast and mostly empty... continent that sucked in vast amounts of Europe’s surplus population. If you add on Canada, Australia, New Zealand and South Africa; Europe had a solution to Malthusian starvation by shipping large numbers of their excess populations to the ‘new world’. China, with about 20% of the world’s population, but only about 7% of the world’s arable land, does not have the same option. The population growth in the US was, by definition, more steady and sustainable and incremental population, at least in the early days, was easily put to work in agriculture, especially the seemingly endless prairies of the Mid-West. Opening up a whole new continent to development meant increased supply of both raw resources, such as minerals, as well as agricultural product.”

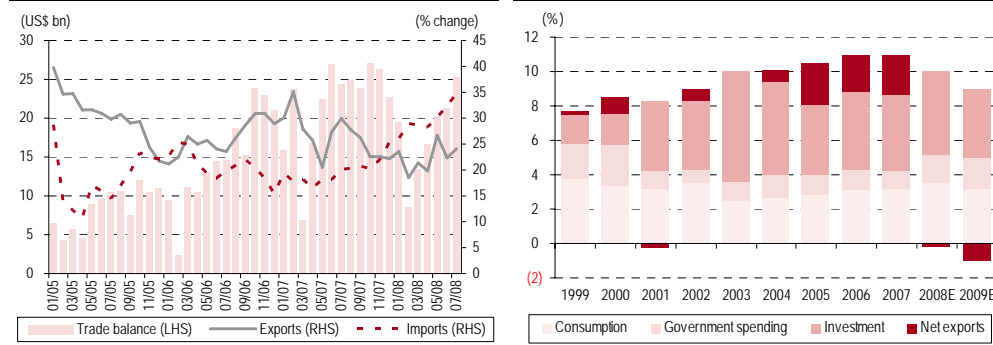
“China, by contrast, is having the opposite impact, as, not only does it not have huge amount of surplus agricultural products and natural resources to export, it actually has to import substantial amounts of both to feed its growing industrial machine and rising living standards. The impact of this has also been obvious to anyone who has bothered to read a newspaper over the past three years, soaring commodity prices globally in everything from iron ore and copper to coal and oil... Therefore, China’s entry into the world economic system, unlike America over a century ago, has resulted in inflation in basic commodities rather than deflation.”

The second difference I saw was the absence of the gold standard today and the creation of fiat currencies means that deflation is much less likely; a view shared by Federal Reserve Chairman, “Helicopter” Ben Bernanke.

"I believe that the chance of significant deflation in the United States in the foreseeable future is extremely small... Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation."

In the absence of an economic recovery or a deflationary stagnation, that leaves the third scenario or what I like to call the "Armageddon base-case scenario" as the most likely outcome. In this case, the global economy enters a major recession and the US continues to try to keep things afloat (as it has so far) by printing money, bailing out financial institutions, and giving out tax breaks the government cannot afford. Despite this huge injection of cash, liquidity continues to remain tight as the financial institutions continue to bleed and are more interested in staying alive and repairing shattered balance sheets than expanding credit. While there are no great alternatives to the greenback as the Euro-zone and Japan have also hit the skids, the US dollar once again weakens as at least those two places are not dropping money out of helicopters and running trillion-dollar fiscal deficits. Under this scenario the weak US dollar creates upward pressure on commodities and inflation once again. This leads the Federal Reserve and the European Central Bank to tighten eventually to reign in inflation even as the economy remains weak and property prices fall, making the recession and decline in home prices worse.

Chinese Trade and Balance



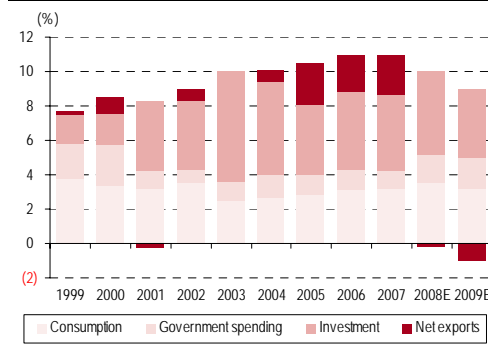
Source: CEIC

While some think this scenario to be a little too alarmist, I think this is exactly what is likely to play out over the next 12-18 months. Just as one eventually has to grow up and come to terms with the fact that there is no Santa Claus or Easter Bunny, investors have to accept that the world economy is not going to be a warm and comfortable place in the short term. Sadly, John F Kennedy's famous quote that "a rising tide lifts all boats" also works in reverse or as Warren Buffett says, "it's only when the tide goes out that you learn who's been swimming naked." Well, the global economic tide is most definitely receding and we have discovered that the Europeans and Japanese have been skinny-dipping, while the Americans were clever enough to grab a piece of driftwood and temporarily cover up their private parts with 3.3% 2Q08 GDP growth. And this global crisis spares nobody; not even Japan and Germany, which clearly did not enjoy the same cheap-credit driven asset-bubble that the Anglo-Saxon economies did, but are also suffering.

What about China? If the US dollar starts to weaken again, pressure for renminbi appreciation will also resume and an already bad trade picture will turn worse. As the chart above shows, imports have grown much faster than exports this year resulting in a US\$12bn decline in the trade surplus for the first seven months. This is hardly unexpected as weak US and European consumption was likely to hit exports, while imports were almost certain to surge amid the rise in commodity prices. Getting back to our old  $GDP = C + I + G + (X-M)$  formula, the decline in net exports will be a minor drag on GDP this year and likely a larger drag next year.

Looking at the G portion (government expenditures), the last time the Chinese economy was very weak in 1998-99 (during the Asian Financial Crisis), the government stepped up to the plate and boosted spending substantially to keep GDP growth stable at around 8%. Will the government do the same this time? I think this is likely given that much of the current market talk centers around a possible economic stimulus package. This can take place in numerous forms, but I believe that, unlike a US-style tax cut that targets the rich in the hope of a trickle down, China will aim to reduce the burden of the poor and working class, which have been hit by rising food prices and soaring housing costs. Possible measures, including reduction of tax through a higher tax-exempt basic deduction and an increase in subsidised housing construction, which has the added benefit of boosting fixed asset investment at a time when private-sector housing construction, is likely to slow given the weak market. Moreover, the government clearly has the ability to boost spending without any budgetary pressure as it is basically running a fiscal surplus and tax revenue in 1H08 actually rose 30.5% YoY to Rmb3.26trn.

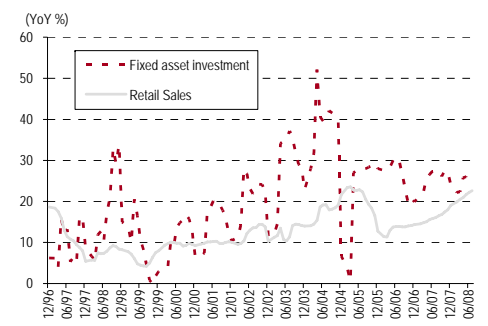
Breakdown of China's GDP Growth



Sources: NBS, BOCI Research

Looking at the I (investment) part of GDP the growth, FAI in China has actually accelerated this year, having grown 27.3% YoY in 7M08. One of the big drivers has been increased government expenditure on earthquake and other disaster reconstruction. As expected, property expenditure is slowing, having risen 30.5% in 7M08 compared to 33.5% in 1H08. While we do not expect the FAI growth rate to continue to rise, we expect growth to remain relatively robust over the next 12-18 months as rebuilding and government stimulus measures take up some of the slack from reduced private sector investment.

**FAI and Retail Sales (3mma)**



Sources: NBS, CEIC

Finally, let us examine the C part (consumption) of GDP, which, despite so much negative market sentiment, is in surprisingly good health. Readers will know that I have long believed that Chinese consumption will pick up simply because of rising inflation. Inflation has two impacts: First, the nominal value rises because the prices are rising and, second, moving from deflation to inflation tends to increase consumption. We are seeing both, as nominal retail sales grew 23.3% YoY in July (23% YoY in June), while real sales (i.e. excluding inflation) rose 17% YoY in July (15.9% YoY in June). While China's GDP growth is decelerating and likely to slow further in 2009 to around 8%, the overall picture does not look so bleak.

Finally, there are still those who think that China will fall into the Japanese trap. Richard Katz in an op-ed for the *Wall Street Journal* writes "rampant real estate speculation, years of double-digit price hikes in real estate all over China, and a country-wide syndrome of excess investment and a dearth of consumer spending... Parts of the picture look alarmingly like Japan's late-1980s bubble and subsequent 'lost decade'." As I have said before, China today is still a third world country in the midst of urbanisation with lots of infrastructure to build and cannot be compared to 1990 developed Japan. Those that say that there are no more "low hanging fruits to pick" for the Chinese economy, must be, in my opinion, midgets.

## Panning for Gold Nuggets

**"Only three parts out of every billion of the Earth's crust is gold..."**

As the old saying goes, garbage in – garbage out, so it is not surprising that markets are swaying wildly back and forth as investors do not know what to make of the current global economy. In the previous sections, I hope that I have made my views pretty clear. I think that the global economy is in for a very tough 12-18 months as the US, Europe and Japan endure a long recession. Although I think that the Chinese economy will manage to engineer a soft landing, against this horrific global economic backdrop, it is hard to envision a strong bull market starting in Chinese equities. It is always hard to sail against the prevailing winds.

So, what must investors do? Pack up early and head to the movie theatre to catch a discounted matinee like Warren Buffett once said he should have done? While this is probably not a bad option, like good soldiers, we have a duty to our investors to show up to work and try to do our best to make money.

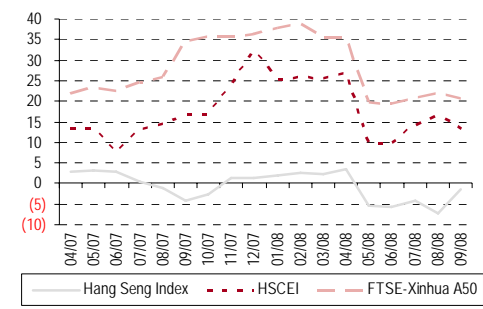
A hedge fund client asked me recently for my view on the market. I told him that it was still the same as six months ago – that the Hang Seng would fall to 18,000, HSCEI to 10,000 and Shanghai Composite to 2,800 (although A shares have already fallen way below this level). He said if I really believed that, then I should put it in black and white. I told him I had already done so on many occasions. He then added that I should scream it from the rooftops and make a promise that, if the Hang Seng did not fall to 18,000 sometime before the end of the year, I would quit. While some days quitting does seem attractive, I am not making such a promise.

A soldier's prized virtues include duty, honour and bravery, but there is a fine line between bravery and stupidity. For a soldier, to throw himself on a grenade may be viewed as incredibly brave, but others may think it incredibly stupid. For a soldier, self-sacrifice at least gives him the chance of becoming a hero and earning a medal (likely posthumously though). An analyst or fund manager does not even get a medal if he tries to play the hero and fails; he just gets fired. So my advice for investing today is try your best to make money, but do not try to be a hero.

While I think market conditions will remain very challenging in the short term, one has to wonder if there is long-term value emerging given the collapse in both China and Hong Kong markets. Overall, the markets look cheap and on our latest (post-1H08 results) forecasts, the P/E for the Hang Seng Index is 12.2x 2008E (11.5x 2009), HSCEI on 12.1x 2008 (10.5x 2009), and Xinhua A50 of 12.5x 2008 (11.4x 2009).

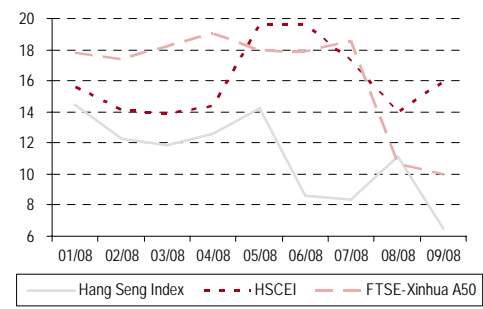
Despite the addition of 1H08 data, I note that 2008 earnings forecasts for A and H shares remain relatively unchanged; that is to say that the bulk of the earnings forecast adjustments was done in May following the release of 1Q08 results and there has been little change since then. For A shares, aggregate 1H08 earnings rose 19.6% YoY, a marked slowdown from the 28.7% YoY increase in 1Q08, but this was expected. However, I note that our 2009 earnings continue to be trimmed slightly, suggesting further pessimism down the road.

**2008 BOCI Earnings Growth Estimates**



Source: BOCI Research

**2008 BOCI Earnings Growth Estimates**



Source: BOCI Research

Worst of all, our forecasts, especially for 2009, seem to be much lower than the current market consensus as derived from Wind and Bloomberg. Whereas BOCI is looking for A- and H-share earnings growths of 10% and 16% in 2009, the market is hoping for 24% and 17%, respectively, suggesting that further downgrades in the future are possible.

**Consensus for Chinese Equities Earnings Growth and Valuations**

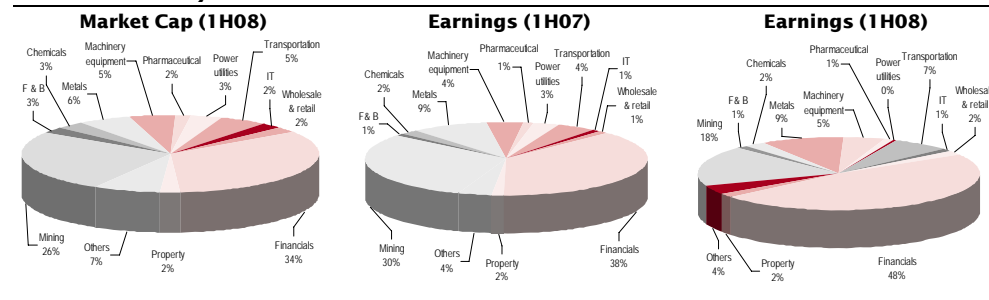
	2007	P/E (x)		EPS growth (%)		PEG (x)
		2008E	2009E	2008E	2009E	
China A-shares	19.2	14.7	11.8	16.9	24.8	0.92
Shanghai/Shenzhen 300 Index	17.6	14.4	11.7	16.1	23.7	0.89
SSE 50 Index	17.5	14.5	11.9	14.6	22.1	0.95
HSCEI (H shares)	14.1	12.1	10.6	10.8	17.1	1.01
A-H dual listed (A-share earnings)	19.9	15.5	13.5	14.5	22.1	1.09

Source: Wind, Bloomberg, BOCI Research

Now, this appears to be a really bad trend, but let us look closer at the sector make-up of the Hong Kong and China stock markets. In fact, for both A and H shares, the market capitalisations and earnings are dominated by two major industries, namely financials (mostly banks) and mining (mostly energy). These two sectors alone generally account for about 60-70% of the earnings and market capitalisations of both the A and H share markets (for H shares, telecoms adds another 10-15%).

All the other light and heavy industries, consumption, services and retail account for only a quarter or less of the market. Agriculture, a big component of inflation and even Chinese GDP does not even show up as a rounding error in the stock markets (but this is not a surprise as that is the case pretty much everywhere in the world).

**A-Share Industry Breakdown**

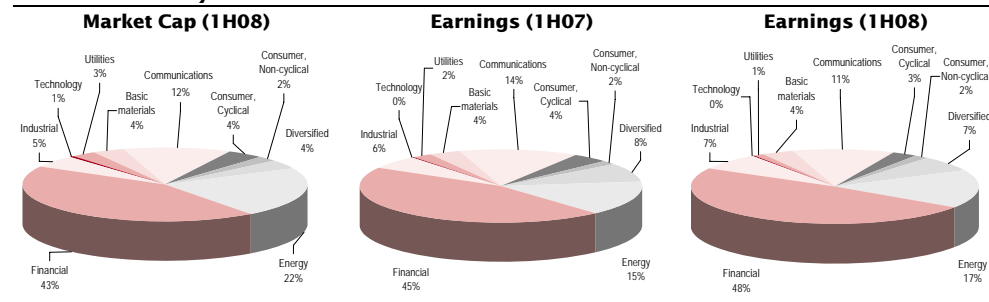


Sources: BOCI Research, Bloomberg

Sources: BOCI Research, Bloomberg

Sources: BOCI Research, Bloomberg

**H-Share Industry Breakdown**



Sources: BOCI Research, Bloomberg

Sources: BOCI Research, Bloomberg

Sources: BOCI Research, Bloomberg

Due to the heavy sector concentration then, the outlook for the market will basically depend on the outlook for two or three key industries. Looking at 1H08 results, the trend is still the same as in 1Q08 as oil and gas, and power utilities continue to suffer due to price controls, while earnings growth for financials continues to be strong, but the rate of increase is slowing.

I wrote about this subject over the past two months and, basically, came to the conclusion that the government will likely continue to raise caps on refined petroleum products and electricity over the next several months. This means that the earnings for the petroleum and power sector will recover in 2H08 and probably rebound substantially in 2009. My medium-term call to buy independent power producers (IPPs) and short cement and aluminium (as well as my other call to buy life insurance and short banks) remains unchanged.

### 1H08 A-share Results Summary by Industry

	Unadjusted Raw Figures			Adjusted 1H07 Figures			1Q07
	1H07	1H08	YoY %	1H07	1H08	YoY %	YoY %
Net profit (Rmb m)							
Agriculture, forest, pasturing and fishery	782	971	24.1	782	971	24.1	50.0
Mining	139,630	97,907	(29.9)	139,630	97,907	(29.9)	(30.8)
Food & beverage	4,695	7,632	62.6	4,695	7,632	62.6	56.7
Textile, clothing, leather & furs	2,780	3,704	33.2	2,780	3,704	33.2	(6.8)
Timber processing & furniture production	207	179	(13.5)	207	179	(13.5)	3.8
Papermaking & Printing	2,333	2,938	25.9	2,333	2,938	25.9	(6.6)
Petroleum, chemicals & plastics	8,984	13,761	53.2	8,984	13,761	53.2	101.5
Electronics	907	1,793	97.7	907	1,793	97.7	64.0
Metal & non-metal	41,419	52,070	25.7	41,419	52,070	25.7	19.5
Machinery, equipment & instruments	19,403	26,004	34.0	19,403	26,004	34.0	51.4
Pharmaceutical & biotechnology	4,985	5,825	16.8	4,985	5,825	16.8	14.6
Other manufacturing	919	843	(8.3)	919	843	(8.3)	4.4
Power, gas & utilities	14,183	2,189	(84.6)	14,183	2,189	(84.6)	(67.6)
Construction	3,617	5,167	42.8	3,985	5,167	29.6	126.8
Transportation & storage	19,683	37,341	89.7	19,683	37,341	89.7	114.5
Information technology	4,301	6,250	45.3	4,301	6,250	45.3	0.5
Wholesale & retail	5,900	9,396	59.3	5,900	9,396	59.3	66.8
Financials	172,979	261,958	51.4	172,979	261,958	51.4	83.8
Property	7,119	9,935	39.6	7,119	9,935	39.6	67.2
Social services	3,141	3,508	11.7	3,141	3,508	11.7	(8.9)
Media & culture	350	428	22.4	350	428	22.4	44.5
Conglomerates	2,753	1,933	(29.8)	2,753	1,933	(29.8)	0.4
<b>Total</b>	<b>461,069</b>	<b>551,730</b>	<b>19.7</b>	<b>461,437</b>	<b>551,730</b>	<b>19.6</b>	<b>28.7</b>

Sources: Wind database, Company accounts, BOCI Research estimates

### A-share Universe Historical Profitability and Margins

(Rmb m)	2006	1Q07	1H07	9M07	2007	1Q08	1H08
Sales	7,526,027	1,931,093	4,327,964	5,659,632	9,465,396	2,616,160	5,622,495
Sales excluding financial sector	6,489,820	1,628,481	3,602,152	4,616,814	7,970,643	2,150,841	4,689,837
Gross profit excluding financials	1,212,582	324,215	707,382	794,965	1,497,431	359,628	747,597
Operating profit	902,436	272,862	663,614	815,330	1,321,058	344,104	685,494
Pre-tax profit	916,537	277,009	673,048	828,432	1,370,584	360,091	737,248
Net profit	673,556	199,112	491,988	604,184	1,017,816	285,236	584,967
Net profit attributable to shareholders	627,924	186,173	461,437	567,102	951,780	268,829	551,730
(%)							
Gross margin	18.7	19.9	19.6	17.2	18.8	16.7	15.9
Operating margin	12.0	14.1	15.3	14.4	14.0	13.2	12.2
Pre-tax margin	12.2	14.3	15.6	14.6	14.5	13.8	13.1
Net margin	8.9	10.3	11.4	10.7	10.8	10.9	10.4
Net margin attributable to shareholders	8.3	9.6	10.7	10.0	10.1	10.3	9.8
ROE (weighted average)	14.0	20.5	18.6	16.2	15.9	17.1	17.4

Source: Wind, BOCI Research estimates

So, other than those big "macro" sector calls, what should value investors buy? During a bull market like the go-go tech bubble in 1999-2000, investors get carried away and then get bamboozled by new-age valuation techniques like EVA and EV/EDITDA (do not even mention complete garbage techniques like price to clicks). My valuation philosophy for bear markets is fairly simple. Stick to the tried and true simple techniques like P/E, P/B, dividend yields and, sometimes, cash on hand.

One other thing I pointed out last month was that, during the great bear market of the 1970s, "The only stocks that have done well recently have been hyper-growth stocks such as energy-related, gambling, high-technology, or fast-growing small companies." That seems to be also the case this time around as the Russell 2000 Index for small caps has been strongly outperforming big caps in the US falling by only 6% so far this year versus a 15% decline in the S&P 500.

Still, one has to remember what Americans call small caps (and not just the Texans to whom everything is big) is a US\$1bn-2bn market capitalisation company. In Asia, it is my experience that small caps generally perform very poorly in down markets and only do well in the late stages of a raging bull market. I think the reason why is that a company with a market cap of US\$1bn-2bn is, by our market standards, already a pretty big entity. I did a quick screen and out of 1,275 companies in Hong Kong, 12% had market caps over US\$2bn and only 5% had market caps of US\$1bn-2bn, leaving 85% either suspended or market cap below US\$1bn. For the more than 1,500 listed A shares, 7% had market caps over US\$2bn, 8% of US\$1bn-2bn and again, 85% either suspended or below US\$1bn.

Thus, “small caps” in Hong Kong and China, may not even qualify as “micro-cap” in the US and, thus, suffer from major liquidity problems and low institutional following. In general, liquidity in Hong Kong and China is lower than in the US even for companies of the same market caps, given that free floats are so low due to large family and state ownership. Poor liquidity is probably why Asian small caps perform badly in bear markets. It is only when liquidity is super abundant and all the other big companies look expensive do investors drill down the small caps.

Having said that, for the A shares, it seems that big and small alike have suffered about the same, given that declines in Shanghai (proxy for blue chips) and Shenzhen (proxy for small caps) have been of the same magnitude. In this regard, as in so many other ways, China is indeed “different”.

I have searched through the listed Hong Kong and China A stock universe to find cheap companies on a valuation basis. In times of distress, many value investors look for high dividend yields and low book values (and possibly discounts to cash on hand). As such, I have used yield as the main screening criteria with P/BV and P/E as secondary screens. I also limited my scope to looking for companies that are relatively large because even deep value is of little use if the stock does not trade. Finally, I have also screened using my own personal biases to weed out industries about which I do not feel confident. For example, there is a veritable horde of textile companies trading on double-digit yields and 2x P/E, but this depends on you believing that the “E” will not disappear and the company can maintain cash payouts. Here is what I came up with:

**Selected “Value” Stocks in Hong Kong**

Ticker	Company	Mkt. cap (US\$m)	P/E (x)			P/B (x)			Yield (%)			ROE (%)
			2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	
303 HK	VTech Holdings Ltd	1,442	6.6	6.5	7.2	3.16	2.79	2.41	10.7	10.0	10.6	54.2
999 HK	I.T Ltd	174	7.3	3.2	5.2	1.11	1.06	0.95	9.1	8.8	10.5	16.7
1888 HK	Kingboard Laminates	1,539	6.6	6.1	5.4	1.78	1.44	1.23	7.5	7.7	8.7	31.1
1836 HK	Stella International	1,259	9.4	9.3	8.2	1.71	1.63	1.53	7.5	7.4	8.5	19.6
2088 HK	Xiwang Sugar	253	4.8	4.5	3.6	1.21	1.03	0.82	7.2	7.1	8.8	27.8
590 HK	Luk Fook Holdings Intl	242	6.0	5.3	4.8	1.74	1.50	1.20	6.7	7.8	9.4	32.5
903 HK	TPV Technology Ltd	957	4.9	4.6	4.0	0.71	0.66	0.59	6.2	6.7	8.0	15.4
3998 HK	Bosideng Intl Hldgs	1,224	6.2	7.0	6.5	1.19	1.10	1.01	5.7	4.8	5.3	29.2
285 HK	BYD Electronic Intl	1,008	5.3	4.8	3.5	1.37	1.05	0.84	4.9	4.1	5.9	38.0
1211 HK	BYD Co Ltd-H	2,477	11.9	10.7	9.2	1.77	1.71	1.46	0.0	1.8	2.4	20.2

Sources: Bloomberg, BOCI Research

Now, I am not saying everyone has to rush out and fill their boots with these stocks (because some of them we do not even cover), but these are companies that I think will ride out the global economic downturn reasonably well and are extremely cheap. One may notice that they also have another thing in common other than high yield; they all have pretty high ROEs, as well.

To be honest, of this list, I personally like VTech the most as I think that no matter how bad the economy gets, people will still pony up for educational toys for their children. While BYD Electronics technically comes on our radar screen for value, I do not really like the concept of OEM cell-phone manufacturing. However, parent BYD, while not as cheap, offers greater potential due to its core business of battery manufacturing, although the auto side may be under stress. Interestingly, while Japanese battery manufacturer stocks have soared this year, BYD has plunged. While BYD does not just make only batteries anymore, the disparity in performance is striking.

Doing the same exercise for the A shares I quickly discovered that the A-share-listed companies generally do not like to pay dividends and even for those that do, there is risk if payments will continue (a lot of stocks with higher yields are due to promises made during the share reform process and not necessarily because of good corporate governance). In general, most of the good-yielding companies also tend to have H-share listings, which actually is not a big surprise because these firms have to pay the same dividend to both the H- and A-share owners.

No problem, I thought. I have many tricks up my value-investing sleeve to find companies on the cheap. I then started to look for low P/Bs on the premise that even if you do not pay out the cash, at least the company is cheap on an asset valuation basis. For A shares, this screen is full of very cyclical steel, auto, and chemical companies.

Even on a P/E basis, cheaper companies tend to be clustered in cyclical sectors like the three mentioned above and include other sectors such as paper and aluminium, where P/B may not be so low, but P/E on the surface is. I, thus, come to the conclusion that although A shares look cheap on aggregate, it is the big cyclicals that are the cheapest and decent manufacturing and consumer stocks remain relatively expensive, despite the recent sell-off. Yes, I still like Qinghai Salt Lake Potash, Wangfujing Department Store and Kweichow Moutai. However, none of these stocks are cheap even after the sharp price falls over the past several months.

So, what must value-searching A-share investors do as the market approaches 2,000? Having exhausted all my previous tricks, I have no idea, but, maybe, a good starting point is finding those dual-listed A-H shares that trade at a discount on the premise that the H-share market is more open and free and, thus, represents the more reasonable pricing level. Looking at it this way, there are basically three categories where H shares trade at a premium to A shares. These include many of the financials (especially insurance), construction (Anhui Conch, and China Railway Construction Corp) Jiangsu Expressway, China Shipping Development, China Coal and ZTE. Personally, I would not touch the A-share construction companies, as I think the H shares are overvalued.

Conversely, the financials are probably undervalued in the A shares as I believe even the H shares offer good investment returns over the next 12 months. As I have said before, while I understand that the Chinese economy may slow down and NPLs (especially in the property sector) will rise, I am still not convinced that earnings will collapse in 2009. If you are worried about this, then you can stick to the life insurance companies, for which the worst of the marked-to-market investment losses will occur this year, setting the stage for a 2009 earnings rebound.

**A-H Dual-listed Shares Premium and Reported Earnings**

H-share Code	A-share Code	Company Name	H-share (HK\$)	A-share (Rmb)	A-H prem. (%)	Mkt. cap. (Rmb m)	Wgt. A-H prem. (%)	07 Earnings (Rmb m)		A-H earn. diff. (%)
								H-share	A-share	
1108	600876	Luoyang Glass	2.65	2.32	204.2	771	0.02	(100)	(95)	5.0
0921	000921	Hisense Kelon Electric	2.65	2.32	197.4	1,594	0.03	239	250	(4.7)
0553	600775	Nanjing Panda Electronics	6.30	5.52	380.7	2,558	0.10	112	89	25.7
1033	600871	Sinopec Yizheng Chemical	3.94	3.45	352.4	10,038	0.35	22	18	25.2
0719	000756	Shandong Xinhua Pharmaceutical	4.34	3.80	255.3	1,328	0.03	32	33	(2.8)
0187	600860	Beiren Printing	4.54	3.98	324.4	1,375	0.04	5	9	(44.1)
0588	601588	Beijing North Star	3.87	3.39	137.3	10,028	0.14	463	328	41.1
0042	000585	Northeast Electric	2.81	2.46	300.9	1,672	0.05	(311)	(312)	(0.1)
0338	600688	Sinopec Shanghai Petrochemical*	5.42	4.75	140.8	27,728	0.39	1,634	1,592	2.6
0670	600115	China Eastern Airlines	4.63	4.06	189.5	15,596	0.29	269	586	(54.1)
1055	600029	China Southern Airlines	3.86	3.38	120.3	18,926	0.23	1,871	1,852	1.0
1071	600027	Huadian Power International	3.86	3.38	73.7	18,299	0.13	1,197	1,226	(2.4)
0350	000666	Jingwei Textile Machinery	3.84	3.37	259.3	1,595	0.04	162	162	0.0
0358	600362	Jiangxi Copper Company*	16.20	14.20	50.0	36,357	0.18	4,145	4,133	0.3
0874	600332	Guangzhou Pharmaceutical	7.04	6.17	130.8	4,234	0.05	320	335	(4.4)
1065	600874	Tianjin Capital Environment	5.11	4.48	284.3	5,267	0.15	176	184	(4.3)
2600	601600	Aluminum Corp of China*	9.97	8.74	62.9	104,891	0.65	10,245	10,225	0.2
0300	600806	Jiaoda Kunji High-Tech	10.87	9.53	110.3	3,486	0.04	241	243	(0.6)
0998	601998	China CITIC Bank*	5.89	5.16	40.5	182,967	0.73	8,322	8,290	0.4
0525	601333	Guangshen Railway*	4.27	3.74	30.1	25,254	0.08	1,431	1,431	0.0
0753	601111	Air China Limited*	5.68	4.98	47.2	53,978	0.25	4,229	3,881	9.0
0386	600028	China Petroleum & Chemical*	10.37	9.09	45.2	740,611	3.31	56,533	54,947	2.9
0548	600548	Shenzhen Expressway	5.82	5.10	66.2	9,603	0.06	674	674	0.1
1171	600188	Yanzhou Coal Mining*	13.22	11.59	13.8	54,253	0.07	3,230	2,693	19.9
0902	600011	Huaneng Power International*	7.08	6.21	30.0	70,486	0.21	6,161	5,997	2.7
2628	601628	China Life Insurance*	27.16	23.81	(6.0)	684,307	(0.41)	38,879	28,116	38.3
0995	600012	Anhui Expressway	4.80	4.21	6.7	6,852	0.00	471	517	(9.0)
0323	600808	Maanshan Iron and Steel*	4.49	3.94	46.9	24,449	0.11	2,467	2,475	(0.3)
1072	600875	Dongfang Electric Machinery	27.56	24.16	20.9	19,029	0.04	2,224	1,990	11.8
0177	600377	Jiangsu Expressway*	5.82	5.10	(4.1)	25,962	(0.01)	1,642	1,601	2.6
2318	601318	Ping An Insurance*	48.66	42.65	(12.0)	328,164	(0.39)	18,688	15,086	23.9
2338	000338	Weichai Power	38.93	34.12	18.9	17,080	0.03	2,015	2,019	(0.2)
1138	600026	China Shipping Development*	14.00	12.27	(3.6)	42,367	(0.02)	4,546	4,596	(1.1)
1398	601398	ICBC*	5.16	4.52	0.9	1,506,368	0.14	81,256	81,256	0.0
0763	000063	ZTE	30.57	26.80	(8.7)	36,576	(0.03)	1,252	1,252	0.0
0168	600600	Tsingtao Brewery*	18.98	16.64	12.3	20,572	0.03	539	558	(3.4)
0317	600685	Guangzhou Shipyard	17.15	15.03	51.7	6,628	0.03	939	941	(0.2)
0347	000898	Angang Steel*	9.78	8.57	13.7	60,882	0.08	7,534	7,525	0.1
0914	600585	Anhui Conch Cement*	30.38	26.63	(14.4)	48,984	(0.07)	2,480	2,494	(0.6)
3968	600036	China Merchants Bank*	22.89	20.06	(2.0)	296,110	(0.06)	15,243	15,243	0.0
1919	601919	China COSCO Holdings*	15.69	13.75	26.3	133,084	0.35	19,478	19,085	2.1
0991	601991	Datang International Power*	7.92	6.94	56.5	73,374	0.41	3,406	3,411	(0.1)
3328	601328	Bank of Communications*	7.79	6.83	(9.4)	350,966	(0.33)	20,274	20,513	(1.2)
1053	601005	Chongqing Iron & Steel	4.16	3.65	106.1	5,315	0.06	449	449	(0.1)
0857	601857	PetroChina*	12.81	11.23	38.2	1,989,824	7.52	145,625	134,574	8.2
3988	601988	Bank of China*	3.99	3.50	16.8	850,256	1.41	56,248	56,229	0.0
0939	601939	China Construction Bank*	5.70	5.00	(4.8)	1,224,720	(0.58)	69,053	69,053	0.0
1088	601088	China Shenhua Energy*	27.88	24.44	12.2	477,069	0.58	20,581	19,766	4.1
2883	601808	China Oilfield Services*	15.46	13.55	75.7	51,953	0.39	2,238	2,238	0.0
1898	601898	China Coal Energy Co.*	11.35	9.95	(2.8)	133,106	(0.04)	6,020	5,171	16.4
0390	601390	China Railway Group*	5.65	4.95	5.6	104,338	0.06	2,423	3,163	(23.4)
1186	601186	China Railway Construction	9.30	8.15	(11.8)	102,811	(0.12)	2,301	3,143	(26.8)
2866	601866	China Shipping Container*	3.71	3.25	118.1	31,369	0.37	3,215	3,324	(3.3)
2899	601899	Zijin Mining*	4.60	4.03	4.5	57,908	0.03	2,552	2,548	0.1
						10,113,317	17.2	635,342	607,111	4.7

\* Denotes a HSCEI constituent stock

Source: Wind, Bloomberg, BOCI Research

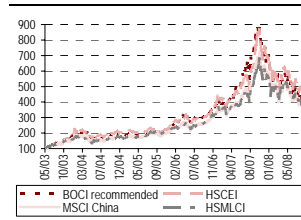
## China – HK Strategy

### Performance Comparison

	% Change 1M	Since YTD	Incept*
BOCI recommended	(16)	(42)	309
MSCI China	(14)	(36)	277
HSMLCI	(16)	(34)	279
HSCEI	(15)	(34)	360

\* Inception May 2003  
Sources: Bloomberg, BOCI Research

### Relative Performance



Source: BOCI Research

### BOCI China-HK Recommended Stocks

	RIC	Last price (HK\$)	3M avg. daily T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E			Yield (%)		% Chg.			Date rec.	Wgt (%)
					FY07	FY08E	FY09E	FY08E	FY09E	1M	YTD	Since rec.		
Chinese Insurance	0966.HK	16.26	40	9,061	14.9	23.6	17.9	0.4	0.5	(7)	(23)	0	05-Sep-08	5
Hengan International	1044.HK	26.25	57	12,231	29.8	24.1	18.4	2.7	3.7	13	(24)	0	05-Sep-08	5
Fushan Energy	0639.HK	3.47	36	5,237	102.1	20.2	4.1	0.0	10.1	(39)	(27)	(39)	1-Aug-08	3
Datang Power	0991.HK	4.91	197	6,144	12.7	21.5	10.2	1.9	4.0	4	(26)	4	1-Aug-08	5
Maanshan Iron & Steel	0323.HK	3.01	105	5,246	7.5	5.3	5.1	6.8	6.8	(39)	(40)	(30)	4-Jul-08	5
Lenovo	0992.HK	4.70	166	22,989	33.4	11.8	11.6	3.5	3.7	(15)	(32)	(20)	29-May-08	3
China Mobile	0941.HK	82.00	3,074	416,664	16.5	12.3	11.3	3.6	4.1	(22)	(39)	(28)	29-May-08	5
Gome Elec Appliances	0493.HK	3.05	94	5,545	18.4	14.6	11.2	2.2	3.0	(12)	(39)	(31)	03-Apr-08	2
China Coal	1898.HK	11.52	649	47,351	19.7	12.2	8.7	1.6	2.3	(17)	(50)	(23)	03-Apr-08	3
Wumart Stores	8277.HK	7.51	8	5,058	26.7	20.4	16.5	3.0	3.0	1	12	26	07-Mar-08	6
China Green	0904.HK	6.67	15	2,612	14.5	12.2	9.3	2.6	2.7	(18)	(17)	(21)	07-Mar-08	4
ICBC	1398.HK	5.09	1,823	425,039	18.6	10.9	9.9	4.9	5.4	(14)	(5)	(0)	07-Mar-08	10
CNOOC	0883.HK	10.44	1,604	134,132	12.8	7.6	7.2	4.5	4.8	(10)	(18)	(12)	01-Feb-08	3
Anita Sports Products	2020.HK	5.50	33	3,835	19.3	14.6	10.0	3.3	5.0	(10)	(50)	(51)	04-Jan-08	4
Shanghai Jinjiang Hotel	2006.HK	1.27	5	2,076	18.7	12.6	10.0	3.5	4.3	(29)	(61)	(65)	04-Jan-08	4
Xiwang Sugar	2088.HK	2.21	1	763	4.5	3.6	3.0	8.5	9.9	(18)	(32)	(28)	07-Dec-07	5
Sino-Ocean Land	3377.HK	3.21	87	4,828	7.3	6.9	4.6	5.7	8.5	(39)	(66)	(78)	02-Nov-07	3
Beijing Enterprise	0392.HK	28.00	44	10,161	16.8	17.0	13.7	1.4	1.4	(3)	(24)	12	01-Jun-07	4
Tong Ren Tang Tech	8069.HK	8.30	1	683	7.6	6.6	5.5	6.1	7.3	(16)	(44)	(46)	30-Apr-07	3
CR Power	0836.HK	18.62	151	50,877	22.7	31.6	17.4	0.5	1.1	8	(29)	414	7-Jan-04	11
Cash (incl. dividends)														7
<b>Total</b>														<b>100</b>
<b>Stocks Removed or Reduced from the BOCI China-HK Recommended List</b>														
China Everbright	0165.HK	12.46	116	8,811	3.9	12.8	17.5	1.1	0.9	(15)	(48)	(48)	07-Sep-07	6
Angang New Steel	0347.HK	8.56	249	7,618	6.7	5.8	4.5	8.7	11.2	(45)	(58)	(40)	4-Jul-08	4

Note: Bolded stocks are new additions to the recommended list.

Sources: Bloomberg, BOCI Research estimates

### Huaqiao in the Middle Kingdom

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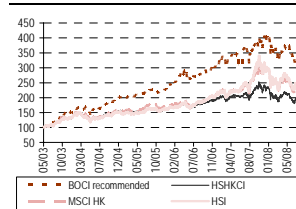
## Hong Kong Strategy

### Performance Comparison

	% Change 1M	Since YTD	Incept*
BOCI recommended	(8)	(26)	202
MSCI HK	(9)	(31)	104
HSHKCI	(10)	(26)	75
HSI	(13)	(28)	114

\* Inception May 2003.  
Sources: Bloomberg, BOCI Research

### Relative Performance



Source: BOCI Research

### BOCI HK-HK Recommended Stocks

	RIC	Last price (HK\$)	3M avg. daily T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E			Yield (%)		% Chg.			Date rec.	Wgt (%)
					FY07	FY08E	FY09E	FY08E	FY09E	1M	YTD	Since rec.		
Oriental Press	18.HK	0.98	3	989	12.7	12.1	-	6.2	-	(18)	(26)	0	5-Sep-08	4
CLP	2.HK	65.20	271	113,053	14.8	15.5	16.5	3.7	3.7	0	23	0	5-Sep-08	4
Hang Seng Bank	11.HK	149.90	463	108,613	15.7	16.4	16.5	4.2	4.4	(5)	(6)	(5)	1-Aug-08	7
Yue Yuen	551.HK	20.80	45	13,129	12.4	10.7	9.5	4.1	4.8	2	(23)	2	1-Aug-08	7
Sa Sa International	178.HK	2.94	7	1,252	19.6	14.7	10.9	7.1	9.2	(16)	(6)	(11)	4-Jul-08	3
PCCW	8.HK	4.82	80	17,542	19.8	14.6	12.3	4.6	5.6	(1)	5	0	4-Jul-08	4
Luk Fook	0590.HK	3.58	4	934	9.4	7.3	6.3	7.0	8.1	(14)	(49)	(31)	9-May-08	7
Stella International	1836.HK	11.44	9	2,801	10.0	9.0	7.9	7.5	8.9	(18)	(34)	(4)	9-May-08	5
Lifestyle	1212.HK	9.56	32	5,201	15.9	12.9	12.3	2.9	3.2	(15)	(55)	(51)	1-Feb-08	2
Clear Media	0100.HK	5.00	1	1,305	18.1	11.1	14.5	0.0	0.0	(2)	(39)	(23)	1-Feb-08	5
Ports Design	0589.HK	18.76	33	6,420	22.8	19.3	15.4	3.0	3.7	(10)	(30)	(34)	4-Jan-08	5
MTR Corporation	0066.HK	25.30	136	32,848	9.3	13.3	15.1	1.9	2.0	1	(12)	(21)	4-Jan-08	5
GZI REIT	0405.HK	2.54	4	1,753	11.5	12.1	10.6	8.3	9.4	(10)	(17)	(19)	5-Oct-07	10
Next media	0282.HK	2.25	1	1,406	16.0	10.5	9.6	10.7	7.1	0	(17)	(16)	29-Jun-07	6
Standard Chartered Bank	2888.HK	195.90	59	275,735	12.6	11.1	10.3	3.9	4.2	(17)	(31)	(10)	9-Mar-07	7
HK & China Gas	0003.HK	17.54	130	57,882	10.5	20.2	18.7	2.0	2.0	0	(18)	76	23-May-03	6
Cash (incl. dividends)														12
<b>Total</b>														<b>100</b>
<b>Stocks Removed or Reduced from the BOCI HK-HK Recommended List</b>														
Dah Sing Financial	0440.HK	47.55	15	4,733	11.3	4.4	1.9	3.4	4.2	(21)	(36)	(14)	3-Apr-08	7
Lee & Man Paper	2314.HK	6.70	34	1,974	6.6	5.3	3.9	3.9	6.4	(26)	(80)	(56)	29-May-08	2

Note: Bolded stocks are new additions to the recommended list.

Sources: Bloomberg, BOCI Research

### Huaqiao in the Middle Kingdom

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## China – A Strategy

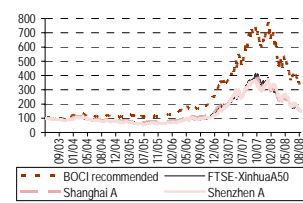
### Performance Comparison

	% Change 1M	Since YTD	Since Incept. *
BOCI recommended	(22)	(57)	206
Shanghai A	(21)	(58)	44
Shenzhen A	(27)	(58)	43
FTSE-XinhuaA50	(20)	(60)	46

\* Inception May 2003

Sources: Bloomberg, BOCI Research

### Relative Performance



Source: BOCI Research

### BOCI China-A Recommended Stocks

	RIC	Last price	3M avg. daily T/O	Free float mkt cap	P/E	Yield	% Chg.	Wgt.
		(Rmb)	(Rmb m)	(Rmb m)	(x)	(%)	1M YTD Since rec.	Date rec. (%)
Huadong Medicine	000963.SS	8.90	15	2,001	22.3	19.3	11.3 2.6 4.4 (30) (48) 0	5-Sep-08 2
Beijing Capital Tourism	600258.SS	11.30	119	1,173	21.3	25.7	23.5 2.5 2.7 (51) (78) 0	5-Sep-08 2
SDIC Huajing Power	600886.SS	7.86	72	5,354	12.5	10.6	9.8 2.7 3.2 5 (55) 5	1-Aug-08 4
China Life	601628.SS	23.80	427	35,700	24.5	31.5	24.4 1.8 2.3 (9) (59) (9)	1-Aug-08 4
Yabao Pharmaceutical	600351.SS	9.34	18	1,120	27.5	16.4	11.7 0.0 2.6 (34) (47) (35)	29-May-08 3
Shuanghuan Sci & Tech	000707.SS	7.62	143	2,575	37.4	9.7	7.8 1.3 3.9 (36) (48) (46)	29-May-08 2
Fujian Dongbai	600693.SS	10.15	17	2,098	44.1	23.6	17.5 0.9 1.7 (32) (33) (36)	9-May-08 8
Chengdu People's Department Store	600828.SS	13.07	6	937	28.4	20.1	15.7 1.5 1.9 (27) (41) (38)	3-Apr-08 5
Qinghai Salt Lake Potash	000792.SS	88.12	89	34,447	68.3	29.7	24.5 1.5 1.6 0 n.a. 6	3-Apr-08 8
Yantai Wanhua	600309.SS	14.09	103	9,061	15.8	11.6	8.6 3.5 4.3 (28) (64) (64)	7-Mar-08 4
Sichuan Swellfun	600779.SS	16.81	69	4,935	41.0	21.0	16.0 0.4 0.6 (27) (41) (41)	4-Jan-08 10
Shanghai Jinjiang Dev.	600754.SS	11.22	30	2,436	25.5	24.4	22.0 3.1 3.2 (15) (46) (47)	4-Jan-08 4
Long Yuan Construction	600491.SS	5.93	25	1,430	12.0	9.3	7.1 1.7 2.1 (20) (60) (47)	02-Dec-07 5
Wangfujing Dept Store	600859.SS	25.95	48	5,150	38.3	23.8	17.1 1.1 1.5 (28) (50) (42)	02-Dec-07 2
Shandong Gold Mining	600547.SS	29.80	231	4,668	49.7	11.2	10.6 3.8 4.0 (43) (65) (82)	02-Nov-07 2
Pingdingshan Tian'an Coal	601666.SS	16.36	234	7,211	15.9	9.2	6.0 4.8 7.4 (35) (65) (54)	07-Sep-07 7
ICBC	601398.SS	4.51	392	60,257	18.8	11.0	10.0 4.9 5.3 (12) (45) (6)	9-Feb-07 3
Qingdao Haier	600690.SS	15.30	82	10,069	30.6	17.6	14.4 1.7 2.1 (19) (62) 242	8-Sep-06 6
Kweichow Moutai	600519.SS	131.25	125	53,513	43.8	28.8	21.7 1.1 1.7 (17) (43) 801	20-Jun-03 11
Cash (incl. dividends)								5
<b>Total</b>								<b>100</b>
Stocks Removed or Reduced from the BOCI China-A Recommended List								
Wuhan Iron & Steel	600005.SS	6.94	431	21,758	8.3	6.3	5.7 7.9 8.5 (25) (65) (27)	4-Jul-08 2
Tangshan Iron & Steel	000709.SZ	4.55	205	8,084	7.7	5.8	4.9 7.7 9.0 (25) (71) (55)	4-Jul-08 2

Note: Bolded stocks are new additions to the recommended list.

Sources: Bloomberg, BOCI Research

### Huaqiao in the Middle Kingdom

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## China Economy

- China held a very successful Olympic Games last month. However, concerns over a slowing of China's economic growth heightened during the Games with the Shanghai Composite Index diving 13 % to 2,300 points from end-July to end-August. The market was in a state of panic as some investors begged for saving measures from the government.
- However, the government stayed quiet in terms of policy measures during the Olympics after initiating some mild changes in July. It is clear that the government is observing the market and holding discussions for a future policy package – either for the short term or the long term. In fact, there are several political events on the agenda following the close of the Olympics. First will be the 3rd Session of the 17th Party Congress in mid-October. The Annual Economic Working Conference (AEWC) will follow between November and December. The exact date of the AEWC will depend on the complexity of the policy package it is intended to initiate. The AEWC is the most important meeting for a short-term policy package for next year. With China facing an economic downturn, the government's policy package for next year will be under scrutiny worldwide. Yet, it is obvious that we will have to wait until late October at the earliest for the policy direction for 2009.
- There are strong market expectations that the policy package for 2009 will focus on monetary easing and fiscal stimulation. While there have been speculations on many measures to be implemented based on historical experience, it is highly possible that these will not suit the current economic situation. We have long expected the authorities to initiate value-added tax (VAT) reform package as a stimulus for fixed asset investments (FAI) growth. The reform of VAT was proposed in 2005 and granted National People Congress (NPC) approval in 2006, but failed to be implemented immediately due to the continual high growth of FAI in the past several years. Actually, we view VAT reform as an important step in the reform of China's taxation system. This is because a change in the VAT system will encourage corporations to make more investment in technology and advanced equipment. As such, we see it as a stimulus for the economic transition from labour-intensive growth model to a more balanced one. It appears to us

that fiscal reform will continue to play a role in boosting economic growth as China's income distribution is highly weighted on the government side. From 1995 to 2007, the inflation-adjusted annual growth rate was 16% for government tax revenues (not including profits of state-owned enterprises [SOEs] or proceeds from sales of land-use rights), and 8% and 6.2%, respectively, for disposable incomes of urban and rural households, respectively. On the other hand, we are extremely concerned that the government will be in a dilemma over balancing its monetary policy between fighting inflation and stimulating economic growth.

- Going back to the upcoming Party Congress, it usually an occasion to discuss the long-term strategy and sensitive political issues. Most relatively old Chinese people still remember the 3rd Session of the 11th Party Congress in 1978, when measures were taken that revised China's economy with the unprecedented reforms and opening to the outside world. Between 1978 and 2008, China created a new miracle for the world in becoming the world manufacturing centre. However, this past success is limiting the potential for further growth because the export-orientated economic model is running out of its main driver, cheap labour supply, as the exports continue to expand. Unfortunately, cyclical changes, coupled with rising protectionism in the US and the gloomy global economy have made thing vastly different today. To transform its economy, China needs to shift towards growth driven by domestic demand, not exports, and one led by services not industry. After 30 years of growth, China faces another crucial challenge ahead and we await the new reform signals from the upcoming 17th Party Congress.

**China Monthly Economic Indicators (2006-2008)**

	2007	2008E	2009E	Jul07	Aug	Sep	Oct	Nov	Dec	Jan08	Feb	Mar	Apr	May	Jun	Jul
<b>Real economy (YoY %)</b>																
GDP*	11.4	10.0	8.0	-	-	11.5	-	-	11.2	-	-	10.6	-	-	10.1	-
VAIO (Real)	18.5			18.0	17.5	18.9	17.9	17.3	17.4	15.4	15.4	17.8	15.7	16.0	16.0	14.7
-Light industry	19.6			15.9	14.6	16.4	14.4	14.3	15.2	-	11.8	15.7	12.1	13.5	13.3	12.2
-Heavy industry	16.3			18.9	18.8	20.0	19.4	18.6	18.4	-	16.9	18.7	17.2	17.0	17.1	15.7
Industrial sales ratio (%)	98.1			98.4	98.5	98.2	98.3	98.1	98.1	-	97.5	98.0	97.8	98.0	97.5	98.1
FAI* (YoY %)	25.8	26.0	24.0	26.6	26.7	26.4	26.9	26.8	25.8	-	24.3	25.9	25.7	25.6	26.8	27.3
- Property	30.2	23.5		28.9	29.0	30.3	31.4	31.8		-	32.9	32.3	32.1	31.9	33.5	30.9
Retail sales*	16.8	18.5	16.0	16.4	17.1	17.0	18.1	18.8	20.2	-	20.2	21.5	22.0	21.6	23.0	23.3
<b>External sector</b>																
Exports (US\$ bn)	1,218	1,386	1,529	107.7	111.4	112.5	107.7	117.6	114.0	109.7	87.4	109.0	118.7	120.5	121.5	136.7
Export growth (YoY %)	25.7	13.8	10.3	34.1	22.7	22.8	22.2	22.7	21.6	26.7	16.8	31.0	21.8	28.1	17.6	26.9
Imports (US\$ bn)	956.0	1,099	1,264	83.4	86.4	88.6	80.7	91.3	91.7	90.2	78.8	95.6	102.0	100.3	100.2	111.4
Import growth (YoY %)	20.8	15.0	15.0	26.9	20.0	16.1	25.5	25.3	25.5	27.6	30.9	25.0	26.3	40.0	31.0	33.7
Trade balance (US\$ bn)	262.0	287.0	178.3	24.4	25.0	23.9	27.1	26.3	22.7	19.5	8.6	13.4	16.7	20.2	21.4	25.3
FDI* (US\$ bn)	74.8	62.0	60.0	5.0	5.2	5.3	6.8	7.7	13.1	11.2	6.9	9.3	7.6	7.8	9.6	8.3
<b>Money supply (YoY %)</b>																
M0	12.1	13.5	13.0	15.1	15.0	13.0	13.4	13.6	12.1	31.2	6.0	11.1	10.7	12.9	12.3	12.3
M1	21.0	17.7	14.0	20.9	22.8	22.1	22.2	21.7	21.0	20.7	19.2	18.3	19.1	15.3	14.2	14.0
M2	16.7	15.5	14.5	18.5	18.1	18.5	18.5	18.5	16.7	18.9	17.5	16.3	16.9	18.1	17.4	16.4
Deposit rate, 12M (%)	4.1	4.9	4.14	3.6	3.9	3.9	3.9	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Lending rate, 12M (%)	7.5	8.0	7.47	7.0	7.3	7.3	7.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
FX reserves* (US\$ bn)	1,530	1,908	2,130	1,385	1,409	1,434	1,455	1,497	1,528	1,590	1,647	1,682	1,757	1,797	1,809	-
<b>Inflation (YoY %)</b>																
National CPI	4.8	7.0	5.2	5.6	6.5	6.2	6.5	6.9	6.5	7.1	8.7	8.3	8.5	7.7	7.1	6.3

\*Periodical; no single month data from the NBS  
Sources: NBS, MÖFTEC, PBOC and BOCI Research

**Value Added Industrial Output (VAIO)**

	2007						2008						
YoY %	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
VAIO	18.0	17.5	18.9	17.9	17.3	17.4	15.4	15.4	17.8	15.7	16	16	14.7
Heavy industry	18.9	18.8	20.0	19.4	18.6	18.4	15.5	16.9	18.7	17.2	17	17.1	15.7
Light Industry	15.9	14.6	16.4	14.4	14.3	15.2	15.6	11.8	15.7	12.1	13.5	13.3	12.2

Source: NBS

According to the National Bureau of Statistics (NBS), China's value-added industrial output (VAIO) grew 14.7% YoY in July, down from 16.0% YoY in June and 18.0% YoY in the same month last year. Delivery value of exports rose 14.4% YoY in July, compared to 13.3% YoY in June and 22.2% YoY last July. Meanwhile, industrial sales rate rebounded to 98.1% in July from 97.5% in June and 98.0% in May.

Due to shrinkage of exports, VAIO of textiles rose only 10.0% YoY in July 2008, down from 12.4% YoY in June 2008 and 15.8% YoY in July 2007. Meanwhile, VAIO of smelting and pressing of ferrous metals grew 13.9% YoY, and that of non metal mineral products went up 15.5% YoY in July, versus the corresponding increases of 15.1% YoY and 18.1% YoY in June. However, VAIO of raw chemical materials grew 15.5% YoY last month, 1.4ppts higher than that in June. A decline in demand, as well as a rise in raw material costs and oil prices started to affect the machinery sector. VAIO of ordinary machinery rose 18.4% YoY in July, down from 20.6% YoY in June and 21.7% YoY in May. At the same time, growth of VAIO of transport equipment decelerated sharply to 15.8% YoY in July from 20.5% YoY in June and 22.9% YoY in May. For electric machinery and equipment, VAIO went up 17.2% YoY in July, 2.6ppts lower than that in June, while that of electronic and communication equipment picked up 16.5% YoY in July, 1.1ppts higher than that in June. While the weak growth of VAIO in July can be partly put down to the seasonal impact (hot weather) and partly the Olympics, we believe it also points to a trend for the future.

#### Fixed Asset Investments (FAI)

YTD %	2007							2008							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Total FAI	-	27.8	-	-	25.7	-	-	24.8	-	24.6	-	-	-	26.3	
Urban FAI	26.7	27.5	26.6	26.7	26.4	26.9	26.8	25.8	24.3	25.9	25.74	25.6	26.8	27.3	
Urban FAI / Total FAI, %	-	85.0	-	-	85.5	-	-	85.6	-	83.9	-	-	85.4		
- Primary Industry	35.8	37.5	46.2	42.9	41.1	39.9	37.6	31.1	77.0	80.8	71.6	66.1	69.5	61.9	
- Secondary Industry	28.9	29.0	28.9	29.5	29.3	29.6	29.7	29.0	26.1	25.9	25.9	25.6	26.6	27.9	
- Tertiary Industry	23.5	24.6	24.5	24.3	24.0	24.7	24.4	23.2	22.6	25.3	24.9	25.0	26.2	26.0	
- Property	27.5	31.3	28.9	29.0	30.3	31.4	31.8	32.2	32.9	32.3	32.1	31.9	33.5	30.9	

Source: NBS

NBS data shows that China's urban FAI registered steady growth of 27.3% YoY in 7M08, compared to 26.8% YoY in 1H08 and 26.6% YoY in 7M07.

FAI growth in the primary industries decelerated to 61.9% YoY in 7M08, from 69.5% YoY in 1H08 and 66.1% YoY in 5M08. In the secondary and tertiary industries, FAI grew 27.9% YoY and 26.0% YoY, respectively, in 7M08, versus the corresponding increases of 26.6% YoY and 26.2% YoY in 6M08. A breakdown of the NBS data shows that FAI in coal mining rose 37.5% YoY in 7M08, down from 42.0% YoY in 1H08 and 47.0% YoY in 5M08, albeit 15.5ppts higher than that in 7M07. Meanwhile, FAI in oil and gas mining grew 33.5% YoY in 7M08, 13.7ppts higher than the increase of 19.8% YoY in 1H08. As for electricity and heating power, FAI rose 10.1% YoY in 7M08, up sharply from 7.4% YoY in 1H08. Growth of FAI in the mining, smelting and pressing of ferrous metals accelerated to 31.6% YoY in 7M08 from 27.5% YoY in 1H08 and 24.5% YoY in 5M08. As for mining, smelting and pressing of non-ferrous metals, FAI rose 40.5% YoY in 7M08 from 39.2% YoY in 1H08. However, probably due to consecutive shrinkage of sales, FAI growth in real estate eased to 30.9% YoY in 7M08 from 33.5% YoY in 1H08.

The pick-up was mainly due to the Central Government, which accounted for about 10% of the total FAI. The FAI projects approved by central government jumped 25.3% YoY in 7M07, 6.4ppts higher than the increase of 18.9% YoY in 1H08 and 9.9ppts more than the rise of 15.4% YoY in 7M07. As for local FAI, growth edged down to 27.5% YoY in 7M08 from 27.6% YoY in 1H08. The sharp rise in the Central FAI was due to reconstruction work in quake-stricken and flood-affected areas.

#### Retail Sales

YoY %	2007						2008					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May	Jun	Jul
Retail sales	16.4	17.1	17.0	18.1	18.8	20.2	20.2	21.5	22	21.6	23.0	23.3
Urban	16.7	17.6	17.5	18.6	19.2	20.5	20.8	22.1	22.9	22.3	23.5	24.0
Rural	15.8	16.1	16.09	17.1	18.0	19.6	18.9	20.2	20.1	20.1	22.0	21.8

Source: NBS

China's retail sales grew 23.3% YoY in July, up from 23% YoY in June and 21.6% YoY in May. For urban and rural areas, sales rose 24% YoY and 21.8% YoY, respectively, in July, compared to increases of 23.4% YoY and 22% YoY in June. If we exclude the price factor (using the consumer price index), the real-term growth of retail sales accelerated to 17% YoY in July, from 15.9% YoY in June and 13.9% YoY in May.

Breaking down the segments, retail sales of grain and oil grew 18.3% YoY, and those of meat, poultry and eggs went up 18.4% YoY, further down from the corresponding increases of 19.7% YoY and 22.9% YoY in June. The obvious slowdown of growths for the above two items was mainly due to the consecutive deceleration of food price hikes. Thanks to a good harvest in grain this year, as well as less demand for meat in hot summer, growth of food price has consecutively declined in recent three months. Meanwhile, the shrinking residential sales might begin to affect the consumption of goods related to housing, such as furniture and construction and decoration materials. In July, retail sales of furniture surged 19.6% YoY, 5.9ppts lower than 25.5% YoY rise in June, and those of construction and decoration materials dropped 3.4% YoY, compared to the decrease of 9.4% YoY in June and the rise of 39% YoY in the same period last year. As the National Development and Reform Commission raised the retail price of petroleum in June, sales of petroleum and related product jumped 55.2% YoY in July, up largely from 50.2% YoY in June and 42.5% YoY in May. At the same time, sales of daily used goods climbed 19.5% YoY, those of household appliances went up 18.8% YoY, and those of automobile surged 27.8% YoY in July, versus the corresponding increases of 17.3% YoY, 9.6% YoY and 32.6% YoY, respectively, in June.

Though the consumption showed a pick-up trend, especially in nominal terms, in recent several months, we really concerned that the existing inflationary pressure may harm consumption growth. Also, the easing in household income growth in real terms can have a negative effect. Looking forward, the slowdown of exports and shrink of enterprise profits, especially in labour-intensive industries, might add further negative effect on household income.

**Foreign Trade**

YoY %	2007							2008						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Export	27.0	34.2	22.7	22.8	22.2	22.8	21.6	26.7	16.8	31	21.8	28.1	17.6	26.9
Import	14.3	26.9	20.1	16.1	25.5	25.3	25.5	27.6	30.9	25	26.3	40	31	33.7
Trade balance (US\$ bn)	26.9	24.4	24.98	23.9	27.1	26.28	22.7	19.5	8.56	13.4	16.7	20.2	21.4	25.3

Source: NBS

According to the State Administration of Customs (SAC), China's exports grew 26.9% YoY in July 2008, up sharply from the rise of 17.6% YoY in June 2008, but still 7.3ppts lower than the increase of 34.2% YoY in July 2007. Meanwhile, imports grew 33.7% YoY last month, higher than the rise of 31.0% YoY in June. Meanwhile, China's trade surplus surged to US\$25.28bn in July from US\$21.35bn in June, representing an increase of 3.8% YoY.

Exports of mechanical and electrical equipment grew 25.7% YoY in 7M08, up from 25.4% YoY in 6M08. Meanwhile, exports of high-technology products rose 22.5% YoY in 7M08, compared to the increase of 21.8% YoY in 6M08. However, exports of most traditional products still showed a weak trend. Exports of garments grew 3.4% YoY in 7M08, the same as in 6M08, yet 19.6ppts lower than increase of 23% YoY in 7M07. Meanwhile, growth of footwear exports rebounded slightly to 14.2% YoY in 7M08 from 12.5% YoY in 6M08, but still 4.3ppts lower than the level in 7M07. For steel products, export declined 14.0% YoY in 7M08, compared to decreases of 20.2% YoY in 6M08 and 20.8% YoY in 5M08.

SAC data for 7M08 shows that China's imports of commodities were quite strong, although the growth rates fell slightly. Imports of iron ore picked up 21.8% YoY in 7M08, down from 22.5% YoY in 6M08, while the unit price jumped 76.8% YoY. Imports of soybean and crude oil grew 22.8% YoY and 8.3% YoY in 7M08, compared to increases of 24.4% YoY and 11% YoY, respectively, in 6M08. Meanwhile, the corresponding average import prices for the above two items increased 78.0% YoY and 69.3% YoY in 7M08, down slightly from rises of 78.3% YoY and 67.3% YoY in 6M08. Imports of motor vehicles rose 48.0% YoY in 7M08, compared to the increase of 53.2% YoY in 6M08.

**Foreign Direct Investment (FDI)**

YoY %	2007							2008						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
Actual FDI	17.8	11.87	(2.36)	13.18	35.04	50.5	109.8	38.31	50.3	70.1	58.4	44.9	65.3	
US\$ bn	5.04	5.18	5.27	6.78	7.68	13.1	11.2	6.93	9.3	7.6	7.8	9.6	8.3	

Source: NBS

According to the Ministry of Commerce (MOC), China's actual Foreign Direct Investment (FDI) jumped 65.3% YoY in July, up from 44.9% YoY in June. The utilised FDI amounted to US\$8.3bn in July, compared to US\$9.6bn in June and US\$7.8bn in May. For 7M08, the actual FDI totalled to US\$60.7bn, up 44.5% YoY compared to that in the same period last year.

July's figures shows that the trade surplus was still high and the FDI capital flows were quite strong. Under this situation, the banking system still faces liquidity inflows transformed from incremental foreign exchange reserves.

**Consumer Price Index**

YoY %	2007							2008						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
CPI	5.6	6.5	6.2	6.5	6.90	6.50	7.1	8.7	8.3	8.5	7.7	7.1	6.3	
- Food	15.4	18.2	16.9	17.6	18.2	16.7	18.2	23.3	21.4	22.1	19.9	17.3	14.4	
- Clothing	(0.6)	(0.9)	(1.0)	(1.3)	(1.4)	(1.7)	(1.9)	(1.4)	(1.2)	(1.4)	(1.5)	(1.5)	(1.4)	
- Trans. & comm.	(1.3)	(1.3)	(1.4)	(1.7)	(1.4)	(1.4)	(1.1)	(1.4)	(1.7)	(1.7)	(1.6)	(1.1)	(0.3)	
- Residences	4.4	4.3	4.2	4.8	6.0	5.9	6.1	6.6	7	6.8	7.1	7.7	7.7	
- Medical segment	2.2	2.3	2.6	2.9	3.1	3.2	3.2	3.2	3.7	3.6	3.3	3.1	3.1	

Source: NBS

According to the NBS, China's Consumer Price Index (CPI) grew 6.3% YoY in July, down from 7.1% YoY in June and 7.7% YoY in May. In 7M08, the CPI rose 7.7% YoY, down from 8.1% YoY in 6M08.

The prices of most food items declined further in July. The price of food went up 14.4% YoY in July, down sharply from the increases of 17.3% YoY in June and 19.9% YoY in May. Specifically, the prices of edible oil, and meat and poultry rose 30.8% YoY and 16.0% YoY, respectively, in July, lower than the corresponding increases of 34.0% YoY and 27.3% YoY in June. However, prices for fresh eggs, vegetables and fruits picked up 5.9% YoY, 8.4% YoY and 17.4% YoY in July, compared to increases of 2.1% YoY, 8.3% YoY and 14.2% YoY in June, respectively. The change in growth rates was probably due to the seasonal effect as the summer heat has a varying impact on the production of some agricultural products, as well as consumption of some food stuffs.

The prices of non-food items edged up 2.1% YoY, while those of services inched up 1.5% YoY in July, versus the corresponding increases of 1.9% YoY and 1.5% YoY in June. Breaking down individual items, prices of household facilities articles and maintenance services rose 3.1% YoY in July, up from 2.9% YoY in June and 2.8% YoY in May. Meanwhile, due to the National Development and Reform Commission's adjustment of petroleum price in June, the prices of transportation fuel and parts jumped 22.2% YoY in July, from 12.9% YoY in June. Prices of residential items grew 7.7% YoY in July, unchanged from June, but higher than the rise of 7.1% YoY in May. Specifically, the price of water, electricity and fuel went up 9.1% YoY, and that of building and related materials up 8.8% YoY in July, compared to increases of 9.1% YoY and 8.1% YoY, respectively, in June. Clothing, communications facility, and articles and services related to recreation, education and culture saw price declines of 1.4% YoY, 19% YoY and 0.9% YoY, respectively, in July, versus the corresponding decreases of 1.5% YoY, 19.3% YoY and 1% YoY in June.

Data shows us that the consecutive deceleration in CPI growth in the last three months has been mainly due to slower increases in food prices, as well as higher levels of comparison last year, particularly in the second half.

### Inflation/Deflation

YoY %	2007						2008						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
EFPI	2.4	2.6	2.7	3.2	4.6	5.4	6.1	6.6	8	8.1	8.2	8.8	10
PPI	3.6	3.8	3.6	4.5	6.3	8.1	8.9	9.7	11	11.8	11.9	13.5	15.4
CPI	5.6	6.5	6.2	6.5	6.9	6.5	7.1	8.7	8.3	8.5	7.7	7.1	6.3
Crude oil	(5.1)	(2.2)	(3.9)	4.2	22.6	34.6	29.9	37.5	37.9	37.9	30.9	35.9	41.2

Source: NBS

NBS data shows that China's ex-factory price index (EFPI) for manufactured goods grew 10% YoY in July, from 8.8% YoY in June and 8.2% YoY in May. Meanwhile, the purchasing price index (PPI) for raw materials, fuel and power grew 15.4% YoY last month, compared to increases of 13.5% YoY in June and 11.9% YoY in May. In July, both the EFPI and PPI grew at the highest rates since 1996. For 7M08, the EFPI rose 8.0% YoY and the PPI grew 11.7% YoY, 0.4ppt and 0.6ppt higher than the corresponding increases of 7.6% YoY and 11.1% YoY in 1H08. The higher-than-expected EFPI increase is notable because it suggests that the domestic inflation is nowhere near coming to an end anytime soon.

Although the major reason for the extremely high increases in the EFPI and PPI was the high price of crude oil in July, which hit about US\$150/per barrel. We note that the manufacturing price index also grew at a historical high rate of 7.7% YoY in July. In particular, the prices of products such as clothes and "daily-using items" also saw growths in clear rising trends. The gap between CPI and EFPI, as well that between the producer price index and manufacturing price index, widened in July due to the surge in the price of crude oil. However, the fact that there was also a jump in manufacturing price index indicates that the rising price at the material end is gradually transferring to the manufacturing end. As such, its impact on the inflation has to be paid close attention to.

However, the fact that the PPI jumped 15.4% YoY in July, while the index of manufactured goods rose only 7.7% YoY, and that of consumer goods went up 4.6% YoY indicates that manufacturers only partly (not fully) transferred the rise of input costs to downstream consumers. So, there is a definite squeeze on industrial profits. Going forward, although the growths of the PPI and EFPI may have short-term peaks, the prices of manufactured goods, including clothes and daily-use items may continue to pick up with the transitional effect from material end. Such a transitional effect may push the consumer price index (CPI) to a relative higher level in the foreseeable future.

### Monetary Performance

YoY %	2007						2008						
	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
M0	14.5	15.0	13.0	13.0	13.6	12.1	31.21	5.96	11.12	10.7	12.9	12.3	12.3
M1	20.9	22.8	22.1	22.1	21.7	21.0	20.72	19.2	18.25	19.05	15.3	14.2	14.0
M2	17.1	18.1	18.5	18.5	18.5	16.72	18.94	17.48	16.29	16.94	18.1	17.4	16.4
Loan / deposit	69.3	67.9	67.6	67.6	67.8	67.2	68.9	67.2	65.16	66.22	65.6	65.2	65.4
M1/M2, %	36.0	36.4	36.3	36.3	37.1	37.8	37.1	35.7	35.67	35.35	35.1	34.9	34.7

Source: NBS

According to the People's Bank of China (PBOC), renminbi lending on the mainland grew 14.6% YoY in July, up from 14.1% YoY in June, but a bit lower than the rise of 14.9% YoY in May. Meanwhile, growth in renminbi deposits accelerated to 19.6% YoY in July from 18.9% YoY in June. The slight rebound in lending growth saw the lending-to-deposit ratio rise to 65.4% in July from 65.2% in June, albeit much lower than increase of 68.2% in the same month last year. In July, the supply of M0 monies rose 12.3% YoY, while that of M1 and M2 went up 14.0% YoY and 16.4% YoY, respectively, in July, compared to the corresponding increases of 12.3% YoY, 14.2% YoY and 17.4% YoY in June.

PBOC statistics show that incremental renminbi lending amounted to Rmb381.8bn in July 2008, much higher than the Rmb231.4bn in July 2007, while that in June 2008 was Rmb107.9bn less than in June 2007. The breakdown shows that incremental lending to households amounted to Rmb49bn in July, down further from Rmb79.1bn in June and Rmb69.3bn in May. The incremental lending to household sector in July 2008 was about Rmb61.3bn less than that of Rmb140.4bn in July 2007. Meanwhile, incremental lending to non-financial corporations and others amounted to Rmb332.8bn in July 2008, versus corresponding figures of Rmb258.3bn in June 2008 and Rmb121.2bn in July 2007. Such a loan structure suggests that the tight liquidity situation for the property sector had hardly improved.

Renminbi deposits grew 19.6% YoY in July, up from 18.9% YoY in June. Total incremental renminbi deposits fell to Rmb468.2bn in July from Rmb796.1bn in June and Rmb882.6bn in May. The shrinkage of incremental deposits in June was mainly due to a large drop in the fiscal deposits, while a decline in corporate deposits caused a further reduction in overall deposits in July. In July, corporate deposit dropped by Rmb5.5bn, after rising by Rmb399.8bn in June. Fiscal deposits increased by Rmb184.8bn in July, up sharply from the rise of Rmb1.2bn in June, yet still Rmb34.1bn less than the figure for the same month last year. The slower growth in corporate deposit is also a reflection of monetary tightening.

After a series of meetings, we note that a recent announcement from the Monetary Policy Committee has eliminated the word of "tight" before the monetary policy. This has prompted widespread talk of an immediate monetary easing. We also note that the renminbi has depreciated on more than 10 consecutive days. In the face of China's slowing economic growth, sentiment for an easing is rising. However, we believe it is quite difficult for the PBOC to loosen measures on money supply in the foreseeable future amid rising inflationary pressure.

## Policy Highlights

- **Government ministries revise loan policies.** In order to support employment, the PBOC, the Ministry of Finance (MoF) and the Ministry of the Human Resources and Social Development jointly issued on 18 August new policies on lending to jobless people and labour-intensive small enterprises. One of the new measures allows more jobless people to apply for loans and permits banks to float up the interest rate by 3% from base rate to serve as incentive for such lending. For example, the interest rate for one-year loans may be raised from 7.47% to 10.47%. The MoF will bear the interest expenses incurred as a result of the rate hike. In addition, the credit limits have been increased from Rmb20,000 to Rmb50,000 for individuals and from Rmb1m to Rmb2m for small enterprises. Even though the new policies will be beneficial for banks as they will be able to earn higher interest incomes, we believe the impact will be limited. Compared to previous policies, the expansion of qualified borrowers and the provision of an interest-rate incentive for commercial banks are only minor adjustments.
- **PBOC tightens credit on property projects.** The PBOC and the China Banking Regulatory Commission (CBRC) jointly issued a notice on lending to property projects to improve the land using efficiency recently. The two regulatory entities urged commercial banks to enhance credit management on infrastructure projects, industrial equipment, rural collective land construction and commercial property projects to curb possible risks that could threaten the banking system. According to the notice, no loans will be granted to developers to cover land transfer costs. Property developers will secure loans to acquire land reserves through mortgages and require legal land-use certificates. The amount of the loan will be less than 70% of the estimated value of the project. The credit period will be confined to two years. Provision of credit would be more cautious to government-approved construction projects that had not started within a year after a land concession contract was signed. The statement said no credit of any kind would be offered to projects where land had been idle for two years or more. The PBOC and the CBRC also called for financial support for indemnificatory housing construction. Strict credit management on rural collective land for construction needed to be enhanced. Loans will not go to projects in such areas for commercial properties or to rural residents' land purchase for home construction. The policy will have significant impact on property developers as financing would be more difficult.
- **Revision of foreign exchange rules.** The State Council passed the revised foreign exchange rules on 5 August to manage better China's rapidly growing foreign reserves and increasing cross-border capital flows. The revised rules target an international payment balance and attempt to provide a fair competitive environment between foreign and domestic companies, as well as SOEs and private entities. Compared to the old version, the new rules put the emphasis on balanced

management of inflow and outflow of international capital. They also detail the renminbi exchange rate system and regulatory system for financial institutions' forex businesses. The new rules enhance the regulation over cross-broader capital flows and set up an effective system to deal with the international payment imbalance stemming from emergent events.

- **CSRC raises refinancing threshold.** The CSRC announced on 22 August a lifting of the refinancing threshold for listcos. The move aims to foster the long-term investment environment and facilitate a sustainable and healthy development of domestic capital market. According to the CSRC's new rule, the dividend that refinancing listcos paid to shareholders in the recent three years has to be no less than 30% of the distributed profits. The dividend could be either in cash or stock. The previous set line was 20%. The CSRC also required listcos to reveal their cash dividend policies and previous cash dividend data to investors in annual reports in a bid to improve transparency. Listcos will have to give reasons for failure to pay cash dividends if unable to and where the money goes, according to the rule. The CSRC will seek public opinion on the new rule until 29 August.
- **Government guides investment into five key areas.** A top official from the Ministry of Industry and Information Technology said on 26 August that the Chinese Government would guide investment into five key areas of the economy to help competitive enterprises out of difficulties and ensure steady economic development. The five preferred areas are agriculture, economic restructuring, energy saving and emissions reduction, independent innovation and social undertakings. Meanwhile, the capacity of sectors with high-energy consumption and heavy pollution would be restricted from unlimited expansion, the official said. Although the nation's industrial restructuring efforts have born fruit in the past decades, problems concerning improper industrial structure still occur and may lead to excessive energy consumption, pollution and unstable economic performance. Therefore, the government encourages the development of key technologies, equipment, and products which can facilitate industry structural upgrading. In addition, less-developed sectors, including agriculture, service industry, environmental protection, as well as resource saving and comprehensive utilisation, also need additional investment. These policies will press enterprises for structural adjustment and technologic upgrading.
- **MOF allocates special funds to support small enterprises.** The MoF on 19 August said it would earmark Rmb3.51bn this year to support the development of domestic small and medium enterprises (SMEs). Domestic SMEs have faced financing difficulty on a bottleneck for development for a long time now. The government made helping small companies and increasing employment as one of its top priorities this year and promised to help 10 million urban dwellers find employment. The MoF said on its website that nearly Rmb17bn had been invested to set up six special funds

to support SMEs through 2007. These included a technology innovation fund, an overseas marketing fund, an agricultural science and technology application fund, a subsidy fund, a development fund and a platform fund for SMEs.

- NDRC raises on-grid tariff for thermal power.** China's NDRC announced an on-grid tariff increase of Rmb0.02 per kilowatt per hour for thermal power plants nationwide effective on 20 August. However, the retail (or end-user) tariff was kept unchanged. This was the second tariff raise this year and represents 5.8% over the last overall on-grid tariff or 11% over the end of 2007 level. According to the NDRC's notice, the tariff hike aimed to maintain the normal order in the power field and guaranteeing the power supply. To some extent, this change will ease the pressure on the thermal generators as a result of surging coal prices. The Commission also said to strengthen its supervision and inspection in order to keep the coal price stable.
- Regulatory charges abolished to boost individual business.** The MoF, the NDRC and the State Administration of Industry and Commerce (SAIC) jointly issued a notice on 21 August to abolish regulatory charges on the self-employed and rural fairs for agriculture products and daily used products. The move, made effective 1 September, will surely boost the individual business and retail sales. To assure the consecutive operation of regulation, local governments should allocate budget funds to regulatory entities and the central government will provide special transfer payments to local governments.
- China raises export tariff on aluminium alloy, coke and coals.** The State Council has approved the adjustments of export tariff rates of aluminium alloy, cokes and coals effective 20 August. According to an announcement from the State Council's tariff commission, an interim tariff will be imposed on ordinary exports of aluminium alloy at the rate of 15%. Meanwhile, the interim export tariff of coking coal will be raised from 5% to 10% and an interim tariff is going to be imposed on other bituminous coals at the rate of 10%. This move aims to discourage exports of aluminium alloy because of its high pollution nature and energy costs. Besides, the policy also tries to contain coal exports to ease the tightness of domestic coal market and lower the pressure of further price hikes.
- Another tariff hike for exports of fertilisers.** The State Council's tariff commission announced another tariff hike for exports of some chemical fertiliser and fertilisers made from animal and plant materials. According to the commission's statement, the special export tariff rate for nitrogenous fertiliser and synthetic ammonia will raise to 150% for the period from 1 September to 31 December 2008. Meanwhile, a special tax will be imposed on other chemical fertilisers and raw materials related to them at a rate of 100%. The commission also imposed an interim tariff on exports of fertilisers made from animal and plant materials (excluding excrement of birds) at Rmb460 per ton for the period from 1 September to 31 December 2008.

## AUTOMOTIVE

**HK listed – Marketperform**  
**A shares – Marketperform**

- Domestic passenger car sales in July 2008 grew 7% YoY to 488,219 units.
- In 7M08, domestic passenger car sales surged 16% YoY to 4.1m units.
- Going forward, we expect China's passenger car industry to post sales growth of 13% YoY in 2008.
- July 2008 sales of heavy-duty truck (including chassis) came in down 27% YoY and those semi-tractors also dropped 27% YoY. Large buses sales in 7M08 rose 36% YoY.
- China's 19 key automobile manufacturing groups collectively registered profit growth of 30% YoY to Rmb43.44bn for 1H08.

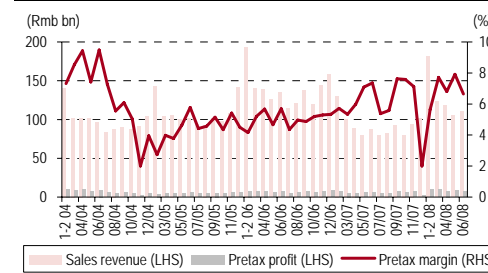
### Dongfeng Motor Group (0489.HK/HK\$3.22) – Outperform

DMG's net profit for 1H08 grew 27% YoY to Rmb2,472m, better than our forecast. Its operating margin expanded to 8.0% in 1H08 from 7.6% in 1H07. DMG's passenger vehicle sales revenue and operating profit rose 19% YoY and 22% YoY, respectively. Its commercial vehicle sales revenue and operating profit grew 67% YoY and 92% YoY, respectively. Going forward, we expect growth in China's passenger car sales to slow in 2H08, mainly due to a negative wealth effect as a result of the declining stock markets and property prices, and rising gasoline and diesel prices. Nonetheless, we believe the company's passenger car sales growth in 2008 may be higher than the industry level. We anticipate that sales of DMG's heavy-duty trucks this year will rise 20% YoY. The stock's valuation is very cheap.

### Zhengzhou Yutong Bus (600066.SS/Rmb11.46) – Outperform

ZYB's earnings for 1H08 jumped 260% YoY to Rmb397m mostly due to strong sales of buses, as well as revenue from its property business and some A-shares investments. The company's sales of buses surged 51% YoY to 15,332 units, while those of medium/high-end buses increased 36% YoY to 10,433 units. In an attempt to focus more on its core business, ZYB sold its property business to its parent in early 2008, which resulted in an exceptional one-off gain of Rmb238m. As a result, the company's total investment income reached Rmb281m in 1H08 from only Rmb15m in 1H07.

### Operating Performance of Auto Industry



### Key Statistics

	06	07	08E	Feb08	Mar	Apr	May	Jun	Jul
% YoY	14	19	14	27	27	20	18	13	0
Trucks	20	44	20	77	70	45	43	24	(27)
Heavy	64	92	20	39	63	65	43	34	(27)
Semi-tractor	4	17	5	2	18	7	1	16	(16)
Medium	11	16	15	25	21	17	19	14	2
Light	25	8	9	15	15	13	0	(1)	49
Mini	7	21	13	11	3	1	20	18	(11)
Buses	9	27	25	(20)	10	28	24	57	37
Large	4	14	10	22	4	(8)	16	16	(21)
Medium	8	23	12	13	2	1	20	11	(15)
Light	30	22	13	17	24	11	16	15	7
Passenger cars	37	23	13	20	26	8	13	13	2
Sedan	23	18	5	13	7	(1)	11	5	(16)
MPV	21	50	25	47	48	38	35	49	24
SUV	10	8	13	1	11	18	23	14	38
Minivan	25	22	14	19	25	14	17	15	4
Total									

Source: China Automotive Industry Newsletter

Sources: China Automotive Industry Newsletter, BOCI Research estimates

**CHEMICALS**

**HK listed – Marketperform**  
**A shares – Marketperform**

■ The Chinese Government raised the special export duties for different kinds of fertilisers from 1 September 2008 to 31 December 2008. The move means the export duty for urea will be 185% for this month and 175% for 4Q08, while that for phosphate will be 130% for the period from 1 September to 31 December 2008. We believe the hikes are meant to prevent the domestic prices of fertilisers from rising sharply, as a result of a surge in exports.

**Hualu Hengsheng (600426.SS/Rmb10.99) – Outperform**

Hualu Hengsheng raised the price of its production steam to Rmb53.33/gigajoule from Rmb33.33/gigajoule effective 1 September 2008. Taking into account the combined impact of the steam price rise and tax refund impact, we expect its EPS to drop 4% to Rmb0.88 for 2008 and 16% to Rmb1.03 for 2009. The stock trades at undemanding P/E multiples of 16.4x for 2008E and 14x for 2009E and we reaffirm our **Outperform** call on it.

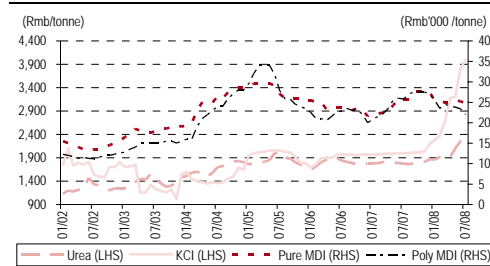
**Shuanghuan S&T (000707.SZ/Rmb7.62) – Outperform**

Shuanghuan's net profit for 1H08 jumped 366.77% YoY to Rmb185.95m, translating to 50% of our full-year projection of Rmb 365.55m, while revenue surged 165.37% YoY to Rmb1,560.3m. Due to hikes in the prices of its two main products, soda ash and ammonium-chloride, gross margin for 1H08 improved to 32.1% in 1H08 from 23.3% in 1H07. We maintain our EPS forecasts of Rmb0.79 for 2008, Rmb0.98 for 2009 and Rmb1.19 for 2010, based on 15x 2008E P/E, but trim our target price to Rmb14.70.

**Shandong Helon (000677.SZ/Rmb3.40) – Marketperform**

Helon's net profit for 1H08 tumbled 35.6% YoY to Rmb60m, below our forecast, while revenue went up 10.3% YoY to Rmb1,555m. The company's 1H08 gross margin narrowed to 15.4% from 21.8% in 1H07. This was mainly due to a reduction in the price of viscose staple fibre, which made up for more than 60% of the company's overall sales revenue. In view of its rising costs due to hikes in energy prices, we believe Helon's earnings for 2H08 will stay at the current low level.

**Product Prices**



Sources: China Petroleum & Chemical Industry Association

**Key Statistics**

	% YoY	06	07	08E	Jan08	Feb	Mar	Apr	May	Jun
<b>Output</b>										
Urea		13.3	11.5	10.5	5.5	1.9	5.4	10.7	5.3	10.2
Potash		18.5	10.6	12.0	30.0	15.0	30.9	18.6	(5.6)	33.9
PVC		23.3	20.0	15.0	18.6	13.4	1.3	11.7	6.0	10.4
Nitric Acid		12.6	13.1	10.0	3.5	(2.2)	15.3	14.1	20.5	4.5
<b>Price</b>										
Urea	(2.4)	0.1	3.5	3.3	(0.1)	3.2	1.0	9.4	7.1	
KCl	7.4	5.4	10.0	7.9	5.0	3.9	13.0	0.6	18.7	
Nitric Acid	0.4	1.8	2.8	10.8	5.9	(10.0)	1.2	5.9	3.5	
Pure MDI	(14.0)	5.5	(3.5)	0.0	0.0	(1.0)	0.0	0.0	(1.2)	
Poly MDI	(24.0)	14.3	(5.5)	(3.6)	0.0	(8.0)	(2.0)	(2.0)	(1.6)	
PVC	3.1	6.0	2.0	(2.8)	0.1	5.3	3.3	(0.7)	2.5	

Sources: China Petroleum & Chemical Industry Association, BOCI Research estimates

**CONSUMER – Beer, Wine & Liquor** **HK listed – Marketperform**  
**A shares – Outperform**

- Beer output grew around 6.4% YoY to 24.57m kl in 7M08.
- In 5M08, revenue of the beer industry rose 14.2% YoY and profit fell 4.2% YoY.
- Liquor production volume increased about 18.9% YoY to 3.00m kl in 7M08.
- In 5M08, revenue of the liquor industry grew 33.2% YoY and profit rose 63.0% YoY.
- Wine output grew about 40.8% to 0.41m kl in 7M08.
- In 5M08, revenue of the wine industry grew 36.2% YoY and profit rose 32.8% YoY.

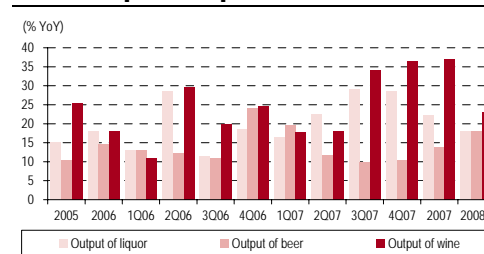
**Luzhou Laojiao (000568.SZ/Rmb27.34) – Outperform**

Luzhou Laojiao's net profit for 1H08 surged 191.7% YoY to Rmb741m due to higher sales of the liquor business and price hikes, as well as investment income from 35%-owned Huaxi Securities. The earnings of liquor business increased 142% YoY. The sales volume of Guojiao 1573 in 1H08 totalled about 1,700-1,800 tonnes. We now forecast 2008 sales volume growth of above 33% YoY to 3,000 tonnes. Because of a decline in the valuation down of liquor sector, we lower our 12-month target price from Rmb45.00 to Rmb40.00, based on 30x 2009E P/E for the alcoholic beverage business and Huaxi's contribution of investment income. We reaffirm our **Outperform** call on the stock.

**Yanjing Beverage (000729.SZ/Rmb11.20) – Marketperform**

Yanjing Brewery's net profit for 1H08 rose 31.6% YoY to Rmb255m on revenue growth of 8.7% YoY to Rmb4,114m. Yanjing's EPS for 1H08 amounted to Rmb0.23, mainly due to a higher gross margin and lower selling expenses. In 1H08, Yanjing sold 5.5% YoY more beer at 1.93m k) and sales value rose YoY at Rmb3,837m. Yanjing intends to issue 80m-110m new shares at a price of more than Rmb17.88 each. The issuance will result in a dilution of about 7-9% in the share capital, while the proceeds will lower the company's debt ratio, and increase its market share. We reiterate our **Marketperform** rating on the stock.

**Beer & Liquor Outputs**



Sources: China Light Industry Association, BOCI Research

**Key Statistics**

	06	07	08E	2006	2007	2008				
<b>Revenue (YoY %)</b>				6M	9M	12M	5M	8M	11M	5M
Beer	16	17	18	11	13	16	20	18	16.3	14
Liquor	31	33	35	24	26	32	31	34	34	33
Wine	25	28	30	29	27	25	19	23	18	36
<b>Profit (YoY %)</b>										
Beer	20	21	22	11	20	21	30	23	17	(4)
Liquor	26	35	39	23	21	26	26	37	38	63
Wine	16	18	24	11	13	16	27	18	19	33
<b>Gross margin (%)</b>										
Beer	34.0	34.0	34.5	34	35	34	33	34	33	30
Liquor	34.8	36.0	37.0	35	34	35	36	36	36	36
Wine	36.7	37.0	37.5	37	35	37	39	36	36	38

Source: China Light Industry Association

## CONSUMER – Dairy & Others

**HK listed – Marketperform**  
**A shares – Marketperform** ↑

- Output of liquid milk products grew 8.8% YoY to 9.2m tonnes in 7M08 and that of other dairy products rose 11.7% YoY to 11.1m tonnes in 7M08.
- Industry sales revenue grew 30.5% YoY to Rmb629.5bn in 5M08, while profit went up 21.4% YoY to Rmb3.3bn.

### Yantai North Andre Juice (8259.HK/HK\$0.55) – Outperform

Andre Juice's core profit came in at only Rmb47m in 2Q08, down from Rmb111m in 1Q08, mainly due to the strict controls on exports during the Olympics and, to a lesser extent, higher production costs and foreign exchange rate losses as a result of the strong renminbi. We believe the shipment disruption was a one-off event, and the company's order book is unaffected, despite delivery delays likely to last into 4Q08 and 2009. We cut our shipment volume assumption for 2008 to 200,000 tonnes, and factor in a smaller profit margin for pectin. We lower our 2008 earnings forecasts by 28%, and trim our target price to HK\$1.05.

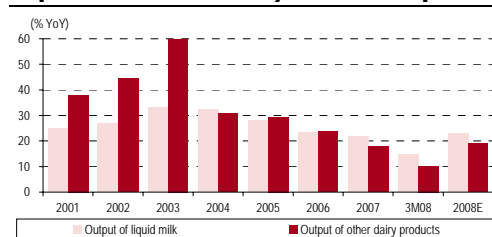
### China Green (0904.HK/HK\$6.67) – Outperform

China Green's net profit for its fiscal year to 30 April 2008 surged 36% YoY to Rmb471m, on a 33% YoY rise in turnover to Rmb1,267m. The earnings surprise was due to a 1.2ppts widening of the gross margin to 53.4%, mostly as a result of a jump of 49% YoY in sales of high-margin processed food. We raise our earnings forecasts by 5% for FY09 and 13% for FY10. China Green shares trade at an undemanding 10.6x FY09 P/E. As we reckon this is good opportunity to accumulate the stock, we retain our target price of HK\$12.15.

### Xiwang Sugar (2088.HK/HK\$2.21) – Outperform

Xiwang Sugar's 1H08 earnings grew 44% YoY to Rmb219m, while turnover rose 58% YoY, largely due to the increase in capacity utilisation and substantial price hikes for co-products. Xiwang booked a finance income owing to the exchange rate gain of Rmb51m from a US dollar-denominated loan. If we exclude that, EBIT increased only 19% on rise in staff and transportation costs. Due to its higher SG&A costs, we trim our net profit forecasts by 2% for 2008, 9% for 2009 and 10% for 2010. We lower our target P/E for Xiwang to 6x from 10x, following the de-rating of the China F&B sector. We cut our target price to HK\$4.20 from HK\$5.80.

#### Liquid Milk & Other Dairy Product Outputs



Sources: China Dairy Yearbook, BOCI Research

#### Key Statistics

YoY % Outputs	06			2006		2007		2008
	06	07	08E	1H	2H	1H	2H	2M
Liquid milk	25	16	19	25	25	7	25	11
Other dairy products	15	23	23	10	19	16	29	10
<b>Industry</b>								
Total assets	11	15	12	16	11	14	15	16
Total sales	21	22	18	27	15	22	23	29
Gross margin (%)	23	22	23	23	23	23	22	18

Sources: China Statistical Yearbook, BOCI Research

## CONSUMER – Retail

**HK listed – Outperform**  
**A shares – Outperform**

- Retail sales in China rose 23.3% YoY in July, the highest since February 1996. The rapid growth stemmed largely from the summer holidays, the Beijing Olympics, and sales promotions.
- Sales of food items on the mainland surged 30.4% YoY in July amid price inflation and increased sales of bottled drinks in summer, while those apparels grew 22.4% largely on higher volumes and those of electrical appliances increased 18.3%, on strong demand for air-conditioners and electric fans.

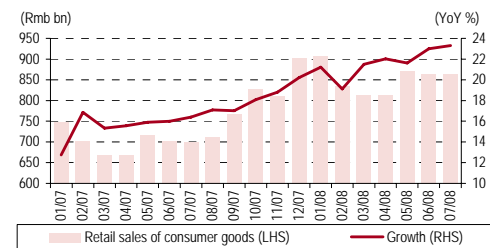
### Golden Eagle (3308.HK/HK\$7.37) – Outperform

Golden Eagle's profit attributable to shareholders for 1H08 surged 95.0% YoY to Rmb354m (EPS: Rmb0.1947). Stripping out changes in fair value of derivative financial instruments and net foreign exchange gains, its recurrent net profit jumped 64.0% YoY to Rmb223m, accounting for 45.4% of our full-year forecast. Although August saw quarterly sales decrease due to the Beijing Olympics, we maintain our full-year gross sales proceeds growth forecast of 32%, in view of the October Golden Week holidays, more promotions and opening of two new stores. We hold an optimistic view of the company for the long term, and reaffirm our **Outperform** rating and retain our target price of HK\$9.10.

### Wangfujing Department Store (600859.SS/Rmb25.95) – Outperform

Wangfujing Department Store (WDS) announced plans to issue bonds with warrants for proceeds of no more than Rmb950m and use the funds to acquire the remaining 55% stake in Wangfujing Building Co Ltd. In our view, the acquisition may drag the 2008-09 earnings, but will likely boost its long-term growth prospects due to the enlargement of the premises of its flagship store and increase in its self-owned ratio. We lower our EPS forecasts from Rmb1.17 to Rmb1.09 for 2008 and from Rmb1.53 to Rmb1.52 for 2009, but raise from Rmb1.85 to Rmb1.91 that for 2010. We reaffirm our **Outperform** rating on WDS.

#### Retail Sales of Consumer Goods



Source: CEIC

#### Key Statistics

Wholesale and retail trades by category of main commodities	YoY %					
	1Q08	Apr08	May08	Jun08	Jul08	1Q08
Grain and oil	38.1	36.3	27.6	30.1	18.3	22.3
Meet, poultry and eggs	31.3	30.8	25.4	22.9	18.4	18.4
Clothing, shoes, hats & textiles	24.3	29.7	21.6	28.3	26.8	26.8
Sports & recreation articles	21.0	31.7	13.0	19.2	18.3	18.3
Household & video appliances	22.5	27.2	10.6	9.6	18.8	18.8
Furniture	33.3	37.2	37.1	25.5	19.6	19.6
Cosmetics	22.3	20.5	17.5	22.1	31.8	31.8
Gold, silver & jewellery	47.5	41.0	29.4	50.9	43.6	43.6
Communications appliances	3.7	0.5	2.7	6.4	6.1	6.1
Automobiles	37.1	25.7	32.0	32.6	27.8	27.8

Source: NBS

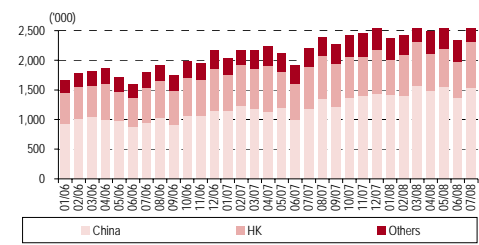
## CONSUMER SVS – Gaming & Hotels *Gaming – Marketperform Hotels – Marketperform*

- Macau gaming revenue rose 44% to 9.6bn patacas in September, despite the third month of Beijing measures to curtail the numbers of mainland visitors. The central government imposed restrictions to the Individual Visitation Scheme (IVS) that cut the number of times mainland visitors can apply to visit the city from twice a month to once as of 1 June, then to once every two months from 1 July.
- We are not aware of the effect of more recent tightening measures. Since 1 September, mainland visitors under the IVS must secure a separate permit to visit Macau. Mainland visitors arriving via Hong Kong accounted for 7.8% of visitors to Macau in 7M08. There is talk that Beijing will further restrict IVS travel to Macau to once every six months, starting as soon as next month.

### Melco International (0200.HK/HK\$3.87) – Underperform

Melco International expects Macau's gaming revenue to grow about 10-15% annually in the next few years and sees this as much more reasonable growth, compared to the 50% YoY in 1H08. The company reported that, stripping out non-cash and non-operating items, its performance improved from a net loss of about HK\$323m in 1H07 to a net profit of about HK\$16m in 1H08. The company's Macau gaming business, operated through 37.9%-owned listed Melco Crown Entertainment, staged a major turnaround. The company's attributable profit from MPEL amounted to about HK\$131m in 1H08, compared with a loss of HK\$298m in 1H07. Crown Macau delivered impressive returns with volume of VIP rolling chips increasing 30x YoY to about HK\$294bn in 1H08. Its market share jumped to around 14% in June 2008. City of Dreams has topped out its first phase and four hotels and is scheduled for opening in 1H09.

### Macau Visitor Arrivals



Source: CEIC

### Key Statistics

Gross revenue from game of fortune							
MOP m	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08
VIP Baccarat	12,002	13,206	13,668	16,886	55,762	20,801	20,100
YoY %	50	58	50	49	52	73	52
Slot machine	753	825	876	1,141	3,595	1,354	1,395
YoY %	72	81	64	82	75	80	69
Others	5,652	5,536	5,797	6,680	23,665	7,668	7,390
YoY %	32	31	35	34	33	36	33
Total	18,407	19,567	20,341	24,707	83,022	29,823	28,885
YoY %	45	50	46	46	47	62	48

Source: CEIC

## ENERGY *HK listed – Outperform A shares – Outperform*

- Oil price continued to fall in the first half of August. The price of ICE Brent fell from US\$125/bbl to US\$111/bbl in the second week of the month. Only concerns over supply interruption in the Gulf of Mexico owing to Hurricane Gustav helped the price to rebound to US\$116/bbl at the end of the month.
- The discount of the price of Minas (benchmark for Daqing oil) to that of ICE Brent rose from US\$6/bbl to US\$7/bbl in August, whereas the discount of the price of Cinta (the benchmark for Shengli oil) to that of ICE Brent widened from US\$12.4/bbl to US\$14.5/bbl over the same period.
- The median settlement price of Datong high-grade coal declined 3% MoM to Rmb975/tonne and that of Shanxi high-grade coal fell 4% MoM to Rmb895/tonne at Qinhuangdao in August. The coal inventory at Qinhuangdao rose 17% MoM to 7.7m tonnes as at end-August.
- On 20 August, China's MoF raised the export tariff from 25% to 40% on coke, from 5% to 10% on coking coal and from 0% to 10% on other coals.
- Although it dropped 6% in the first week to US\$152/tonne, the FOB price of thermal coal in Newcastle, Australia rebounded afterwards as Indonesia halted the exports of six producers to close the month flat at US\$162/tonne.

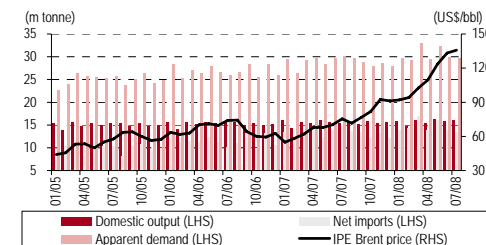
### Yanzhou Coal (1171.HK/HK\$11.72; 600188.SS/Rmb12.71) – Outperform

Yanzhou's 1H08 earnings jumped 1.6x YoY for its H shares to Rmb3.91bn and 2.4x YoY to Rmb3.76bn for its A shares. Yanzhou also projected its A-share earnings would grow more than 2.6x YoY in 9M08. We have lifted our 2008-10 earnings forecasts by 22-27% to factor in the strong interims. We reiterate our Outperform calls on both the H and A shares. We raise our target price for the H shares to HK\$24.00, but lower that for the A shares to Rmb22.94.

### Sinopec (0386.HK/HK\$8.18; 600028.SS/Rmb9.88) – Marketperform/Outperform

Sinopec's 1H08 earnings fell 77% YoY for the H shares to Rmb8.3bn and fell 73% YoY to Rmb9.3bn for the A shares. As it is likely that the government will reduce the VAT rebate rate on imported crude oil from 75% to 40% for 3Q08, we cut our 2008 earnings forecast by 28%. While we reiterate our calls of **Marketperform** call on its H shares and **Outperform** on its A shares, we lower our target prices from HK\$8.22 to HK\$7.90 for the H shares and from Rmb12.30 to Rmb11.80 for the A shares.

### Crude Production, Import & Demand



Sources: National Bureau of Statistics, China Petrochem & Chemical Industry Association, Bloomberg

### Key Statistics

YoY %	07	08E	09E	Feb08	Mar	Apr	May	Jun	Jul
<b>Output</b>									
Crude oil	1.6	1.8	2.1	3.8	2.3	0.0	0.8	1.5	4.5
Natural gas	13.8	11.8	10.6	13.1	28.1	14.8	28.1	41.8	12.7
Refining throughput	8.0	6.0	6.0	9.7	4.3	2.7	(0.6)	5.9	10.2
Coal	6.3	8.4	5.7	13.5	8.7	15.9	13.2	11.4	11.8
<b>Imports</b>									
Crude oil	12.4	7.2	6.9	18.1	24.8	(3.9)	24.9	3.2	(7.0)
<b>Price</b>									
IPE Brent (US\$/bbl)	72.5	114.9	110.8	94.1	102.5	109.7	123.6	133.1	135.7

Sources: National Bureau of Statistics, China Petrochem & Chemical Industry Association, Bloomberg, BOCI Research estimates

## FINANCIALS (China)

**HK listed – Marketperform ↓**  
**A shares – Marketperform**

- As we had expected, listed banks posted net profit growth of 67% in 1H08 on the back of volume growth, net interest margin (NIM) expansion and reduction of corporate tax. We estimate that the net profit growth in 2H08 will decelerate to roughly 42% YoY amid NIM contraction and rising credit costs. We reiterate our view that net profit growth will drop to 5% for 2009 and 1% for 2010. We downgrade the China banking sector to **Marketperform** from Outperform for both the H and A shares.

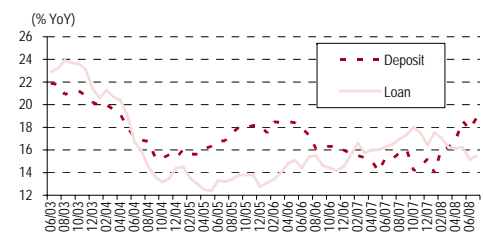
### ICBC (1398.HK/HK\$5.09; 601398.SS/Rmb4.51) – Outperform

ICBC's net profit for 1H08 jumped 57.3% YoY to Rmb64.5bn, slightly above market consensus. Its fee income accounted for 16% of the total operating income, up 2.34% from 13.4% as at end-2007. ICBC made great efforts to reduce risks. Its diversified loans portfolio will help to reduce credit risks in a dire economic slowdown. ICBC also will expand its business scope to insurance and other non-banking financial services to help reduce risks. Besides, management is confident about sustaining the current showing with a change in ICBC's loans structure and a more stable deposits structure. We reaffirm our **Outperform** ratings on both the H and A shares of ICBC.

### China Const Bank (0939.HK/HK\$6.00; 601939.SS/Rmb7.93) – Marketperform

CCB's net profit for 1H08 surged 71.4% YoY to Rmb58.7bn. Although CCB's coverage ratio increased from 114% as at end-2007 to 117% as at end-June 2008, its non-performing loans (NPL) balance rose slightly on a quarterly basis. Furthermore, the balance of overdue loans increased from Rmb91.0bn as at end-2007 to Rmb95.3bn as at end-June 2008. Besides, the NPL balances for mortgages and individual loans rose 20%, or Rmb857m, and 21%, or Rmb368m, respectively. We reiterate our **Marketperform** ratings on both the H and A shares of CCB.

#### Growths of Loans & Deposits



Source: NBS

#### Key Statistics

	07	08E	09E	Feb08	Mar	Apr	May	Jun	Jul
New incremental loans (Rmb bn)	3,630	3,630	3,800	243.4	285.6	463.9	318.5	332.4	381.8
Deposit (% YoY)	16.0	14.0	13.0	17.2	17.4	17.7	19.6	18.9	19.6
Lending (% YoY)	16.0	14.7	13.0	15.7	14.8	14.7	14.9	14.1	14.6
7-day inter-bank lending rate (%)	2.1	2.3	2.5	2.7	2.3	2.6	2.8	3.1	2.7
Excess deposit reserve ratio (%)	3.0	2.5	2.6	n.a	2.0	n.a	n.a	2.0	n.a
NPLs (%)	7.0	7.0	7.0	n.a	5.8	n.a	n.a	5.6	n.a

\*NPLs based on listed companies' data; all other data from PBOC  
Sources: Listed companies, PBOC, BOCI Research estimates

## FINANCIALS (Hong Kong)

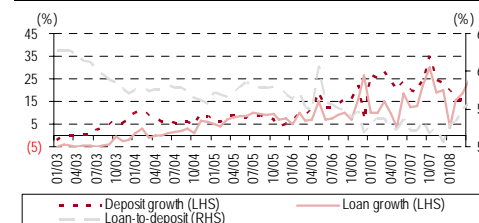
**HK listed – Marketperform**

- According to mReferral, the homes new mortgage market shares in July 2008 were 18.4% for HSBC Holdings, 15.9% for BOC Hong Kong (BOCHK), 12.2% for Hang Seng Bank, 9.1% for Standard Chartered, 5.3% for DBS (Hong Kong), 5.0% for Wing Hang Bank, 4.6% for Bank of East Asia, 3.1% for CCB (Asia), 2.55% for Dah Sing Banking and 2.48% for Public Bank.

### China Everbright Ltd (0165.HK/HK\$12.46) – Marketperform ↓

CEL's 1H08 net profit declined 31.8% YoY to HK\$1.17bn. The company declared an interim dividend per share of HK\$0.08 (payout: 10.9%). We believe the results were slightly ahead of market consensus due to disposal gains from its pre-IPO investments (HK\$450m from China High Speed and strategic investments in China Mobile). Going forward, we expect the company's 2H08 net profit to decline significantly, if it fails to derive additional disposal gains from its pre-IPO investments (we estimate that it booked a loss in 1H08 for its current investments in China Sunshine Paper [close to breakeven on net book value]). Given the relatively challenging A-share market and potential trust shareholding issues (for bank only), we expect the proposed listings of China Everbright Bank and Everbright Securities to face additional delays. We expect the volatile A-share and Hong Kong equity markets to affect the profitability of CEL. As such, we have revised down our 2008-10E EPS estimates by 19.5-39%. Accordingly, we reduce our fair value estimate from HK\$19.10 from HK\$13.40 and downgrade our rating to **Marketperform**.

#### Growths of Loans & Deposits



Source: HKMA

#### Key Statistics

	07	08E	09E	Feb08	Mar	Apr	May	Jun	Jul
Prime	6.85	5.25	5.25	5.75	5.56	5.25	5.25	5.25	5.25
3M HIBOR	3.75	2.00	2.00	2.31	2.06	1.98	1.88	2.23	2.28
Prime - HIBOR	3.10	3.25	3.25	3.44	3.50	3.27	3.37	3.02	2.97
Savings deposit rate	1.35	0.05	0.20	0.3	0.2	0.0	0.0	0.0	0.0
Loan growth (% YoY)	20.0	15.0	12.0	15.3	18.7	24.6	24.1	17.1	25.1
Deposit growth (% YoY)	23.1	15.0	12.5	16.2	15.9	17.0	13.3	6.9	9.5

Sources: HKMA, BOCI Research estimates

## FINANCIALS – Insurance

**HK listed – Marketperform**  
**A shares – Marketperform**

- We expect insurance companies to post weaker profits for 3Q08 due to poor investment performances. Furthermore, we estimate that growth of premium income will decelerate in 2H08. In our view, the said negative aspects may be an overhang for the overall performance of the sector. Still, the slump in share prices may provide long-term investment opportunities.

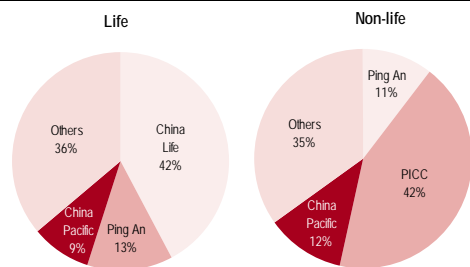
### **Ping An Insurance (2318.HK/HK\$53.30; 601318.SS/Rmb41.78) – Marketperform**

Ping An's net profit for 1H08 edged down 2.1% YoY to Rmb9.7bn, however, Ping An's net profit for 2Q08 slid 66.4% QoQ to only Rmb2.4bn suggesting possible negative equity investment income. Furthermore, Ping An's EV decreased 14% YoY in 1H08 due to a loss of Rmb39bn in available-for-sale investments. We believe that, if the A-share market continues to retreat, Ping An will record further losses from equity investments, which will decrease its book value and EV. Ping An's banking and securities businesses also performed poorly in 1H08, and its diversified business model will face challenges.

### **China Life Insurance (2628.HK/HK\$28.30; 601628.SS/Rmb23.80) – Marketperform**

China Life's net profit for 1H08 slipped 32% YoY at Rmb15.8bn. Although it reduced the proportion of equity investment from 22.95% as at end-2007 to 13.28% as at end-June 2008, we expect China Life to record a related loss in the future. China Life's premium income grew 50% YoY in 1H08 under CAS as its market share rose from 39.7% as at end-2007 to 42.8% as at end-June 2008. However, its premium income, minus unit-linked products, only grew 24.36%. Since the company may restrain the growth of unit-linked products, we expect premium income growth will slow down in 2H08.

#### Market Share Breakdown – July 2008



Source: CIRC

#### Insurance Premium Growth

(Rmb bn)	06	07	08E	Feb08	Mar	Apr	May	Jun	Jul	20
Non-life insurance premiums	156	199	239	16	29	14	24	23	20	
Life insurance premiums	406	494	618	43	76	68	87	59	60	
<b>Total insurance premiums</b>	<b>562</b>	<b>693</b>	<b>856</b>	<b>59</b>	<b>106</b>	<b>82</b>	<b>110</b>	<b>82</b>	<b>80</b>	
<b>Growth rate (%)</b>										
Non-life insurance premiums	22	28	20	33	31	29	25	22	22	
Life insurance premiums	12	22	25	21	67	69	61	62	62	
<b>Total insurance premiums</b>	<b>14</b>	<b>23</b>	<b>24</b>	<b>25</b>	<b>55</b>	<b>58</b>	<b>52</b>	<b>50</b>	<b>50</b>	

Sources: Bloomberg, Company data, BOCI Research estimates

## MEDIA

**HK listed – Outperform**  
**A listed – Underperform**

- Chinese media, such as people.com.cn, reported that industry regulator, State Administration of Radio, Film and Television (SARFT), planned to set up a company to operate the handheld TV business using Chinese CMMB technology.

### **Television Broadcasts Ltd (0511.HK/HK\$42.25) – Outperform**

On the back of TVB's weaker-than-expected interim results, we have cut our 2008 profit forecast by 7.5% to HK\$1.35bn (EPS: HK\$3.092) and our target price to HK\$53. Reaffirm **Outperform** call.

### **Sichuan Xinhua Winshare (0811.HK/HK\$2.50) – Outperform**

Xinhua Winshare's net income for 1H08 grew 11.3% YoY to Rmb183m (EPS: Rmb0.161, down 21% on mid-2007 IPO dilution), about 4% below our estimate mainly due to higher expenses. We are leaving our forecasts unchanged and reaffirm our **Outperform** rating.

### **Shanghai Xinhua Media (600825.SS/Rmb11.70) – Outperform**

We have cut our 2008 profit forecast for Xinhua Media by 6.3% to Rmb310m (EPS: Rmb0.801) for its disappointing gross margin at the interim stage. Based on 27x 200(E P/E, we lower our target price to Rmb27.30, but reaffirm our **Outperform** call.

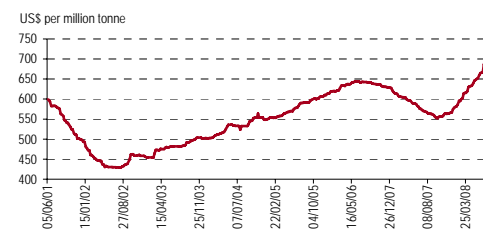
### **Beijing Gehua CATV (600037.SS/Rmb9.49) – Underperform**

We have raised our 2008 profit forecast by 16% to Rmb404m (EPS: 0.381) on the higher-than-expected revenue growth in 1H08 and a recent subsidy from the government. Our target price stays at Rmb12.50, based on about 36x forward earnings. Still an **Underperform**.

### **Shanghai Oriental Pearl (600832.SS/Rmb6.52) – Underperform**

As Shanghai Oriental Pearl's interim results were in line with our estimates, we maintain our forecasts and retain our target price of Rmb7.25 (adjusted from Rmb11.60 for six-for-10 bonus issue). The stock stays an **Underperform** in our view.

#### Newsprint Prices



Sources: Bloomberg

#### Key Statistics

(% YoY)	03	04	05	Dec05	Jan06	Feb	Mar	Apr	May
Newsprint (US\$/mt)	502	550	614	614	620	622	634	637	642
Adspending (HK\$m)**	14,312	16,423	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Circulation* (k)	1,430	1,385	1,351	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Readership* (k)	4,935	4,211	4,108	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
i-Cable TV ARPU	230	232	218	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>China print advertising volume growth (% YoY)</b>									
Newspaper	n.a.	n.a.	n.a.	18.8	n.a.	n.a.	n.a.	n.a.	n.a.
Magazine	n.a.	n.a.	n.a.	2.8	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>17.5</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

\* Including Oriental Daily, Apple Daily, Ming Pao, SCMP

\*\* assuming 40% off discount

Sources: Datastream, HKABC, AC Nielsen, Admango, HC Media Research

## METALS & MINING

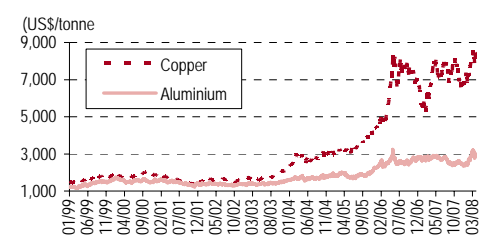
**HK listed – Outperform**  
**A shares – Outperform**

- Metal prices have been correcting for the past two months, as the credit crunch exacerbates. Fundamentally, we are bearish on nonferrous metal prices on global supply increases amid falling demand. Except for copper, we expect all other nonferrous metal prices to drop in the coming year.
- Mainland steel prices have slid since end-June. Compared to the average last year, mainland steel prices are up 22.5-42.5%. Compared to 1H08, mainland steel prices are up 6.7-14.3% depending on product types.
- The global economic uncertainty has led to massive sell off in cyclical stocks. H-share steel stocks trade at an average 2008E P/E of 6.1x, P/B of 0.8x and attractive yield of 6.7% and A-share ones at a reasonable P/E of 7.8x, P/B of 1.3x and 5% yield. We believe at these valuations, investors are pricing in a collapse in steel prices and demand next year, which, in our view, is overdone.

### Chongqing Iron & Steel (1053.HK/HK\$2.00; 601005.SS/Rmb3.89) – Outperform

The net profit of CIS for 1H08 surged 84% YoY to Rmb484m under Hong Kong GAAP. Compared to the 1Q08 net profit of Rmb186m, earnings for 2Q08 grew 60%. We favour CIS for its sales volume expansion and strong prices for steel plate, which are mostly used in shipbuilding. Its H shares trade at a 2008E P/E of 4.6x and P/B of 0.5x, while its A shares trade at P/E of 9x for 2008E. We reiterate our **Outperform** ratings on both stocks.

### Three-month Futures Aluminium & Copper



Source: LME

### Key Statistics

(% YoY)	06	07	08E	Mar08	Apr	May	Jun	Jul	Aug
Quick speed wire rod	(5)	15	20	51.3	53.5	53.5	63.6	61.0	48.4
Ord. Plate -40mm	(12)	17	20	43.4	48.1	55.6	54.3	53.4	46.8
Cold-rolled sheet	(10)	10	15	39.2	40.4	36.8	43.1	48.9	42.7
Hot-rolled sheet	(19)	5	15	26.4	30.4	34.3	41.8	45.4	38.2
Galvanised steel	(13)	1	15	12.5	18.6	18.6	34.4	40.0	40.1
Aluminium	21	(5)	5	(0.4)	(4.3)	(11.1)	(10.4)	(6.3)	(8.1)
Copper	77	0	0	13.5	(6.0)	(3.1)	(1.2)	3.1	(6.8)

Sources: Bloomberg, Company data, BOCI Research estimates

## PHARMACEUTICALS

**HK listed – Outperform**  
**A shares – Outperform**

- The rapid economic growth in recent times has caused a re-evaluation of all things Chinese. Traditional Chinese Medicine (TCM) is pillar of Chinese culture and we see it as cornerstone in this cultural renaissance. The reopening of TCM practice in drugstores, the imparting of TCM knowledge from master to disciple, general practitioners required in community medical centres, and activities of promoting TCM around China signal this cultural renaissance.

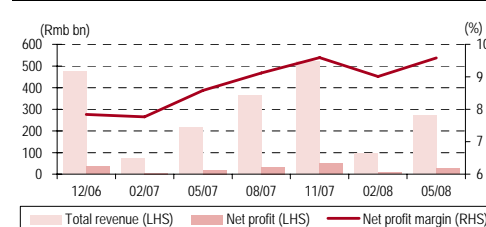
### Tianjin Tasly Pharmaceutical (600535.SS/Rmb9.76) – Outperform

Tasly is a leading enterprise engaged in modern TCM. Oral medicines, TCM injectable powder and biological medicines are its three major performance drivers. Price hikes, rural market and the pending outcome of US FDA Phase II certification tests at the end of 2008 will boost sales of Fufang Danshen Diwan. Yangxue Qingnao Particle is estimated to reach Rmb200m this year. We expect its sales of injectable powders to reach Rmb100m in 2009 and start contributing profit. Our forecasts for Tasly to deliver fully diluted EPS of Rmb0.54 for 2008, Rmb0.72 for 2009 and Rmb0.95 for 2010, representing a CAGR of 38%. We set Tasly a target price of Rmb14.40, based on a 20x for 2009 EPS. We have initiated coverage on Tasly with an **Outperform** call.

### Jiangsu Kanion Pharmaceutical (600557.SS/Rmb16.05) – Outperform

Kanion Pharm has a clear product strategy focusing on TCM advantage areas, such as gynecology and orthopaedics. Unlike from other TCM companies, its products are sold mainly in hospitals. Its main products are capsules, focusing on gynaecology, orthopaedics, and cerebro-vascular disorders. Our forecasts for its fully diluted EPS are Rmb0.55 for 2008, Rmb0.81 for 2009 and Rmb1.02 for 2010, for a CAGR of 41%. We set Kanion a target price of Rmb24.30, based on a 30x for 2009 EPS. We have initiated coverage on Kanion with an **Outperform** call.

### Revenue of Pharmaceuticals Industry



Source: Chinese Medicine Economic Information

### Key Statistics

(%)	Sales increase			Profit increase		
Time	Nov07	Feb08	May08	Nov07	Feb08	May08
Pharm Total	24.6	32.1	29.4	51.1	51.6	45.1
Bulk Drugs	24.1	33.5	32.2	48.7	66.1	85.2
Biological Drugs	22.1	32.3	29.6	45.8	41.9	57.0
Medical Device	31.6	50.0	38.9	49.1	62.9	54.1
Finished Drugs	22.9	31.0	27.4	49.8	59.7	43.7
TCM Yinjian	36.8	40.3	32.7	65.2	36.1	26.9
TCM	21.1	25.8	24.2	52.6	31.0	16.2

Sources: Chinese Medicine Economic Information, BOCI Research estimates

**PROPERTY (China)**

**HK listed – Marketperform ↓  
A shares – Marketperform**

- The PBOC and the CBRC had jointly issued a circular to urge rigorous credit management on commodity property development. The guideline corresponded with a State Council circular in January to promote the economical use of land. Basically, the circular summarised and reiterated previous policies on property lending, including barring of loans to developers to cover land-premium payments. The circular also called for credit support for indemnificatory housing development and projects that improve the efficiency of land use.
- The ASP of commodity houses in 70 cities grew 7.0% YoY in July 2008, 1.2ppts lower than in June, according to NDRC statistics. Haikou, Urumqi, and Ningbo led the price increases, with rises of 16.7%, 15.8%, and 13.3%, respectively.

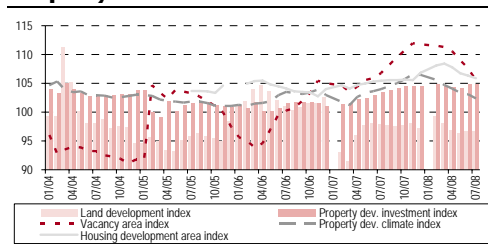
**China Vanke (000002.SZ/Rmb6.36; 200002.SZ/HK\$6.96) – Outperform**

Vanke's net profit for 1H08 grew 23.6% YoY to Rmb2.061bn, while revenue surged 55.5% YoY to Rmb17.255bn. In 1H08, Vanke sold a total area of 2.656m sqm (up 15% YoY) for revenue of Rmb24.13bn (up 38% YoY). It fulfilled 40% of its annual sales goal, completed 39% of its planned new-start area and 23% of its planned completion area in 1H08. Vanke also announced that it would cut its yearly new-start and completion targets by 19.5% and 14.9%, respectively. Vanke acquired 17 projects with a total GFA of 4.799m sqm (attributable GFA of 3.87m sqm) in 7M08 and lifted its land bank to an attributable GFA of 19.09m sqm.

**China Overseas Land & Investment (0688.HK/HK\$11.30) – Outperform**

COLI's net profit for 1H08 surged 68% YoY to HK\$2.31bn (or 94.5% YoY excluding the revaluation surplus in 1H07), as turnover grew 12% YoY to HK\$10.7bn. Of the revenue, 87.5% was from the China property development business. COLI has a total land bank of 22.79m sqm in terms of attributable GFA. In 7M08, COLI sold 1.64m sqm (up 39.5% YoY) of properties for revenue of HK\$17.7bn (up 60.7% YoY). The 7M08 sales also accounted for 61% of its full-year target in terms of GFA. COLI maintained its completion target of 3.5m sqm for this year and expected to complete 5m sqm in 2009.

**Property Indices**



Source: Soufun.com

**Key Statistics**

(% YoY)	06	07	08E	J-F08	Mar	Apr	May	Jun	Jul
Property investment	23	30	23	23	32	32	32	38	20
Residential property investment	26	32	25	25	39	36	35	41	21
Commodity housing starts (area)	17	21	18	12	24	8	18	17	(8)
Commodity housing completion area	9	10	10	12	21	1	14	0	13
Commodity housing sales area	38	26	1	11	2	(12)	(14)	(7)	(27)
Commodity housing sales amount	55	44	8	28	9	(8)	(6)	(4)	(24)
Average selling prices	13	15	7	15	3	4	5	5	4

Sources: China Real Estate Net, Soufun.com, BOCI Research estimates

**PROPERTY (Hong Kong)**

**Developers – Marketperform  
Investors – Outperform  
REITs – Outperform**

- The consideration and number of property transactions in August came in at HK\$18bn (down 44.9% MoM and 59.2% YoY) and 6,402 (down 28.3% MoM and 53.1% YoY), respectively. This numbers were in line with our expectations for a further correction of the residential property market in Hong Kong.
- We retain our **Marketperform** call on the sector. Among developers, we prefer Cheung Kong Holdings and MTR Corp.

**Cheung Kong (0001.HK/HK\$105.10) – Outperform**

We raise Cheung Kong's underlying earnings forecasts by 34% for 2008, 13% for 2009 and 7% for 2010 following its stronger-than-expected 1H08 results. We reaffirm our **Outperform** rating on Cheung Kong, but reduce our target price slightly to HK\$124.70.

**MTR Corp (0066.HK/HK\$25.30) – Outperform**

We raise our earnings forecasts for MTRC by 4-10% for 2008-10 and expect its dividend per share to increase from HK\$0.45 in 2007 to HK\$0.47 in 2008. We reaffirm our **Outperform** rating on MTRC and retain our target price of HK\$29.70

**Hang Lung Properties (0101.HK/HK\$22.90) – Marketperform**

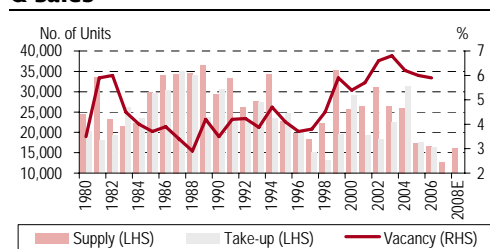
**Hang Lung Group (0010.HK/HK\$31.90) – Marketperform**

We revise down our earnings forecasts for HLP by 16% for FY09 and 8% for FY10, and for HLG by 22% for FY09 and 13% for FY10 after factoring in potential slower sales of its Hong Kong projects. The revisions are in line with our expectations that the correction of the Hong Kong residential property market will continue until mid-2009. We reaffirm **Marketperform** calls for both HLP and HLG.

**Kerry Properties (0683.HK/HK\$34.50) – Underperform**

Kerry's higher-than-expected interim earnings were mainly due to the exceptional gain from the disposal of China properties. We reiterate our **Underperform** rating on Kerry and lower our target price to HK\$34.50.

**Private Residential Property Completions & Sales**



Sources: Housing Department, Centaline

**Key Statistics**

	06	07	08E	Feb08	Mar	Apr	May	Jun	Jul
CCI	1	25	(1)	35	35	31	30	29	-
CCL Index	3	24	(2)	36	32	28	32	29	26
Trans. No.	(20)	47	(12)	57	16	(0)	(23)	(1)	(9)
Trans. Val	(20)	67	(9)	95	37	(23)	(24)	46	(11)
Primary trans	(19)	40	(30)	(55)	211	(82)	(80)	64	(72)
Unsold stock	12	(58)	4	(65)	(65)	(64)	(56)	(46)	(40)

Sources: Centaline, Midland, BOCI Research estimates

## SMALL/MID-CAP

### HK listed – Outperform

- We reiterate our recommendation that investors sell into strength of Li Ning, despite its quality track record and corporate governance. On the other hand, we affirm our bullish view on Ports Design.

#### Ports Design (0589.HK/HK\$18.76) – Outperform

Ports Design's 1H08 net profit increased 28.4% YoY to Rmb183m. Stripping out the tax rebate of Rmb14m in 1H07, its recurrent net income increased 42.5% YoY, thanks to retail margin expansion. The overall gross margin expanded from 71.6% to 77.1%. However, same-store-sales grew 30% in 1H08, slightly below our forecast of 36% as consumption growth slowed in 2Q08. To be conservative, we lower our same-store sales growth assumption to reflect the negative impact of changes in the macro-economic environment. So, we reduce our EPS forecasts by 5.7% for 2008, 10.8% for 2009 and 7.3% for 2010. Although Port's number of retail outlets decreased from 360 at end-2007 to 348 at end-1Q08, we believe the strategic closures of old stores is positive for same-store sales growth over the long term. We see *Vivienne Tam* as a long-term growth driver for Ports, due to management's experience in brand building and the success of Ports 1961 in the China market. We lower our target price for Ports to HK\$25.00 from HK\$30.50.

#### Li Ning (2331.HK/HK\$17.86) – Underperform

Li Ning announced the signing of a licensing agreement with Lotto Sport Italia. Under the agreement, Li Ning will have an exclusive licence for about 20 years to use the Lotto trademark in China in connection with the development, manufacturing, marketing and distribution of such products. The deal heightens our concerns that its management resources will be spread rather thin over its now much expanded portfolio. There are downside risks for Li Ning's earnings for 2009 and 2010 due to foreseeable hefty promotional expenses, as well as with charges related to the network rollout of Lotto. Finally, as a second-tier foreign brand targeted at the mid-market, there are also likely to be concerns over cannibalisation as core brand LI-NING is positioned essentially in the same segment. We reaffirm our **Underperform** rating and advice investors sell into share price strength.

#### Ports Design – Profit & Loss

Year ended 31 Dec	2006	2007	2008E	2009E	2010E
Revenue (Rmb m)	1,055	1,355	1,665	2,100	2,814
Change (%)	23.9	28.5	22.8	26.1	34.0
Net profit (Rmb m)	254	397	465	588	795
Fully diluted EPS (Rmb)	0.47	0.72	0.85	1.07	1.44
Change (%)	56.8	53.9	17.8	25.6	34.2
P/E (x)	35.2	22.9	19.4	15.5	11.5
CFPS (Rmb)	0.41	0.57	0.72	0.88	1.07
P/CF (x)	40.5	29.1	23.0	18.8	15.4
EV/EBITDA (x)	29.4	21.9	16.3	12.3	8.8
DPS (Rmb)	0.3	0.9	0.5	0.6	0.9
Yield (%)	1.7	5.6	3.0	3.8	5.2

Sources: Company data, BOCI Research estimates

#### Li Ning – Profit & Loss

Year ended 31 Dec	2006	2007	2008E	2009E	2010E
Revenue (Rmb m)	3,181	4,349	6,890	8,268	9,530
Change (%)	30	37	58	20	15
Net profit (Rmb m)	295	474	709	886	1,092
Fully diluted EPS (Rmb)	0.28	0.45	0.68	0.84	1.04
Change (%)	56	60	50	25	23
P/E (x)	58.8	36.8	24.6	19.7	16.0
EV/EBITDA (x)	40.9	25.7	16.4	13.2	11.0
DPS (Rmb)	0.11	0.23	0.34	0.42	0.52
Yield (%)	0.6	1.3	1.9	2.4	2.9

Sources: Company data, BOCI Research estimates

## TECHNOLOGY

### HK listed – Outperform A shares – Outperform

- According to WitsView, the prices of LCD monitors saw the biggest monthly drop in August for the year to date, with the percentage of declines ranging from 3-7% MoM. We believe this was largely due to the recent drops in panel prices given the commodity nature of LCD monitors. In contrast, LCD TVs saw a relatively stable price performance in August.

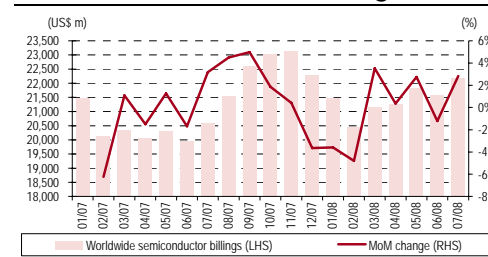
#### Tencent Holdings (0700.HK/HK\$59.65) – Underperform

We see weakening correlation between Tencent's growth drivers and its user base. Hence, the valuation premium the market has assigned to it is unjustified. In our view, the content quality, instead of platform, ultimately drive its online game and advertising businesses. This leads to rising uncertainty over Tencent's sales outlook. In addition, we estimate that Tencent's gross margin may peak in 2008. Most of Tencent's non-game IVAS products were launched before 2006 and there has since been a lack of hit products with support from decent monetisation. In our view, Tencent's non-game IVAS sales have been fluctuating seasonally since 2006 as a result. We are concerned that most of its non-game IVAS services may see popularity decline going forward. Without an imminent launch of new features to enhance users' stickiness, there is a risk of a further slowdown in turnover. We have initiated coverage on Tencent with an **Underperform** call.

#### Lenovo Group (0992.HK/HK\$4.70) – Outperform

Lenovo's net profit for 1QFY09 surged 65% YoY to US\$110m, on turnover growth of 10.5% YoY following a one-off restructuring cost of US\$45m charged in 1QFY08. Although Lenovo's ramp-up of its transaction model and aggressive expansion in emerging markets will result in some pressure on profitability, we view it a positive move for the long term. In addition, we still see an encouraging market share rebound for Lenovo in the Greater China region against a backdrop of intensifying competition. Based on 15x forward P/E, we reduce our target price from HK\$7.56 to HK\$6.50. Still, we reaffirm our **Outperform** rating on the stock.

#### Worldwide Semiconductor Billings



Sources: SIA

#### Key Statistics

Semiconductor sales revenue	06	07	08E	2007	3Q07	4Q07	1Q08	2Q08
America (US\$ bn)	44.9	44.0	42.6	9.9	10.9	11.3	10.2	10.4
Europe (US\$ bn)	39.9	39.1	41.7	9.6	10.2	10.8	10.2	10.2
Japan (US\$ bn)	46.4	45.5	47.8	11.6	12.3	13.1	12.3	12.5
Asia Pacific (US\$ bn)	116.5	123.5	135.8	28.7	31.4	33.2	30.4	31.5
Total	247.7	252.1	273.0	59.9	64.7	68.4	63.1	64.6
Capacity & utilisation rate	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08
Foundry capacity (wafer start per weekx1000)	289	298	261	272	307	313	298	308
Foundry utilisation rate (%)	92	81	79	93	94	94	94	93
Total IC capacity (wafer start per weekx1000)	1,808	1,884	1,872	1,972	2,093	2,118	2,155	2,210
Total IC utilisation rate (%)	89	86	87	89	90	90	91	89

Sources: SIA, SICAS

## TELECOMS (China)

**HK listed – Marketperform**  
**A shares – Marketperform**

- Figures from industry regulator Ministry of Industry and Information Technology show that total telecoms revenue in China grew 9.1% YoY in 7M08, down from 9.2% in 1H08.

### China Telecom (0728.HK/HK\$3.56) – Outperform

Following China Telecom's lower-than-expected interim results, we have cut our 2008 earnings forecast by 3.4% to Rmb23.77bn (EPS: Rmb0.294). Using 14x of 12-month forward P/E, we set our target price at HK\$4.90, down from HK\$5.20 previously. We reaffirm our **Outperform** call.

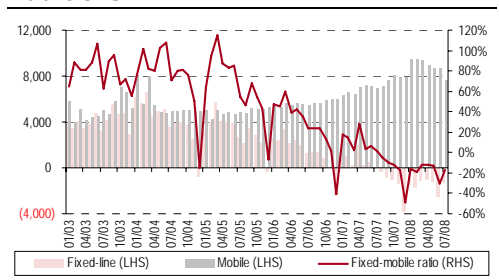
### China Mobile (0941.HK/HK\$82.00) – Outperform ↑

On account of China Mobile's better-than-expected interim results, we have raised our full-year forecast by 4% to Rmb116.7bn (EPS: Rmb5.821). Based on 17x of 12-month forward P/E (in line with the average since the stock was listed in 1997), we have lowered our target price to HK\$118.00 from HK\$127.00. The revised valuation implies a PEG ratio of 0.8, again in line with its average since listing. We believe this is appropriate in view of the uncertainties related to its TD-SCDMA operations and likely changes in the regulatory environment. While there may still be some downside risk to the stock price amid the instability in global stock markets, we believe our target price for the next 12 months is not particularly ambitious and the stock merit a rating upgrade to **Outperform**.

### China Unicom (0762.HK/HK\$12.40; 600050.SS/Rmb4.72) – Marketperform (H&A)

On account of Unicom's disappointing interim results, we have tentatively cut on 2008 profit forecast for the combined group by 7% to Rmb16bn (EPS: Rmb0.674). We have also lowered our target price for the red chip to HK\$15.00 from HK\$17.00, and for the A-shares to Rmb5.90 from Rmb6.80. We reiterate our **Marketperform** call on Unicom.

### Fixed-line & Mobile Networks' Monthly Net Additions



Sources: MII

### Key Statistics

(m subscribers)	2007	2008E	2009E	Mar08	Apr08	May08	Jun08	Jul08
National mobile sub.	547.3	653.0	756.8	574.6	583.5	592.1	600.8	608.4
net adds	86.2	105.7	103.7	9.4	8.9	8.6	8.6	7.6
CM total subscribers	369.3	457.9	537.6	392.1	399.5	407.0	414.6	421.7
net adds in period	68.1	88.5	79.7	7.8	7.4	7.5	7.6	7.1
CU-G total sub.	119.2	135.2	159.7	124.2	125.4	126.5	127.6	128.6
net adds in period	13.3	16.0	24.5	1.3	1.2	1.1	1.1	1.0
CU-C total sub.	41.1	44.6	57.7	42.8	43.1	43.2	43.2	42.8
net adds in period	4.6	3.5	13.1	0.3	0.3	0.1	0.0	(0.4)
National broadband sub.	66.5	82.1	96.1	71.5	72.9	74.4	76.0	77.8
net adds in period	15.6	15.6	14.0	1.7	1.5	1.5	1.6	1.8
CT broadband sub.	35.7	43.0	49.6	37.7	38.4	39.1	40.0	40.8
net adds in period	7.3	7.3	6.6	0.7	0.7	0.7	0.9	0.8
CN broadband sub.	19.8	24.5	28.7	21.7	22.1	22.6	23.4	24.0
net adds in period	4.7	4.7	4.2	0.6	0.5	0.5	0.7	0.6
National fixed-line sub.	365.4	363.1	359.9	361	360	359	356	355
net adds	(2.3)	(2.3)	(3.2)	(1.1)	(1.0)	(1.1)	(2.6)	(1.3)

Sources: MII, Company data, BOCI Research estimates

## TELECOMS (Hong Kong)

**HK listed – Outperform**

- Industry regulator Office of the Telecommunications Authority says that it will release six blocks of 4.8MHz x 2 spectrum in the 1800MHz band for existing cellular operators to expand their operations. The frequencies will be assigned using a bidding process.

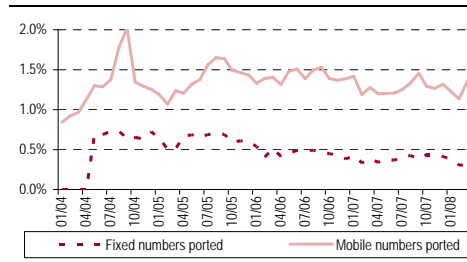
### PCCW Ltd (0008.HK/HK\$4.82) – Outperform

We have raised our profit forecasts for PCCW by 5% to HK\$2.23bn (EPS: HK\$0.33) for 2008 and 13% to HK\$2.65bn (EPS: HK\$0.391) for 2009 to reflect the strength of its core telecoms operations and the new property development projects. Our DCF valuation has also gone up to HK\$8.22 from HK\$8.10, but our target price is unchanged at HK\$6.10. We reaffirm our **Outperform** call on PCCW.

### SmarTone Communications (0315.HK/HK\$6.62) – Outperform

On account of SmarTone's better-than-expected final results for fiscal 2008, we have raised our earnings forecasts by 2% to HK\$364m (EPS: HK\$0.636) for FY09 and to HK\$406m (EPS: HK\$0.711) for FY10. The stock trades at about 13.6x of 12-month forward P/E, compared to the average of 23x in the last five years. Using 17x forward P/E, we leave our target price intact at HK\$10.60. With an estimated yield of 9.3% next year, the stock remains an **Outperform**.

### Ratios of Ported Fixed-line & Mobile No.



Sources: MII, China Mobile (HK), China Unicom, BOCI Research

### Key Statistics

(m subscribers)	07	08E	09E	Dec07	Jan08	Feb	Mar	Apr	May
Fixed-line installed	3.7	3.8	3.8	3.72	3.72	3.73	3.74	3.74	3.74
Business	1.7	1.8	1.8	1.74	1.75	1.74	1.75	1.75	1.75
Residential	2.0	2.0	2.0	1.98	1.98	1.99	1.99	1.99	1.99
Ported fixed-line no (k)	182.0	150.7	142.8	15.4	14.0	11.4	11.6	12.6	13.7
Internet connections	2.7	2.8	2.8	2.68	2.68	2.69	2.70	2.70	2.72
Narrowband dialup	1.0	1.0	0.9	0.96	0.96	0.96	0.96	0.97	0.97
Residential broadband	1.7	1.8	1.9	1.72	1.72	1.73	1.74	1.74	1.75
Cellular users	9.6	10.5	11.3	9.63	9.64	9.69	9.79	9.91	9.95
Ported cellular nos (k)	1,387	1,519	1,512	127.1	118.3	110.2	132.4	136.2	131.0
IDD traffic (bn min.)	9.5	10.3	10.9	9.50	0.84	1.57	2.42	3.27	4.12
Outgoing	7.2	8.0	8.6	7.24	0.63	1.18	1.82	2.47	3.14
Incoming	2.3	2.3	2.3	2.26	0.21	0.39	0.59	0.80	0.98

Sources: MII, China Mobile (HK), China Unicom, BOCI Research

## TRANSPORT – Aviation

**HK listed – Marketperform**  
**A listed – Marketperform**

- Chinese airlines have suffered from weak demand for the past several months, and there was no change in July. The sector's revenue passenger-kilometres (RPK) edged down 0.2% YoY to Rmb22.763bn in July. However, the price of oil dropped dramatically from its record high level since July and this has injected some upward momentum to mainland carriers.

### Air China (0753.HK/HK\$3.90; 601111.SS/Rmb5.37) – Marketperform

Air China's EPS for 1H08 edged down 1.4% to Rmb0.105. During the period, its RPK rose just 1.9% YoY, while its passenger load factor (PLF) fell 0.76ppt YoY to 75.08%. Although operating revenue increased 13.3% YoY, cost of sales rose a faster 20.7% YoY, mostly due to a surge of 31.9% YoY in jet fuel cost. Due to the high price of oil and weak demand, Air China also cut its daily aircraft utilisation by 5.5% to save operating costs. Although its passenger yield rose 3.4% YoY to Rmb0.63/RPK and cargo yield went up 7.16% to Rmb2.01/RFTK (revenue freight tonne-kilometres), the operating margin of the core business still dropped 7.21% YoY. In July, Air China's RPK fell 8.4% YoY to 5,600.7m, while its PLF declined 8.1ppts YoY to 73.3%. We revise our 2008 EPS forecasts from Rmb0.248 to Rmb0.227 for the H shares and from Rmb0.275 to Rmb0.218 for the A shares, but increase our 2009E-10E EPS by 5-10% for both because we also adjusted our projections for jet fuel prices and cut our projection for the current year RPK growth from 10% YoY to 6.25% YoY. We lower our target price from Rmb8.64 to Rmb5.31 for Air China's A shares, based on a 2009E EV/EBITDA of 22x, and retain that for the H shares at HK\$3.72, which translates to a 2008E EV/EBITDA of 13.7x. We reaffirm our **Marketperform** ratings on both Air China's H and A shares.

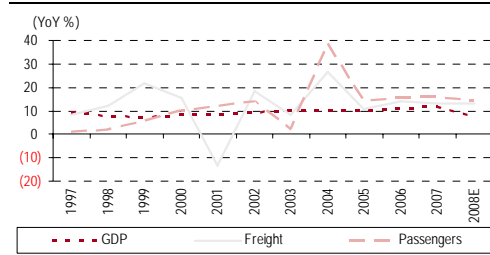
### China Southern Airlines (1055.HK/HK\$1.70; 600029.SS/Rmb3.49) – NR

CSA's RPK in June fell 4.2% YoY to 7,380.2m, while its PLF dropped 1.4ppts YoY to 75.1%.

### China Eastern Airlines (0670.HK/HK\$1.53; 600115.SS/Rmb4.20) – NR

CEA's RPK in May fell 13.1% YoY to 4,678.5m, while PLF declined 3.23ppts YoY to 73.0%.

#### Passengers, Freight & GDP YoY Growths



Sources: NBS, BOCI Research estimates

#### Key Statistics

	05	06	07	Feb	Mar	Apr	May	Jun	Jul
<b>RPK YoY %</b>									
Air China	13	15	14	10	1	0	(7)	(6)	(8)
CSA	67	12	15	13	6	6	1	(4)	(4)
CEA	32	38	12	5	2	0	(0)	(12)	(13)
<b>PLF YoY %</b>									
Air China	74	76	77	77	78	77	71	73	73
CSA	70	72	73	74	75	77	70	71	75
CEA	69	71	70	71	73	73	68	70	73

Sources: Bloomberg, Company data, BOCI Research estimates

## TRANSPORT – Land

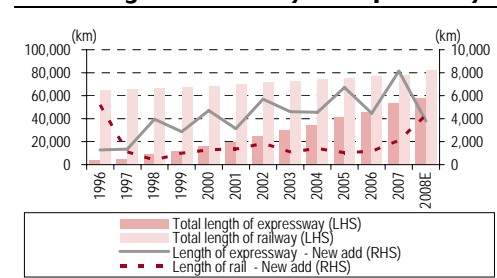
**HK listed – Outperform**  
**A listed – Outperform**

- According to the Ministry of Transport, total passenger volume of national highway transport in July 2008 rose 9.9% YoY to 1.82bn and turnover volume grew 10.9% YoY 103.47bn person-kilometres. At the same time, the total freight volume of national highway transport went up 15.4% YoY to 1.53bn tons and the freight turnover volume rose 17.9% YoY to 108.08bn ton-kilometres.

### Shandong Expressway (600350.SS/HK\$4.91) – Outperform

SDE's 1H08 net profit grew 24% YoY to Rmb681.4m (diluted EPS: Rmb0.203, up 24.5% YoY), while revenue came in up 18.4% YoY at Rmb1.69bn. The healthy earnings were mainly due to stable growth of toll revenue and an adjustment in the income tax rate from 33% to 25%. The growth was also attributed to rapid improvements in the petrol product and service business, revenue of which surged 32.6% YoY to Rmb254.96m. Gross margin came in at 64.2% for 1H08, down from 65.8% for 2007 as a result of an increase in maintenance expenses for Jinan-Qingdao Expressway and other costs. SDE acquired the North Dezhou section for Rmb2.46bn, on 8 August 2008. As the revenue has been attributed to SDE since 1 June 2008, we estimate that it will lift its 2008 EPS by 9%. SDE also proposed to acquire Henan Xuyu Road in its entirety. As we believe the traffic flow growth of Shandong Expressway (SDE) outperforms that of peers and due to the North Dezhou section, we raise our EPS forecasts from Rmb0.402 to Rmb0.446 for 2008, from Rmb0.501 to Rmb0.537 for 2009 and from Rmb0.555 to Rmb0.597 for 2010. However, in light of the current market situation, we cut our target price from Rmb8.03 to Rmb6.69, based on 15x 2008E EPS. We reaffirm our **Outperform** call on the stock.

#### Total Lengths of Railways & Expressways



Sources: MOC, CEIC

#### Key Statistics

	07	08E	09E	Feb08	Mar	Apr	May	Jun	Jul
<b>Railway</b>									
Passenger carried (person, bn)	1,357	1,548	1,718	129	119	119	117	115	138
Passenger turnover (person-km, bn)	722	809	897	74	70	65	60	60	74
Freight carried (tonne, bn)	3,142	3,371	3,641	257	286	276	283	275	281
Freight turnover (tonne-km, bn)	2,379	2,445	2,592	183	219	213	218	211	216
FAI (Rmb bn)	236	331	480	n/a	16	23	14	17	24
<b>Road</b>									
Passenger carried (person, in bn)	21	21	22	2	2	2	2	2	2
Passenger turnover (person-km, in bn)	1,151	1,174	1,264	107	104	100	104	102	103
Freight carried (tonne, bn)	16	17	19	1	1	1	2	2	2
Freight turnover (tonne-km, bn)	1,136	1,187	1,317	90	102	105	109	113	108
FAI (Rmb bn)	690	794	913	n/a	39	45	56	81	77

Sources: CEIC, MOC, BOCI Research estimates

**TRANSPORT – Marine**

**HK listed – Marketperform ↓  
A shares – Marketperform ↓**

- The Baltic Dry Index (BDI) dropped again, falling 18.4% MoM from 8,341 points as at end-July to 6,809 points as at end-August. The year-to-date average closing of the index stood at 8,476.2.
- The rate for very large crude carriers (VLCC) closed at WS80 in August, down 31.9% MoM from WS117.5 in July. The year-to-date average closing was WS110.0.

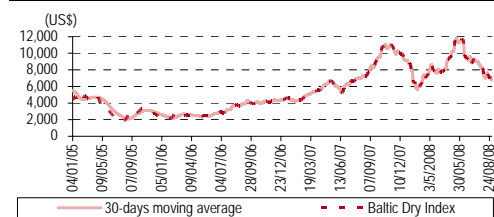
**COSCO Pacific Ltd (1199.HK/HK\$10.76) – Outperform**

CP's 1H08 net profit edged up 3.1% YoY to US\$153.2m, while turnover increased 10% YoY to US\$162.1m. Since CP's 1H07 net profit included a financial gain of US\$10.6m from the put options for China International Marine Containers (CIMC), its 1H08 net profit in fact grew 11.1% YoY on a pre-exceptional basis. We lower our earnings forecast for CP by 16.5% to US\$296.1m for 2008 and by 20.1% to US\$332.4m for 2009, after revising our assumptions for box purchases for its leasing division and throughput growths for its port operations during the years. We cut both box purchases assumptions from 250,200TEU to 200,900TEU for 2008 and from 237,800TEU to 190,900TEU for 2009. We cut our container throughput growth assumptions by 7.6% to 47.6m TEU for 2008 and 9.8% to 54.7m TEU for 2009. We lower our target price to HK\$18.20 from HK\$25.50. We reaffirm our **Outperform** rating on CP from a valuation viewpoint, as its 2009E P/E of 9.8x is much lower than its peers' average.

**China Merchants Holdings (International) (0144.HK/HK\$27.45) – Underperform**

CMHI's 1H08 net profit grew 32.8% YoY to HK\$2.0bn (including a HK\$87m gain from property revaluation), while turnover rose only 17.5% YoY to HK\$3.4bn. CMHI also received a boost from the exceptional income of Rmb358.6m booked by 26.5%-owned Shanghai International Port Group (SIPG) in 1H08. We lower our 2008 earnings forecast for CMHI by 0.6% to HK\$4.1bn, based on our new container throughput assumption of 53.3m TEU (0.6% lower than our previous assumption, representing YoY growth of 13.1%). We downgrade our rating on CMHI to **Underperform** from *Marketperform*, as it is overvalued since its current valuation of 2009E P/E of 16.1x is much higher than the average of its peers. We cut our target price from HK\$38.30 to HK\$27.70.

**Baltic Dry Index (BDI) Trend**



Sources: Bloomberg

**Key Statistics**

% YoY	06	07	08E	Feb08	Mar	Apr	May	Jun	Jul
Shenzhen	14	10	15	(9)	43	5	12	(0)	11
Shanghai	20	25	15	3	18	9	8	9	4
Dalian	21	20	27	7	43	14	26	19	28
Tianjin	24	28	20	23	23	23	23	19	18
Qingdao	22	24	20	19	7	5	6	6	7
Xiamen	20	18	10	(1)	11	10	19	9	14
Ningbo	36	30	25	14	22	15	11	16	23
Guangzhou	41	40	35	22	41	28	34	44	22

Sources: MOC, BOCI Research estimates

**UTILITIES (China)**

**HK listed – Outperform  
A shares – Marketperform**

- The NDRC surprised the market with a second on-grid tariff hike this year of Rmb20/MWh effective 20 August 2008. Independent power producer (IPPs) raised their respective prices by Rmb10~25/MWh. The move during the Olympics reflects Beijing's awareness of the grave operating environment for power companies. The 11% rise in two on-grid tariff hikes so far this year only offset around Rmb104/ton increase in the price of standard coal and hardly eased the sector's pain. The dropping fulfilment rate and coal quality reflects the wide gap between contract and spot coal prices. This means there may be upside for 2009 contract negotiations. We expect another tariff hike in 4Q08. The current year is worst period for the sector and we see a recovery in 2009.

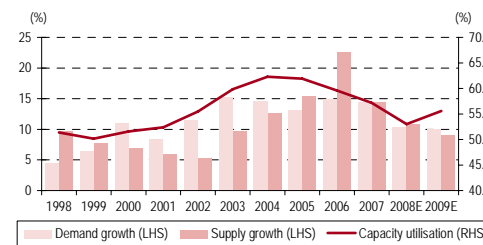
**Datang Power (0991.HK/HK\$4.91; 601991.SS/Rmb7.10) – Outperform**

Datang's net profit for 1H08 tumbled 77.5% to Rmb406m due to mounting fuel costs. Its EBITDA margin shrank to 28% from 41%. We believe Datang's performance in 2H08 will be better due to the two tariff hikes, moderating coal-cost increase and further revenue expansion. We remain bullish on the company's recovery from 2009 and beyond. We project that its installed capacity will rise at a CAGR in excess of 20% during 2008-11 to fuel its top-line growth. As its upstream coal-mining operation kicks in, Datang will rely less on external coal supply. The risks for the company are its higher gearing, a larger-than expected surge in the price of coal and execution on its non-power business. We reaffirm our **Outperform** call on the H shares and retain our target price of HK\$5.74.

**GD Power (600795.SS/Rmb5.27) – Marketperform**

GD Power's net profit for 1H08 slid 44.36% YoY to Rmb328.52m, due the soaring price of coal and stagnant tariffs. Its net margin remained at 3.9%, but slipped 3.9ppts in contrast to peers' big area losses, after its average standard coal price increased 33.1% YoY, on par to the average fuel cost increase of its peers. GP Power came out moderately better than its peers thanks to the stable profitability of its hydropower and efforts to reduce other expenses, such as maintenance and operating costs. Among major national coal-fired IPPs, GD Power boasts of the most ambitious hydropower expansion plan. Because of the poor outlook for the industry, albeit a slowly improving one, we downgrade our rating for GD Power to **Marketperform** and cut our target price to Rmb5.50.

**Electricity Supply Demand & Utilisation**



Sources: The Electric Power Industry of China, BOCI Research estimates

**Key Statistics**

	Datang	Huaneng	Huadian	CRP	CPI
1H08	(Rmb m)	(Rmb m)	(Rmb m)	(HK\$ m)	(HK\$ m)
Net profit/loss	406	(544)	(506)	1,006	(250)
YoY (%)	(78)	(119)	(193)	(29)	(457)
Domestic revenue chge (%)	14	17	60	83	46
EBITDA margin (%)	27	14	14	24	9
Net margin (%)	2	(2)	(4)	8	(6)
Unit fuel cost (Rmb/MWh)	169	227	225	209	193
Coal consumption (g/KWh)	333	325	337	339	337

Sources: Company data, BOCI Research estimates

UTILITIES (Hong Kong)

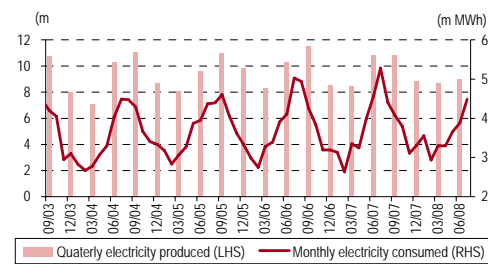
HK listed – Underperform

■ Hong Kong SAR Government and Chinese authorities signed a MoU to continue nuclear power and natural gas supply. Furthermore, it calls for expanded gas supply through the No 2 west-to-east pipeline of PetroChina and the building of jointly a liquefied natural gas (LNG) terminal. The market fears that the prospects of CLP's LNG project on Soko Island have now become slim and share price took a dive in the two days after the news. The LNG project is meant to boost CLP's asset size by 13% and bring more Scheme of Control (SoC) returns. Although concerns over supply have now been alleviated, it is highly likely the CLP's tariffs will see a double-digit cut in the coming financial review.

CLP Holdings (0002.HK/HK\$65.20) – Underperform

CLP's earnings for 1H08 fell 8.5% YoY to HK\$5,610m and would have been lower were it not for a gain of HK\$1bn on the Ho-Ping injection last year. The company's Hong Kong operation points to its resilience amid a 40% increase in coal cost since January 2008. Overseas earnings fell 32% YoY, despite the fuel pass-through mechanisms in most markets, mainly due to a mark-to-market loss on Australia electricity forwards and impact of rising coal on the Taiwan and China operations. We reduce our target price for CLP from HK\$58.00 to HK\$66.42, based on sum-of-parts valuation. Although we appreciate CLP's expansion as the competitive environment eased after the macro slowdown and credit crunch, we suspect there has limited power due to a worsening credit profile. We expect CLP to post between a net profit decline of 7% and an increase of 2% during 2008-10. The overall reported earnings may not reflect meaningful benefits until 2010 due to the SOC cut and 2-3 years lead period for the commissioning of various projects. Management has reiterated its intention to maintain the absolute level of dividend. We still think CLP is a defensive play amid a reduced risk appetite for the equities market as a whole.

Electricity Supply Demand & Utilisation



Sources: Company data, BOCI Research estimates

CLP Holdings – Investment Summary

Year ended 31 Dec	2006	2007	2008E	2009E	2010E
Revenue	45,702	50,789	51,293	50,997	53,350
Change (%)	18.7	11.1	1.0	(0.6)	4.6
Net profit (HK\$m)	9,900	10,608	10,171	9,486	9,691
Fully diluted EPS (HK\$)	4.11	4.40	4.22	3.94	4.02
Change (%)	(13.3)	7.1	(4.1)	(6.7)	2.2
P/E (x)	16.3	15.2	15.8	17.0	16.6
CFPS (HK\$)	5.84	5.13	4.41	5.44	5.65
P/CF (x)	11.5	13.0	15.1	12.3	11.8
EV/EBITDA (x)	12.8	11.4	12.0	13.1	12.9
DPS (HK\$)	2.41	2.48	2.38	2.44	2.50
Yield (%)	3.6	3.7	3.6	3.7	3.7

Sources: Company data, BOCI Research estimates

BOCI Stock Universe

China – HK

RIC Company	Y/E	Price (05/09/08)	1M chg (%)	3M avg chg (%)	Free float T/O	EPS (HK\$)	EPS (HK\$)	P/E (x)	P/E (x)	EPS gr. (%)	EPS gr. (%)	Yield (%)	Yield (%)	Analyst	Rec	Target price (HK\$)	
<b>Automotive</b>																	
2357 AvicChina (H)	Dec	1.22	(21)	(40)	12	2,040	(0.10)	(0.09)	-	-	59	11	0.0	0.0	Wang Yusheng	MP	1.28
1114 Brilliance Auto (R)	Dec	0.79	(7)	(55)	8	1,768	(0.02)	0.02	(34.6)	34.6	-	(200)	0.0	0.0	Eric Hu	U	1.32
0203 Denway Motors (R)	Dec	2.42	(12)	(52)	50	11,280	0.38	0.41	6.4	5.9	14	9	6.6	7.1	Eric Hu	OP	3.30
0489 Dongfeng Motor Group (H)	Dec	3.22	(2)	(41)	56	9,155	0.55	0.58	5.9	5.5	9	6	1.8	1.8	Eric Hu	OP	4.65
0300 Kunning Machine (H/A)	Dec	5.17	(18)	(53)	2	582	0.82	1.19	6.3	4.4	26	44	4.6	6.8	SHI Qi	OP	6.30
0425 Minth Group (P)	Dec	4.50	(11)	(61)	6	2,405	0.61	0.85	7.4	5.3	33	39	1.3	2.2	Eric Hu	OP	15.30
1122 Qingling Motors (H)	Dec	1.18	(8)	(22)	1	879	0.08	0.09	14.8	12.9	17	14	2.9	3.9	Eric Hu	OP	1.90
2338 Weichai Power (H/A)	Dec	33.85	(10)	(41)	31	4,233	5.46	6.41	6.2	5.3	10	18	1.8	2.2	Eric Hu	OP	57.50
Average			(11)	(46)	21	32,342	0.97	1.18	1.8	10.6	24	(7)	2.4	3.0			
<b>Chemicals</b>																	
0549 Jilin Qifeng (H)	Dec	0.29	(9)	(51)	0	75	0.14	0.24	2.1	1.2	53	72	27.5	27.5	Ni Xiaoman	U	0.95
0338 Shanghai Petrochem (H/A)	Dec	2.15	(15)	(55)	59	4,954	(0.42)	0.10	(5.1)	20.9	(263)	(124)	0.0	0.0	Lawrence Lau	U	2.74
0297 Sinofer HK Hldg (R)	Dec	4.35	(14)	(40)	110	9,446	0.35	0.47	12.4	9.3	64	33	0.7	0.7	Ni Xiaoman	OP	8.12
1033 Yizheng Chemical (H/A)	Dec	0.88	(17)	(67)	15	1,232	0.01	0.02	85.7	51.4	(50)	(67)	0.0	0.0	Lawrence Lau	U	1.37
Average			(14)	(53)	46	15,707	0.02	0.21	23.8	20.7	(83)	(53)	0.2	0.2			
<b>Conglomerates</b>																	
0291 China Resources (R)	Dec	19.40	(1)	(42)	99	21,683	0.92	1.16	21.1	16.7	6	26	3.1	2.6	Ashley Cheung	U	17.30
Average			(1)	(42)	99	21,683	0.92	1.16	21.1	16.7	6	26	3.1	2.6			
<b>Consumer Products</b>																	
2020 Anta Sports Products (P)	Dec	5.50	(6)	(49)	33	3,835	0.38	0.55	14.6	10.0	32	45	3.3	5.0	-	OP	10.33
3818 China Dongxiang (P)	Dec	2.98	4	(49)	24	7,613	0.18	0.24	16.3	12.4	0	31	2.3	3.1	-	OP	5.61
0506 China Foods (R)	Dec	2.95	(15)	(49)	7	2,100	0.16	0.23	18.0	13.1	27	38	1.9	2.5	Jenny Chan	OP	4.90
0359 China Hailsheng Juice (P)	Dec	0.96	(21)	(51)	1	385	0.35	0.36	2.8	2.6	131	5	5.9	7.1	Jenny Chan	OP	2.50
0904 China Green	April	6.67	(14)	(20)	15	2,612	0.55	0.72	12.2	9.3	19	32	2.6	2.7	Jenny Chan	OP	12.15
3398 China Ting (P)	Dec	1.10	(10)	(44)	1	672	0.23	0.27	4.8	4.1	5	17	13.6	15.5	Frank He	OP	2.08
0828 Dynasty Fine Wines (R)	Dec	1.16	(14)	(63)	1	404	0.14	0.17	8.3	7.0	16	18	6.9	7.9	-	U	2.80
1169 Haier Electronics (P)	Dec	0.85	(33)	(49)	1	429	0.16	0.20	5.3	4.2	19	28	4.9	6.2	Frank He	NR	-
1044 Hengan International	Dec	26.25	(13)	(25)	57	12,231	1.09	1.43	24.1	18.4	24	31	2.7	3.7	Sarah Xing	OP	28.86
0124 Kingway Brewery (R)	Dec	0.88	(16)	(60)	1	1,077	0.00	0.00	-	0.0	0	0	0.0	0.0	-	U	0.96
2319 Mengniu Dairy (P)	Dec	22.45	2	(22)	156	21,449	0.95	1.21	23.7	18.6	26	28	0.8	1.0	Zhao Zongjun	OP	29.40
2331 Li Ning (P)	Dec	17.86	(0)	(39)	86	12,813	0.78	0.96	23.0	18.6	51	24	2.2	2.7	-	U	18.14
157 Natural Beauty (P)	Dec	1.64	9	(34)	1	1,138	0.11	0.13	14.9	12.2	24	22	5.4	6.5	Sarah Xing	OP	2.33
1070 TCL Multimedia (R)	Dec	0.21	(24)	(60)	2	420	0.06	0.07	3.5	3.0	(100)	(17)	0.0	0.0	-	OP	0.91
0322 Tingyi (P)	Dec	9.00	(4)	(29)	34	11,406	0.00	0.00	-	0.0	0	0	2.4	0.0	-	U	1.05
0168 Tsingtao Brewery (H/A)	Dec	16.40	1	(37)	32	10,741	0.65	0.84	25.2	19.4	39	30	1.5	2.4	Zhao Zongjun	MP	16.00
3331 Vinda International	Dec	2.42	5	(43)	3	1,269	0.12	0.19	20.2	12.7	33	58	1.2	2.1	Sarah Xing	OP	2.90
2698 Weiqiao Textile (H)	Dec	6.06	2	(46)	10	2,532	1.71	1.84	3.5	3.3	(4)	7	8.5	9.0	Frank He	U	8.20
2088 Xiwang Sugar (P)	Dec	2.21	(15)	(34)	1	763	0.62	0.73	3.6	3.0	25	17	8.5	9.9	Jenny Chan	OP	4.20
8259 Yantai North Andre Juice (H)	Dec	0.55	(15)	(29)	3	581	0.09	0.12	6.3	4.5	48	40	4.8	6.6	Jenny Chan	OP	1.05
Average			(8)	(42)	23	94,468	0.42	0.51	12.8	8.8	21	23	4.0	4.7			
<b>Consumer Services</b>																	
1880 Belle International (P)	Dec	7.55	(3)	(36)	93	32,183	0.32	0.40	23.7	19.1	26	24	1.5	1.5	Ashley Cheung	MP	8.10
3308 Golden Eagle	Dec	7.37	10	(9)	13	3,618	0.31	0.40	23.9	18.4	69	30	1.5	1.8	Liu Du	OP	9.10
0493 Gome Electrical (P)	Dec	3.05	(1)	(38)	94	5,545	0.21	0.27	14.6	11.2	26	30	2.2	3.0	Ashley Cheung	OP	4.50
2006 Jin Jiang Hotel (H)	Dec	1.27	(23)	(60)	5	2,076	0.10	0.13	12.6	10.0	49	26	3.5	4.3	-	OP	5.15
0980 Lianhua Supermarket (H)	Dec	12.32	15	17	9	3,433	0.66	0.77	18.6	15.9	34	17	1.9	2.8	Ashley Cheung	OP	13.20
1832 Times (P)	Dec	2.32	(25)	(38)	0	507	0.20	0.27	11.4	8.7	46	31	4.9	4.9	Ashley Cheung	OP	4.10
8277 Wumart Stores (H)	Dec	7.51	1	13	8	5,058	0.37	0.45	20.4	16.5	31	23	3.0	3.0	Ashley Cheung	OP	9.15
3389 Xinyu Hengdell (P)	Dec	2.15	(31)	(51)	8	1,630	0.23	0.31	9.4	7.0	25	35	4.2	5.3	Sarah Xing	OP	4.65
Average			(7)	(21)	23	3,324	0.31	0.38	15.5	12.5	37	25	3.1	3.6			
<b>Energy</b>																	
0606 China Agri-Industries (R)	Dec	4.49	(19)	(14)	648	6,831	0.44	0.49	10.1	9.1	38	11	2.0	2.2	Lawrence Lau	OP	6.26
1898 China Coal (H/A)	Dec	11.52	9	(53)	649	47,351	0.94	1.33	12.2	8.7	61	41	1.6	2.3	Lawrence Lau	OP	18.79
2883 China Oilfield Services (H/A)	Dec	8.74	(18)	(51)	117	13,397	1.00	1.31	8.8	6.7	61	32	2.2	2.4	Lawrence Lau	OP	16.55
0883 CNOOC (R)	Dec	10.44	(3)	(21)	1,604	134,132	1.37	1.46	7.6	7.2	68	6	4.5	4.8	Lawrence Lau	OP	14.53
0639 Fushan Energy	Dec	3.47	(32)	(31)	36	5,237	0.17	0.85	20.2	4.1	(606)	397	0.0	10.1	Lawrence Lau	OP	8.71
0857 PetroChina (H/A)	Dec	9.33	(8)	(33)	1,567	196,854	0.87	1.02	10.8	9.1	(6)	18	4.2	4.9	Lawrence Lau	MP	11.00
1088 Shenhua Energy (H/A)	Dec	24.60	(3)	(47)	748	83,669	1.71	2.10	14.4	11.7	35	23	2.4	3.0	Lawrence Lau	OP	34.08
0386 Sinopec (H/A)	Dec	8.18	(12)	(40)	1,438	137,260	0.46	0.73	17.9	11.2	(39)	61	1.4	2.3	Lawrence Lau	MP	7.90
1171 Yanzhou Coal (H/A)	Dec	11.72	(9)	(24)	417	22,940	2.01	2.57	5.8	4.6	168	28	4.3	5.5	Lawrence Lau	OP	24.00
Average			(13)	(35)	803	647,670	1.00	1.32	12.0	8.0	(25)	68	2.5	4.2			

China – HK

RIC Company	Price Y/E (05/09/08)	1M. chg (\$)	3M avg. chg daily T/O (%)	Freefloat mkt. cap. (HK\$)	EPS 08E (HK\$)	EPS 09E (HK\$)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (HK\$)	
<b>Financials</b>																
3988 Bank of China (HUA)	Dec	3.30	(6) (13)	890	251,301	0.37	0.40	9.0	8.3	45	9	4.8	5.2	Yuan Lin	OP	4.00
3328 Bank of Communications (HUA)	Dec	8.47	(12) (22)	619	116,194	0.73	0.81	11.6	10.5	52	11	3.1	3.4	Yuan Lin	OP	11.40
0998 China Citic Bank (HUA)	Dec	4.11	(16) (16)	209	17,344	0.48	0.53	8.6	7.8	83	10	4.7	5.0	Yuan Lin	MP	5.00
0939 China Construction Bank (HUA)	Dec	6.00	(11) (9)	1,823	154,235	0.53	0.54	11.4	11.2	53	2	4.0	4.0	Yuan Lin	MP	6.36
0165 China Everbright (R)	Dec	12.46	(13) (50)	116	8,811	0.97	0.71	12.8	17.5	(69)	(27)	1.1	0.9	K.W. Wong	MP	13.40
0966 China Insurance (R)	Dec	16.26	(6) (24)	40	9,061	0.69	0.91	23.6	17.9	(37)	32	0.4	0.5	K.W. Wong	MP	16.40
2628 China Life (HUA)	Dec	28.30	(3) (30)	2,260	207,974	0.88	1.06	32.2	26.7	(44)	21	1.0	1.5	Yuan Lin	MP	31.20
3968 China Merchant Bank (HUA)	Dec	23.40	(14) (27)	890	62,282	2.02	2.07	11.6	11.3	70	2	2.0	2.0	Yuan Lin	MP	24.20
0133 CM China Direct Investments	Dec	18.50	(8) (48)	9	1,600	-	-	-	-	-	-	-	-	K.W. Wong	NR	-
1398 ICBC (HUA)	Dec	5.09	(11) (9)	1,823	425,039	0.47	0.51	10.9	9.9	71	10	4.9	5.4	Yuan Lin	OP	6.20
2328 PICC (H)	Dec	4.10	(13) (63)	99	14,161	0.50	0.58	8.2	7.1	19	16	8.8	10.2	Yuan Lin	OP	12.60
2318 Ping An (HUA)	Dec	53.30	3 (36)	847	136,395	1.77	2.02	30.1	26.4	(40)	14	0.7	0.8	Yuan Lin	MP	54.60
<b>Average</b>			<b>(9) (29)</b>	<b>802</b>	<b>1,404,396</b>	<b>0.85</b>	<b>0.92</b>	<b>15.5</b>	<b>14.0</b>	<b>16</b>	<b>9</b>	<b>3.1</b>	<b>3.4</b>			
<b>Industrials</b>																
0914 Anhui Conch (HUA)	Dec	34.65	(20) (49)	274	33,044	2.40	2.99	14.5	11.6	24	25	1.4	1.7	Grace Tang	MP	36.90
1800 China Com. Construction (H)	Dec	10.26	(26) (50)	590	41,068	0.70	0.98	14.7	10.5	49	41	1.4	2.1	Jimmy Lam	OP	26.00
0390 China Railway (HUA)	Dec	5.34	(13) (50)	167	19,564	0.25	0.35	21.8	15.1	89	44	1.1	1.7	Patrick Li	OP	7.80
1186 China Railway Construction (HUA)	Dec	10.30	(15) n.a.	150	18,046	0.38	0.56	27.4	18.4	14	49	0.9	1.3	Patrick Li	OP	13.41
3323 China National Bldg Material (H)	Dec	10.46	(25) (65)	132	9,469	0.80	1.23	13.1	8.5	63	54	1.7	2.6	Grace Tang	OP	15.50
3339 CIMH (P)	Dec	6.90	19 (44)	21	3,456	0.79	1.04	8.8	6.6	17	32	4.5	5.8	Eric Hu	OP	9.90
3898 CSR Times Electric (H)	Dec	6.00	(12) (48)	14	2,738	0.43	0.55	13.8	11.0	19	26	3.2	4.2	SHI Qi	OP	8.50
1072 Dongfang Elec. Machinery (HUA)	Dec	22.20	(12) (66)	32	3,776	3.63	0.00	6.1	0.0	4	0	6.2	0.0	-	OP	40.00
0317 Guangzhou Shipyard Int'l (HUA)	Dec	11.92	(29) (73)	21	1,878	2.98	3.47	4.0	3.4	49	16	5.1	9.6	-	OP	55.70
0350 Jingwei Textile (HUA)	Dec	1.08	(26) (69)	1	195	0.48	0.62	2.3	1.8	27	29	141.6	182.8	-	OP	12.30
2689 Nine Dragons Paper (P)	Jun	4.25	(25) (78)	48	5,451	0.72	1.06	5.9	4.0	31	48	3.5	5.1	-	OP	14.93
1893 Sinoma	Dec	4.70	(26) (51)	30	5,505	0.24	0.35	19.7	13.4	7	47	1.5	2.2	Lawrence Lau	OP	6.21
2002 Sunshine Paper	Dec	2.75	3 (60)	0	651	0.53	0.75	5.2	3.7	39	43	2.9	4.2	-	OP	8.50
3393 Wason Meter (P)	Dec	2.11	(29) (55)	2	759	0.34	0.43	6.2	4.9	30	27	6.5	8.1	SHI Qi	OP	6.30
0505 Xingye Copper (P)	Dec	1.06	(17) (74)	1	183	0.30	0.35	3.6	3.0	8	19	7.5	8.6	Sarah Xing	OP	2.71
<b>Average</b>			<b>(17) (59)</b>	<b>132</b>	<b>12,608</b>	<b>1.23</b>	<b>1.17</b>	<b>12.0</b>	<b>8.3</b>	<b>35</b>	<b>33</b>	<b>15.5</b>	<b>19.7</b>			
<b>Media</b>																
1000 Beijing Media Corp (H)	Dec	3.30	(13) (34)	0	237	0.26	0.27	12.5	12.3	2,800	2	6.9	6.9	Allan Ng	U	9.00
8002 Phoenix TV (P)	Dec	0.99	(10) (41)	2	806	0.06	0.06	17.4	17.1	8	2	1.9	2.0	Allan Ng	OP	1.45
0205 SEEC Media (P)	Dec	0.37	(13) (26)	0	319	0.00	0.00	-	0.0	0	0	0.0	0.0	Allan Ng	NR	-
0811 Xinhua Winshare (H)	Dec	2.50	9 (52)	6	1,022	0.41	0.42	6.1	5.9	(3)	2	4.1	4.6	Allan Ng	OP	8.10
<b>Average</b>			<b>(7) (38)</b>	<b>2</b>	<b>596</b>	<b>0.18</b>	<b>0.19</b>	<b>14.9</b>	<b>9.8</b>	<b>936</b>	<b>1</b>	<b>2.9</b>	<b>3.0</b>			
<b>Metals &amp; Mining</b>																
0347 Angang New Steel (HUA)	Dec	8.56	(34) (60)	249	7,618	1.49	1.91	5.8	4.5	16	29	8.7	11.2	Belle Chan	OP	21.00
2600 CHALCO (HUA)	Dec	6.19	(9) (62)	449	25,115	0.46	0.57	13.6	10.8	(47)	25	1.4	1.7	Belle Chan	U	4.50
3993 China Molybdenum (H)	Dec	4.77	(18) (67)	94	5,280	0.71	0.90	6.7	5.3	35	27	5.0	6.2	Belle Chan	OP	10.40
1053 Chongqing Iron & Steel (HUA)	Dec	2.00	(32) (49)	6	1,101	0.48	0.53	4.2	3.8	56	10	8.6	9.1	Belle Chan	OP	5.90
2626 Hunan Non-ferrous Metals (H)	Dec	1.140	(35) (77)	14	1,560	0.06	0.07	20.0	16.6	(44)	20	2.0	2.0	Belle Chan	U	0.90
0358 Jiangxi Copper (HUA)	Dec	10.40	(18) (46)	210	12,576	1.88	1.61	5.5	6.5	18	(15)	5.4	4.6	Belle Chan	OP	23.00
3330 Lingbao Gold (H)	Dec	2.09	(16) (57)	2	579	0.57	0.76	3.7	2.7	72	34	9.3	13.1	Belle Chan	OP	7.80
0323 Maanshan Iron (HUA)	Dec	3.01	(29) (42)	105	5,246	0.57	0.59	5.3	5.1	43	4	6.8	6.8	Belle Chan	OP	5.90
1862 Sino Gold (P)	Dec	21.35	(36) (55)	9	4,761	0.63	2.47	33.7	8.6	-	290	0.0	0.0	Belle Chan	OP	55.00
3833 Xinjing Xinxin Mining (H)	Dec	2.30	(33) (74)	10	1,586	0.26	0.35	8.8	6.5	(38)	35	3.0	4.0	Belle Chan	MP	2.65
2899 Zijin Mining (H)	Dec	4.35	(19) (64)	188	17,149	0.28	0.35	15.5	12.4	47	25	3.4	4.6	Belle Chan	OP	8.06
<b>Average</b>			<b>(25) (59)</b>	<b>121</b>	<b>82,571</b>	<b>0.67</b>	<b>0.92</b>	<b>11.1</b>	<b>7.5</b>	<b>16</b>	<b>44</b>	<b>4.9</b>	<b>5.8</b>			
<b>Pharmaceuticals</b>																
0874 Guangzhou Pharm. (HUA)	Dec	3.03	(34) (59)	4	666	0.60	0.57	5.0	5.3	61	(6)	4.9	6.0	-	OP	11.10
8069 Tong Ren Tang Tech. (H)	Dec	8.30	(13) (43)	1	683	1.27	1.52	6.6	5.5	16	20	6.1	7.3	-	OP	23.00
<b>Average</b>			<b>(23) (51)</b>	<b>2</b>	<b>1,349</b>	<b>0.94</b>	<b>1.04</b>	<b>5.8</b>	<b>5.4</b>	<b>38</b>	<b>7</b>	<b>5.5</b>	<b>6.7</b>			

China – HK

RIC Company	Price Y/E (05/09/08)	1M. chg (\$)	3M avg. chg daily T/O (%)	Freefloat mkt. cap. (HK\$)	EPS 08E (HK\$)	EPS 09E (HK\$)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (HK\$)	
<b>Property</b>																
3383 Agile Property (P)	Dec	4.75	(27) (67)	173	7,402	1.62	1.24	2.9	3.8	154	(24)	10.3	7.9	-	OP	12.24
2868 Beijing Capital Land (H)	Dec	1.33	(23) (72)	6	1,279	0.26	0.25	5.1	5.4	(12)	(5)	8.3	7.5	-	U	1.71
0588 Beijing North Star (HUA)	Dec	1.63	(23) (66)	4	858	0.30	0.00	5.5	0.0	20	0	4.6	0.0	-	U	1.90
0688 China Overseas (R)	Dec	11.30	(12) (30)	497	42,528	0.93	1.12	12.2	10.1	42	21	1.5	1.9	Manfred Ho	OP	13.50
1109 China Resources Land (R)	Dec	8.49	(9) (51)	218	13,011	0.51	0.95	16.6	9.0	31	85	1.4	2.1	Manfred Ho	OP	13.62
2007 Country Garden (P)	Dec	2.99	(34) (67)	66	8,316	0.34	0.41	8.7	7.3	11	20	3.4	3.8	-	OP	4.80
3900 Greentown China (H)	Dec	5.56	(14) (54)	12	3,131	1.01	1.23	5.5	4.5	45	21	5.7	7.0	-	U	7.20
0563 Neo-China Group (P)	Apr	5.09	0 (26)	0	17,005	0.73	0.74	7.0	6.9	43	1	3.1	4.4	-	OP	13.20
1207 Shanghai Real Estate (P)	Dec	0.70	(18) (65)	5	508	0.34	-	2.1	0.0	28	0	13.9	0.0	-	MP	1.96
0604 Shenzhen Investment (R)	Dec	1.75	(31) (69)	29	2,591	0.53	0.79	3.3	2.2	(16)	50	9.1	13.7	-	OP	4.50
0272 Shui On Land (P)	Dec	5.60	(12) (38)	204	10,546	0.67	0.54	8.3	10.4	0	(20)	3.3	3.3	-	OP	7.20
3377 Sino-ocean Land (R)	Dec	3.21	(35) N/A	204	4,828	0.46	0.70	6.9	4.6	5	51	5.7	8.5	-	OP	6.50
<b>Average</b>			<b>(20) (55)</b>	<b>118</b>	<b>99,774</b>	<b>0.64</b>	<b>0.72</b>	<b>7.4</b>	<b>5.6</b>	<b>19</b>	<b>17</b>	<b>5.4</b>	<b>4.4</b>			
<b>Technology</b>																
3355 ASMC (H)	Dec	0.20	(12) (48)	0	9E	0.08	0.11	2.5	1.8	15	34	0.0	0.0	-	OP	1.10
1211 BYD (H)	Dec	9.16	12 (33)	26	1,385	3.55	3.87	2.6	2.4	8	9	7.7	8.5	-	OP	42.90
0861 Digital China (R)	Mar	3.16	(37) (44)	3	1,322	0.42	0.57	7.6	5.6	75	36	4.7	6.3	Ashley Cheung	OP	6.80
0992 Lenovo Group (R)	Mar	4.70	(13) (33)	166	22,989	0.40	0.41	11.8	11.6	183	2	3.5	3.7	Frank He	OP	6.50
0981 SMIC (P)	Dec	0.36	(14) (57)	16	5,594											

HK - HK

RIC Company	Y/E	Price (05/09/08) (HK\$)	1M chg. (%)	YTD 3M avg. chg. daily T/O (HK\$ m)	Free float (HK\$ m)	EPS 08E (HK\$)	EPS 09E (HK\$)	P/E (x)	P/E 09E (x)	EPS gr. (%)	EPS gr. 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (HK\$)	
<b>Consumer Products</b>																
1388 Embry Form	Jun	2.18	10 (65)	1	219	0.31	0.39	7.0	5.6	0	26	5.5	6.9	-	OP	6.15
0330 Esprit	Jun	59.85	(25) (48)	414	63,184	5.20	5.60	11.5	10.7	24	8	7.0	7.0	-	U	61.60
0420 Fountain Set	Aug	0.78	4 (61)	1	396	0.35	0.42	2.2	1.9	25	20	23.1	26.9	-	U	2.50
0709 Giordano	Dec	3.07	(1) (18)	9	4,489	0.22	0.25	13.9	12.3	12	13	7.2	7.2	Ashley Cheung	OP	3.80
0393 Glorious Sun	Dec	3.60	(1) (24)	1	1,716	0.29	0.32	12.4	11.3	21	10	8.1	8.9	Frank He	MP	4.28
0494 Li & Fung	Dec	22.55	(7) (28)	275	47,605	1.07	1.24	21.1	18.2	23	16	3.8	4.4	-	MP	26.00
0590 Luk Fook Holdings	Mar	3.58	(9) (51)	4	934	0.49	0.57	7.3	6.3	29	16	7.0	8.1	-	OP	8.59
1382 Pacific Textiles	Mar	1.03	(20) (51)	1	768	0.39	0.43	2.6	2.4	0	10	67.0	12.6	Frank He	OP	4.20
589 Ports Design	Dec	18.76	(8) (31)	33	6,420	0.97	1.22	19.3	15.4	18	26	3.0	3.7	Sarah King	OP	25.00
0210 Prime Success	Dec	4.10	(1) (29)	6	3,539	0.34	0.42	12.1	9.8	28	24	2.8	2.8	Ashley Cheung	OP	5.80
0178 Sa Sa	Mar	2.94	(15) (8)	7	1,252	0.20	0.27	14.7	10.9	33	35	7.1	9.2	-	OP	3.98
0321 Texwinca	Mar	6.72	(8) (4)	20	3,745	0.57	0.72	11.8	9.3	21	26	5.4	6.4	Frank He	OP	7.50
0333 Top Form	Mar	0.58	7 (35)	1	412	0.07	0.11	8.3	5.3	(42)	57	6.9	8.6	-	OP	1.23
<b>Average</b>			<b>(6) (35)</b>	<b>60</b>	<b>134,679</b>	<b>0.81</b>	<b>0.92</b>	<b>11.1</b>	<b>9.2</b>	<b>15</b>	<b>22</b>	<b>12.4</b>	<b>8.8</b>			
<b>Consumer Services</b>																
0341 Cafe de Coral	Mar	15.36	5 (20)	7	4,269	0.77	0.94	19.9	16.3	13	22	3.3	4.3	-	OP	18.75
1212 Lifestyle	Dec	9.56	(13) (54)	32	5,201	0.74	0.78	12.9	12.3	23	5	2.9	3.2	-	OP	19.60
0052 Fairwood	Mar	7.70	(13) (29)	2	548	0.80	1.03	9.6	7.5	19	29	7.8	7.4	-	OP	12.34
0035 Far East Consortium	Mar	1.69	(11) (62)	7	1,696	0.39	0.72	4.3	2.4	21	84	7.9	14.4	-	MP	4.05
0027 Galaxy Entertainment	Dec	2.98	(12) (59)	6	2,949	0.02	0.26	149.0	11.5	115	(1,200)	0.0	1.0	-	OP	10.00
0045 HK&S Hotels	Dec	10.62	(11) (22)	8	6,796	0.68	0.75	15.6	14.2	15	10	1.9	2.2	-	U	15.00
0999 I.T	Feb	1.11	(36) (62)	2	521	0.16	0.18	6.9	6.2	33	13	9.9	8.1	-	U	3.08
0200 Melco Int'l	Dec	3.87	(19) (67)	38	2,566	0.84	1.40	4.6	2.8	740	66	4.4	7.2	Ashley Cheung	U	13.00
3813 Pou Sheng Int'l	Sep	1.50	3 n.a.	0	2,343	0.32	0.19	4.7	7.9	68	(41)	4.7	3.3	-	OP	3.85
0069 Shangri-La Asia	Dec	14.32	(13) (42)	39	18,842	0.65	0.84	22.1	17.0	20	30	2.4	3.1	-	U	19.80
0242 Shun Tak	Dec	3.93	(28) (68)	39	3,613	0.33	1.22	11.9	3.2	3	270	3.3	12.5	-	OP	13.50
1836 Stella	Dec	11.44	(16) (34)	9	2,801	1.26	1.45	9.0	7.9	11	15	7.5	8.9	Ashley Cheung	OP	17.50
0573 Tao Heung	Dec	1.76	(23) (34)	1	757	0.25	0.33	7.0	5.3	19	32	8.5	11.4	-	OP	5.00
<b>Average</b>			<b>(14) (49)</b>	<b>15</b>	<b>49,343</b>	<b>0.52</b>	<b>0.76</b>	<b>21.4</b>	<b>4.2</b>	<b>85</b>	<b>(18)</b>	<b>4.4</b>	<b>6.1</b>			
<b>Financials</b>																
0662 Asia Financial Hldgs	Dec	2.66	(4) (37)	2	1,098	0.14	0.25	19.0	10.6	(71)	79	1.9	3.8	K.W. Wong	OP	4.00
0023 Bank of East Asia	Dec	29.80	(10) (44)	232	21,954	1.48	2.49	20.1	12.0	(44)	68	3.4	5.3	K.W. Wong	MP	32.60
2388 BOC HK (R)	Dec	17.02	(12) (22)	359	61,543	1.44	1.54	11.8	11.1	(1)	7	5.3	5.5	K.W. Wong	OP	23.30
1111 Chong Hing Bank	Dec	18.56	(7) 0	9	1,897	0.66	1.15	28.1	16.1	(43)	74	2.9	3.7	K.W. Wong	U	14.40
0183 CIFIH (R)	Dec	5.89	(6) 21	76	10,278	0.65	0.90	9.1	6.5	103	38	0.0	1.0	K.W. Wong	MP	6.20
2356 Dah Sing Banking	Dec	11.00	(14) (39)	12	2,565	1.13	1.35	9.7	8.1	31	19	3.9	4.7	K.W. Wong	U	12.50
0440 Dah Sing Financial	Dec	47.55	(19) (38)	15	4,733	10.80	25.20	4.4	1.9	157	133	3.4	4.2	K.W. Wong	U	56.80
0636 Fubon Bank (HK)	Dec	3.98	(17) (17)	17	1,166	0.40	0.40	10.0	10.0	3	0	4.8	4.8	K.W. Wong	U	4.60
0011 Hang Seng Bank	Dec	149.90	(3) (7)	463	108,613	9.16	9.11	16.4	16.5	(4)	(1)	4.2	4.4	K.W. Wong	OP	176.40
0388 HKEx	Dec	95.50	(12) (57)	1,090	96,480	5.10	4.87	18.7	19.6	(11)	(5)	4.8	4.6	K.W. Wong	U	97.40
0005 HSBC	Dec	117.30	(7) (11)	2,476	1,408,257	12.10	12.49	9.7	9.4	(4)	3	6.5	7.1	K.W. Wong	U	120.40
0349 ICBC (Asia) (R)	Dec	16.52	(12) (21)	32	6,567	1.41	1.68	11.7	9.8	(1)	19	5.1	6.1	K.W. Wong	OP	25.20
1389 Ming An (Holdings)	Dec	1.01	(18) (61)	3	813	0.06	0.08	20.8	18.9	(76)	33	1.0	2.0	K.W. Wong	OP	1.44
2888 Standard Chartered	Dec	195.90	(13) (32)	59	275,735	17.59	19.08	11.1	10.3	14	8	3.9	4.2	K.W. Wong	OP	269.40
0302 Wing Hang Bank	Dec	76.50	(26) (34)	37	11,596	5.76	5.79	13.3	13.2	(16)	1	3.8	3.8	K.W. Wong	U	96.70
0096 Wing Lung Bank	Dec	146.00	(5) 53	97	12,804	3.98	3.93	36.7	37.2	(33)	(1)	1.1	1.1	K.W. Wong	MP	120.20
<b>Average</b>			<b>(12) (21)</b>	<b>332</b>	<b>2,025,001</b>	<b>4.78</b>	<b>6.00</b>	<b>15.4</b>	<b>13.4</b>	<b>5</b>	<b>27</b>	<b>3.6</b>	<b>4.2</b>			
<b>Industrials</b>																
0057 Cheng Hsong	Mar	2.17	(21) (53)	1	477	0.51	0.30	4.3	7.2	2	(41)	11.5	5.5	Charles Law	U	3.02
0838 EVA Precision Ind.	Mar	1.16	(17) (61)	1	376	0.37	0.52	3.1	2.2	68	41	9.5	13.8	Charles Law	OP	4.41
2320 Hop Fung	Dec	1.25	(19) (56)	0	201	0.40	0.52	3.1	2.4	43	30	9.6	12.8	Charles Law	OP	4.82
0179 Johnson Electric	Mar	3.08	(3) (28)	9	4,639	0.23	0.27	13.2	11.3	0	17	5.1	5.1	-	U	4.00
2314 Lee & Man Paper	Mar	6.70	(18) (80)	34	1,974	1.27	1.71	5.3	3.9	26	35	3.9	6.4	Charles Law	OP	20.54
0255 Lung Kee	Dec	3.68	5 4	0	1,004	0.66	0.84	5.6	4.4	35	27	9.0	11.4	Charles Law	OP	7.90
0635 Playmates	Mar	2.95	(19) (61)	0	3,938	0.07	0.09	42.1	32.8	17	29	1.7	2.4	Charles Law	OP	1.31
0669 Techtronic	Dec	7.36	2 (5)	15	8,861	0.83	0.95	8.9	7.7	419	14	2.4	2.7	-	U	7.50
0303 V-Tech	Mar	45.50	(5) (19)	20	6,800	6.83	7.18	6.7	6.3	17	5	10.7	11.1	Charles Law	OP	71.78
1223 Symphony	Dec	0.36	(23) (58)	0	231	0.14	0.16	2.5	2.2	27	14	28.2	31.0	Charles Law	OP	1.68
0752 Pico Far East	Oct	0.89	(15) (59)	1	656	0.16	0.22	5.6	4.0	33	38	11.2	14.6	Charles Law	OP	2.44
0710 Varitronix	Dec	3.86	(15) (32)	1	1,026	0.89	1.07	4.3	3.6	11	20	11.7	13.7	Charles Law	OP	8.92
0551 Yue Yuen	Sep	20.80	4 (26)	45	13,129	1.94	2.19	10.7	9.5	15	13	4.1	4.8	Charles Law	OP	29.60
<b>Average</b>			<b>(11) (41)</b>	<b>10</b>	<b>43,311</b>	<b>1.03</b>	<b>1.15</b>	<b>8.7</b>	<b>7.3</b>	<b>58</b>	<b>19</b>	<b>9.5</b>	<b>10.9</b>			

HK - HK

RIC Company	Y/E	Price (05/09/08) (HK\$)	1M chg. (%)	YTD 3M avg. chg. daily T/O (HK\$ m)	Free float (HK\$ m)	EPS 08E (HK\$)	EPS 09E (HK\$)	P/E (x)	P/E 09E (x)	EPS gr. (%)	EPS gr. 08E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (HK\$)
<b>Media</b>																
0100 Clear Media	Dec	5.00	(6) (39)	1	1,305	0.45	0.34	11.1	14.5	62	(24)	0.0	0.0	Allan Ng	OP	6.30
1097 I-Cable	Dec	0.88	(21) (45)	0	586	0.04	0.03	22.6	26.7	(57)	(15)	3.4	3.4	Allan Ng	U	0.88
0685 Mingpao	Mar	1.70	(3) (10)	0	186	0.11	0.18	15.0	9.6	27	57	4.7	5.3	Allan Ng	OP	1.88
0282 Next Media	Mar	2.25	(2) (19)	1	1,406	0.21	0.23	10.5	9.6	52	9	10.7	7.1	Allan Ng	OP	3.90
0018 Oriental Press	Mar	0.98	(18) (28)	3	989	0.08	-	12.1	0.0	5	0	6.2	0.0	Allan Ng	U	1.14
0583 SCMP	Dec	2.64	0 (3)	0	2,551	0.15	0.15	17.5	18.2	(16)	(4)	5.3	4.5	Allan Ng	U	2.20
0511 TVB	Dec	42.25	(1) (10)	24	12,584	3.09	3.45	13.7	12.3	6	11	4.6	5.8	Allan Ng	OP	53.00
<b>Average</b>			<b>(7) (22)</b>	<b>4</b>	<b>19,606</b>	<b>0.59</b>	<b>0.73</b>	<b>14.6</b>	<b>13.0</b>	<b>3</b>	<b>10</b>	<b>5.0</b>	<b>3.7</b>			
<b>Property</b>																
2778 Champion REIT	Dec	3.57	(6) (22)	25	3,490	0.15	0.16									

China – A

RIC	Company	Price (05/09/08) (¥)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt.cap. <sup>^</sup> (¥ m)	EPS 09E (¥)	EPS 08E (¥)	P/E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (¥)
<b>Agriculture</b>																	
002069	Zhangzidao Fishery	15.20	(34)	(68)	86	429	2.86	3.76	5.3	4.0	64	31	9.3	12.4	-	OP	91.50
Average			(34)	(68)	86	429	2.86	3.76	5.3	4.0	64	31	9.3	12.4			
<b>Automotive</b>																	
600166	Beiqi Foton Auto	5.22	(23)	(60)	22	2,709	0.52	0.57	10.0	9.2	8	10	3.1	3.3	-	MP	13.00
000625	Chongqing Changan (A/B)	3.96	(22)	(75)	84	2,637	0.40	0.72	9.9	5.5	38	80	0.0	0.0	Eric Hu	OP	7.20
000951	CNHTC Jinan Truck	15.61	(31)	(69)	82	2,355	1.61	1.93	9.7	8.1	(6)	20	2.0	2.5	Eric Hu	OP	19.30
600006	Dongfeng Automobile	3.11	(20)	(64)	22	2,488	0.31	0.34	10.0	9.1	29	10	3.2	4.8	Wang Yusheng	MP	6.80
000800	FAW Car	5.92	(28)	(69)	120	4,530	0.62	0.75	9.5	7.9	82	21	2.5	4.1	Wang Yusheng	MP	10.12
000927	FAW Xiali	3.25	(27)	(78)	41	1,037	0.13	0.21	25.0	15.5	(13)	62	1.8	1.5	Wang Yusheng	U	2.50
600660	Fuyao Group Glass Ind.	5.09	(25)	(72)	98	4,700	0.49	0.63	10.4	8.1	7	29	4.9	4.7	Wang Yusheng	MP	7.30
600418	Jianghuai Auto	3.23	(19)	(64)	24	2,706	1.09	1.39	16.0	2.3	18	28	7.1	10.5	Eric Hu	OP	11.50
000550	Jiangling Motors (A/B)	8.82	(2)	(58)	12	875	1.03	1.16	8.6	7.6	17	13	3.7	4.4	Eric Hu	OP★	10.40
002048	Ningbo Huaxiang	5.27	(29)	(64)	77	1,938	0.43	0.65	12.3	8.1	48	51	0.1	0.1	Wang Yusheng	MP	6.50
600303	Shuguang Automotive	5.14	(20)	(67)	19	593	0.82	0.91	6.3	5.6	52	11	4.9	5.3	-	OP	16.40
600686	Xiamen King Long Motor	6.49	(14)	(57)	46	2,616	0.79	0.85	8.2	7.6	27	8	2.0	2.2	Eric Hu	OP	9.30
000338	Weichai Power (A/H)	35.15	(17)	(59)	109	6,226	4.79	5.63	7.3	6.2	10	18	1.5	1.8	Eric Hu	OP	67.60
000581	Weifu High Tech	6.86	(17)	(63)	54	2,318	0.45	0.59	15.2	11.6	10	31	2.9	3.4	Wang Yusheng	MP	6.60
600066	Zhengzhou Yutong Bus	11.46	(10)	(57)	57	4,291	1.28	1.27	9.0	9.0	78	(1)	5.6	5.5	Eric Hu	OP	15.20
Average			(20)	(65)	58	2,801	0.98	1.17	11.2	8.1	27	26	3.0	3.6			
<b>Chemicals</b>																	
600299	Blue Star New Materials	9.25	(40)	(75)	68	1,443	13.36	2.21	0.7	4.2	1186	(83)	2.7	2.7	Ni Xiaoman	OP	47.00
000839	CITIC Guano	8.66	(34)	(50)	606	3,783	0.81	1.59	10.7	5.4	40	96	1.7	2.3	Ni Xiaoman	OP	55.60
600426	Hualu Hengsheng	10.99	(45)	(59)	49	2,005	0.92	1.22	12.0	9.0	42	34	0.9	1.1	Ni Xiaoman	OP	24.40
000707	Hubei Shuanghuan S & T	7.62	(30)	(44)	143	2,575	0.79	0.98	9.7	7.8	286	24	1.3	3.9	Chen Tian	OP	14.70
000422	Hubei Yihua	12.89	(23)	(44)	106	2,006	-	-	0.0	0.0	-	-	0.0	0.0	Ni Xiaoman	U	4.00
600423	Luzhou Chemical	9.21	(42)	(59)	51	1,431	0.72	1.00	12.7	9.2	41	39	0.5	0.7	Ni Xiaoman	OP	20.00
600409	Sanyou Chemical Industries	5.20	(35)	(57)	184	2,832	0.76	0.83	6.9	6.2	28	10	5.0	9.6	Chen Tian	OP	11.40
000677	Shandong Hailong	3.40	(30)	(71)	56	1,634	0.14	0.22	24.1	15.2	(79)	59	1.9	3.2	Chen Tian	MP	3.42
600315	Shanghai Jahwa United	28.00	(11)	(31)	13	3,677	0.98	1.33	28.5	21.1	56	35	0.6	0.7	Ni Xiaoman	OP	42.50
600688	Shanghai Petrochem (A/H)	4.99	(21)	(70)	42	3,593	(0.37)	0.09	(13.4)	58.0	(269)	(123)	0.0	0.0	Lawrence Lau	U	4.82
000912	Sichuan Luitianhua	7.87	(38)	(61)	111	1,534	-	-	0.0	0.0	-	-	0.0	0.0	Ni Xiaoman	OP	18.00
000731	Sichuan Meifeng	5.95	(24)	(59)	60	2,284	0.55	0.78	10.8	7.6	(12)	41	6.7	9.4	Ni Xiaoman	MP	9.90
600500	Sinochem Int'l	8.34	(29)	(62)	139	4,291	0.58	0.68	14.4	12.2	18	18	2.2	2.4	Ni Xiaoman	OP	16.20
600309	Yantai Wanhua	14.09	(24)	(63)	103	9,061	1.21	1.63	11.6	8.6	36	34	3.5	4.3	Ni Xiaoman	OP	30.30
600871	Yizheng Chemical (A/H)	3.64	(17)	(66)	9	728	0.01	0.01	455.0	260.0	(100)	(75)	0.0	0.0	Lawrence Lau	U	3.71
600352	Zhejiang Longsheng	9.37	(41)	(46)	161	5,869	0.65	1.33	14.4	7.1	85	104	2.0	4.0	Ni Xiaoman	OP	19.95
Average			(30)	(57)	119	3,047	1.62	1.23	39.9	27.0	95	16	1.8	2.8			
<b>Consumer Products</b>																	
600429	Beijing Sanyuan	3.58	(38)	(60)	31	762	0.08	-	45.9	0.0	66	-	0.8	0.0	-	U	2.50
000725	BOE Technology	3.50	(41)	(72)	33	7,685	-	-	0.0	0.0	-	-	0.0	0.0	-	U	1.60
600597	Bright Dairy	5.40	(23)	(58)	21	1,294	0.22	0.26	24.5	20.8	10	18	2.6	2.8	-	U	5.50
600737	COFCO Tunhe	10.12	(36)	(47)	102	4,073	0.36	0.53	28.1	19.1	71	47	1.5	2.5	-	OP	12.60
000651	GREE	15.72	(23)	(52)	96	7,976	1.73	2.25	9.1	7.0	47	30	4.4	5.7	-	OP	32.90
600202	Harbin Air Conditioning	9.07	(20)	(46)	45	914	-	-	0.0	0.0	-	-	0.0	0.0	-	OP	10.40
000848	Hebei Chengde Lolo	15.90	(16)	(44)	5	1,735	0.68	0.91	23.4	17.5	48	34	2.6	3.4	Zhao Zongjun	OP	24.50
600060	Hisense	6.09	(16)	(54)	28	1,241	-	-	0.0	0.0	-	-	0.0	0.0	-	U	4.29
000016	Konka (A/B)	3.10	(19)	(40)	37	1,324	-	-	0.0	0.0	-	-	0.0	0.0	-	U	2.94
600519	Kweichow Moutai	131.25	(16)	(43)	125	53,513	4.56	6.05	28.8	21.7	52	33	1.1	1.7	Zhao Zongjun	OP	180.00
600559	Laobaogang Liquor	8.31	(37)	(62)	32	555	0.31	0.55	26.8	15.1	158	77	1.2	1.7	Zhao Zongjun	OP	15.00
000568	Luzhou Laojiao	27.34	(19)	(40)	64	19,554	1.13	1.48	24.2	18.5	105	31	2.6	3.4	Zhao Zongjun	OP	40.00
000527	Midea Electric Appliances	8.46	(23)	(66)	83	2,141	1.34	1.45	6.3	5.8	19	8	6.3	6.9	-	U	22.78
600690	Qingdao Haier	15.30	(18)	(61)	82	10,069	0.87	1.06	17.6	14.4	74	22	1.7	2.1	-	OP	17.40
600962	SDIC Zhonglu Fruit Juice	10.61	(33)	(51)	38	1,293	0.65	0.72	16.3	14.7	30	11	2.5	2.7	Zhao Zongjun	MP	17.93
600616	Shanghai First Provisions	13.83	(1)	(49)	38	3,442	0.63	0.77	22.0	18.0	29	22	2.0	2.5	-	OP	35.00
600839	Sichuan Changhong	3.59	(27)	(58)	61	4,565	-	-	0.0	0.0	-	-	0.0	0.0	-	U	4.50
600779	Sichuan Swellfun	16.81	(24)	(40)	69	4,935	0.80	1.05	21.0	16.0	95	31	0.4	0.6	Zhao Zongjun	OP	27.00
000100	TCL Corp	3.06	(26)	(48)	82	3,043	-	-	0.0	0.0	0	0	0.0	0.0	-	U	1.63
600060	Tsingtao Brewery (A/H)	17.00	(28)	(57)	63	4,007	0.58	0.75	29.3	22.7	35	29	3.4	4.4	Zhao Zongjun	MP	22.00
600870	Xiamen Overseas Electronic	1.94	(32)	(71)	9	294	-	-	0.0	0.0	-	-	0.0	0.0	-	U	3.13
000729	Yanjing Brewery	11.20	(27)	(47)	93	5,421	0.42	0.51	26.7	22.0	24	21	1.5	2.1	Zhao Zongjun	MP	13.00
000869	Yantai Changyu	57.21	(21)	(33)	16	4,751	1.80	2.36	31.8	24.2	49	31	2.8	3.7	Zhao Zongjun	OP	70.00
000858	Yibin Wuliangye	15.61	(27)	(66)	296	31,945	0.54	0.73	28.9	21.4	38	35	0.6	0.8	Zhao Zongjun	OP	22.80
600887	Yili Industrial	14.23	(12)	(42)	111	5,283	0.96	1.14	14.8	12.5	20	19	2.5	2.8	-	U	24.00
Average			(24)	(52)	66	7,273	0.98	1.33	17.0	11.7	51	25	1.6	2.0			

China – A

RIC	Company	Price (05/09/08) (¥)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt.cap. <sup>^</sup> (¥ m)	EPS 08E (¥)	EPS 09E (¥)	P/E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (¥)
<b>Consumer Services</b>																	
600258	Beijing Capital Tourism	11.30	(46)	(77)	119	1,173	0.44	0.48	25.7	23.5	(17)	9	2.5	2.7	Liu Du	OP	15.40
600828	Chengdu People's Dep Store	13.07	(30)	(39)	6	937	0.65	0.83	20.1	15.7	41	28	1.5	1.9	Liu Du	OP	29.05
600693	Fujian Dongbai Group	10.15	(29)	(32)	17	2,098	0.43	0.58	23.6	17.5	87	35	0.9	1.7	Liu Du	OP	15.70
000978	Guilin Tourism	10.65	(9)	(54)	17	995	0.39	0.59	27.3	18.1	30	51	0.0	0.5	Tracy Feng	OP	28.34
600754	Jinjiang Development (A/B)	11.22	(12)	(45)	30	2,436	0.46	0.51									

China – A

RIC	Company	Price (05/09/08) (¥)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥m)	Free float mkt. cap. (¥m)	EPS 08E (¥)	EPS 09E (¥)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (¥)
<b>Industrials</b>																	
600585	Anhui Conch (A#H)	26.41	(20)	(62)	195	25,186	2.10	2.62	12.6	10.1	24	25	1.6	2.0	Grace Tang	MP	33.60
600761	Anhui Heli	10.07	(23)	(73)	36	2,373	0.88	1.01	11.4	10.0	(2)	15	2.7	3.0	Eric Hu	MP	11.15
600973	Baosheng Sci & Tech	11.08	(25)	(70)	23	951	1.57	2.09	7.1	5.3	54	33	4.2	7.6	-	NR	-
601390	China Railway (A#H)	5.02	(9)	(56)	301	23,524	0.21	0.31	23.5	16.4	44	43	1.1	1.5	Patrick Li	OP	6.72
601186	China Railway Cons. (A#H)	8.19	(19)	(n.a.)	434	20,109	0.33	0.50	24.6	16.5	(15)	49	1.0	1.5	Patrick Li	OP	11.89
600970	China Sinoma	49.21	(18)	(18)	23	3,886	2.70	3.66	18.2	13.4	79	36	1.5	2.0	Grace Tang	OP	62.10
600150	China State Shipbuilding	50.40	(31)	(80)	176	5,123	9.01	13.81	5.6	3.6	106	53	5.4	8.2	-	OP	345.25
600875	Dongfang Electric Mach. (A#H)	25.31	(13)	(72)	129	1,925	3.18	-	8.0	0.0	4	-	4.7	0.0	-	OP	50.00
002164	Donly Transmission	9.81	(15)	(45)	12	441	0.47	0.82	20.9	12.0	52	74	0.7	1.2	SHI Qi	OP	13.12
601002	Gem-Year Industrial	4.43	(33)	(57)	46	915	0.18	0.34	24.6	13.0	100	0	0.9	1.6	SHI Qi	MP	11.90
600685	Guangzhou Shipyard Int'l (A#H)	16.41	(28)	(80)	95	2,638	2.67	3.11	6.1	5.3	46	16	3.2	5.7	-	OP	57.05
000528	Guangxi Liugong Machinery	14.13	(27)	(66)	38	4,068	1.45	2.04	9.7	6.9	21	41	3.9	5.4	Eric Hu	OP	26.60
002175	Guanglu Measuring Instr't	7.61	(30)	(68)	5	110	1.36	2.02	5.6	3.8	60	0	3.9	6.3	Eric Hu	OP	36.00
600312	Heaven Pingqiao Electric	8.07	(22)	(51)	32	1,253	0.90	1.20	9.0	6.7	43	33	3.7	5.0	-	NR	-
002204	Henan Ind. Steel Casting	12.46	(25)	(n.a.)	25	667	0.57	1.08	21.9	11.5	16	89	0.6	1.3	SHI Qi	OP	21.60
600308	Huatai Paper	9.75	(24)	(66)	42	3,180	1.14	1.43	8.6	6.8	26	26	2.9	30.8	Ni Xiaoman	OP	22.80
002097	Hunan Sunward Intelligent	11.27	(37)	(80)	44	747	0.98	1.47	11.5	7.7	75	50	3.5	5.2	SHI Qi	OP	32.34
600072	Jiangnan Heavy Industry Co	9.86	(19)	(77)	41	2,144	0.28	0.30	35.2	32.9	33	7	0.6	0.6	-	OP	28.00
000666	Jingwei Textile Mach. (A#H)	3.58	(35)	(65)	27	814	0.41	0.53	8.7	6.7	27	29	3.4	4.5	-	OP	12.30
600495	Jinxi Axle	12.71	(12)	(49)	25	838	0.67	0.89	19.0	14.3	14	33	1.6	2.1	SHI Qi	OP	17.8
600806	Kunming Machine (A#H)	18.75	(21)	(58)	19	2,478	0.72	1.04	26.0	18.0	26	44	1.1	1.7	SHI Qi	OP	12.93
002147	Maanshan Fangyuan Slewing Ring	12.35	(23)	(48)	16	604	0.57	1.02	21.7	12.1	63	79	1.9	3.3	SHI Qi	MP	15.30
600406	Nari Technology Deve.	17.03	(13)	(46)	16	1,329	0.74	0.96	23.0	17.7	28	30	1.3	2.2	-	MP	21.00
600425	Qingsong Building Materials and Chemicals	6.02	(17)	(37)	29	1,377	0.47	0.81	12.8	7.4	52	72	3.8	6.6	Grace Tang	OP	7.99
600031	Sany Heavy Industry	14.10	(28)	(63)	166	20,981	1.26	1.81	11.2	7.8	12	44	1.8	2.6	SHI Qi	OP	20.16
600517	Shanghai Zhixin Electric	16.55	(33)	(41)	22	2,359	1.59	2.76	10.4	6.0	92	0	1.9	5.0	-	OP	64.00
000680	Shantui Construction Mach.	8.13	(27)	(56)	68	4,875	0.90	1.21	9.0	6.7	41	34	2.2	3.0	SHI Qi	OP	18.00
000837	Shanxi Qinchuan Machinery	5.68	(10)	(49)	18	1,447	0.37	0.51	15.4	11.1	76	38	1.1	1.4	Eric Hu	OP	7.60
000410	Shenyang Machine Tools	6.07	(26)	(70)	33	1,819	0.29	0.40	32.9	15.2	107	38	0.7	1.0	Eric Hu	MP	6.40
002028	Siyuan Electric	24.49	(8)	(34)	25	3,974	1.23	1.43	19.9	17.1	19	16	0.8	0.8	Eric Hu	OP	29.50
000401	Tangshan Jidong Cement	7.25	(16)	(65)	61	4,951	0.50	0.91	14.5	8.0	39	82	5.5	10.3	Grace Tang	OP	10.00
600582	Tian Di Sci. & Tech.	13.01	(36)	(49)	18	2,981	1.67	2.29	7.8	5.7	39	37	2.5	3.5	SHI Qi	OP	23.20
002122	Tianma Bearing	45.02	(17)	(40)	20	3,061	1.90	3.02	23.7	14.9	102	59	0.8	1.3	SHI Qi	OP	60.40
000877	Tianshan Cement	7.61	(12)	(33)	15	1,008	0.55	0.90	13.8	8.5	10	64	2.9	4.7	Grace Tang	OP	9.35
600169	Taiyuan Heavy Industry	16.50	(26)	(54)	17	3,130	1.21	1.72	13.6	9.6	59	42	1.1	1.6	-	OP	24.20
600458	Times New Materials	7.78	(16)	(54)	23	841	0.32	0.57	24.3	13.6	88	78	0.8	1.4	SHI Qi	OP	11.4
600089	Xinjiang Tebian Electric Apparatus Stock	14.97	(15)	(40)	132	12,844	0.70	1.07	21.4	14.0	49	53	0.3	0.3	-	OP	23.00
000425	Xulong Science & Tech.	12.59	(27)	(43)	34	3,568	1.16	1.46	10.9	8.6	2220	26	1.8	2.3	SHI Qi	OP	21.90
000157	Zoomlion Heavy Industry	11.40	(15)	(60)	139	9,537	1.22	1.78	9.3	6.4	39	46	0.5	0.8	Eric Hu	OP	26.70
<b>Average</b>																	
<b>Media</b>																	
600037	Beijing Gehua CATV	9.49	(24)	(70)	177	5,271	0.38	0.32	24.9	29.7	11	(16)	0.0	0.5	Allan Ng	U	12.50
600825	Xinhua Media	11.70	(36)	(66)	20	1,843	0.80	1.01	14.6	11.6	347	26	2.1	2.6	Liu Du	OP	27.30
<b>Average</b>																	
<b>Metals &amp; Mining</b>																	
000898	Angang New Steel (A#H)	8.61	(21)	(71)	223	7,662	1.29	1.66	6.7	5.2	10	29	7.5	9.8	Belle Chan	OP	26.00
600019	Baosteel	6.43	(11)	(63)	460	30,403	0.90	1.00	7.1	6.4	24	11	5.6	6.2	Belle Chan	OP	9.00
601600	CHALCO (A#H)	9.30	(23)	(76)	272	13,332	0.39	0.50	23.8	18.6	(49)	28	0.8	1.0	Belle Chan	U	5.90
600357	Chengde Xinxin Vanadium	5.50	(32)	(71)	69	3,128	0.59	0.75	9.4	7.4	32	28	5.5	7.3	Xu Minle	OP	8.95
601005	Chongqing Iron & Steel (A#H)	3.89	(23)	(55)	32	1,393	0.43	0.46	9.0	8.5	59	7	3.9	4.1	Belle Chan	OP	8.50
000831	Guanolu	4.62	(32)	(73)	75	1,991	0.18	0.39	25.7	11.8	(69)	117	0.4	0.9	Le Yukun	OP	5.90
600362	Jiangxi Copper (A#H)	15.10	(26)	(70)	168	4,291	1.64	1.40	9.2	10.8	17	(15)	3.2	2.8	Belle Chan	OP	35.50
601958	Jindicheng Molybdenum	11.69	(31)	(n.a.)	364	6,287	1.32	1.27	8.9	9.2	(6)	(4)	2.8	2.7	Le Yukun	OP	26.80
600808	Maanshan Iron (A#H)	4.10	(14)	(59)	93	4,208	0.50	0.52	8.2	7.8	44	4	4.4	4.4	Belle Chan	OP	6.90
600282	Nanjing Steel	3.72	(19)	(68)	53	3,009	0.57	0.64	6.5	5.8	(48)	12	7.0	7.8	Xu Minle	OP	6.84
600219	Nanshan Aluminium	7.02	(28)	(74)	69	3,519	0.61	0.69	6.7	5.9	(30)	13	1.4	1.7	Le Yukun	OP	9.10
000629	Panzhuhua Steel	11.06	(9)	(41)	260	20,697	0.31	0.50	36.1	22.2	18	63	1.2	2.3	Xu Minle	OP	9.59
600547	Shandong Gold	29.80	(37)	(65)	231	4,668	2.67	2.80	11.2	10.6	345	5	3.8	4.0	Le Yukun	OP	80.00
000709	Tangshan Iron & Steel	4.55	(14)	(71)	205	8,084	0.78	0.92	5.8	4.9	32	18	7.7	9.0	Le Yukun	OP	5.40
000630	Tongling Nonferrous Metal	8.06	(23)	(68)	72	4,485	0.91	0.95	8.9	8.5	14	4	3.3	3.6	Le Yukun	MP	9.10
000612	Wanfang Aluminium	11.57	(28)	(74)	144	3,332	1.67	1.73	6.9	6.7	18	4	4.3	4.5	Le Yukun	OP	25.00
600005	Wuhan Steel	6.94	(15)	(65)	431	21,758	1.10	1.22	6.3	5.7	32	11	7.9	8.5	Le Yukun	OP	9.20
600888	Xinjiang Jolworld	9.63	(22)	(64)	16	1,288	0.69	1.00	14.0	9.6	15	45	0.7	1.0	Le Yukun	OP	17.30
000807	Yunnan Aluminium	5.80	(27)	(73)	55	2,603	0.42	0.45	13.8	12.9	(14)	7	5.0	5.3	Le Yukun	U	7.60
000960	Yunnan Tin	14.17	(27)	(74)	332	3,659	1.46	1.92	3.0	2.3	30	32	1.1	1.3	Le Yukun	MP	25.60
601899	Zijin Mining	4.33	(35)	(n.a.)	366	6,536	0.28	0.35	15.5	12.4	47	25	3.5	4.6	Belle Chan	OP	9.30
<b>Average</b>																	

China – A

RIC	Company	Price (05/09/08) (¥)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥m)	Free float mkt. cap. (¥m)	EPS 08E (¥)	EPS 09E (¥)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (¥)
<b>Pharmaceuticals</b>																	
600085	Beijing Tongrentang	13.87	(18)	(52)	37	2,709	0.72	0.88	19.3	15.8	22	22	2.2	2.7	-	MP	28.70
000423	Dong-E-E Jiao	13.18	(30)	(60)	130	4,834	0.60	0.65	22.0	20.3	50	8	2.7	3.7	-	OP	35.50
600332	Guangzhou Pharm.I (A#H)	6.75	(33)	(60)	14	712	0										

Germany

RIC	Company	Price (05/09/08) (€)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt. cap. <sup>^</sup> (¥ m)	EPS 08E (¥)	EPS 09E (¥)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (€)
<b>Agriculture</b>																	
5AB	Asian Bamboo	9.95	7	(33)	0	55	1.48	1.93	6.7	5.2	179	30	1.0	2.0	-	OP	17.08
Average			7	(33)	0	55	1.48	1.93	6.7	5.2	179	30	1.0	2.0			
<b>Transport</b>																	
ZEF	Zhong De Waste Tech.	24.02	(11)	(27)	1	100	2.11	2.56	11.4	9.4	27	21	0.0	0.0	Frank Lai	OP	35.00
Average			(11)	(27)	1	100	2.11	2.56	11.4	9.4	27	21	0.0	0.0			

Singapore

RIC	Company	Price (05/09/08) (S\$)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt. cap. <sup>^</sup> (¥ m)	EPS 08E (¥)	EPS 09E (¥)	P/E 08E (x)	P/E 09E (x)	EPS gr. 08E (%)	EPS gr. 09E (%)	Yield 08E (%)	Yield 09E (%)	Analyst	Rec	Target price (S\$)
<b>Industrial</b>																	
Midas	Midas Holdings	0.43	(40)	(72)	1	183	0.04	0.05	10.1	7.9	12	28	5.3	6.5	Frank Lai	OP	1.46
Average			(40)	(72)	1	183	0.04	0.05	10.1	7.9	12	28	5.3	6.5			
<b>Property</b>																	
YLLG	Yanlord Land	1.46	(23)	(56)	6	782	0.14	0.16	10.6	9.1	14	17	1.0	1.2	Frank Lai	OP	2.65
Average			(23)	(56)	6	782	0.14	0.16	10.6	9.1	14	17	1.0	1.2			

NB: Outperform (OP) = ≥+10% compared with the relevant benchmark index over a 6-month period; Underperform (U) = ≤-10% compared with the relevant benchmark index over a 6-month period; Marketperform (MP) = ≤+10% and ≥-10% compared with the relevant benchmark index over a 6-month period; Not Rated (NR)

^: Represents total figures, while others are averages

\*: Initiating coverage. Arrows (▲ ▼) indicate a change in rating or a change in earnings forecast of at least 5% during the past month; earnings forecasts for NR stocks are I/B/E/S estimates

Sources: Reuters, BOCI Research estimates

Calendar of Events

Economic data (China)

	Description	Date
CPI	Aug08	11/09
Retail Sales	Aug08	12/09
VAIO	Aug08	16/09
FAI	Aug08	17/09

Economic data (Hong Kong)

Unemployment	Aug08	18/09
CPI	Aug08	22/09
GDP	3Q08	14/11
Retail Sales	Aug08	02/10

Results announcements (China)

Shenzhen Development (000001.SZ)	2Q08	9/12/2008
Shengyang Machine Tools (000410.SZ)	3Q08	9/9/2008
Shantui Construction Machinery (000680.SZ)	1H08	9/10/2008

Results announcements (Hong Kong)

TPV (903.HK)	1H08	9/10/2008
i-Cable (1097.HK)	3Q08	9/10/2008
HK&S Hotels (45.HK)	1H08	9/10/2008
Glorious Sun (393.HK)	1H08	9/10/2008
Tao Heung (573.HK)	1H08	9/10/2008
Symphony (1223.HK)	1H08	9/10/2008
Xingye Copper (P) (505.HK)	1H08	9/11/2008
Solomon Systech (2878.HK)	1H08	9/11/2008
SHK Properties (16.HK)	FY08	9/11/2008
CM China Direct Investments (133.HK)	1H08	9/12/2008
Shun Tak (242.HK)	1H08	9/12/2008
Hop Fung (2320.HK)	1H08	9/12/2008
HK & China Gas (3.HK)	1H08	9/12/2008
Vinda International (3331.HK)	1H08	9/13/2008
Galaxy Entertainment (27.HK)	1H08	9/15/2008
Sunshine Paper (2002.HK)	1H08	9/16/2008
Great Eagle (41.HK)	1H08	9/16/2008
Hengan International (1044.HK)	1H08	9/17/2008
Sino Land (83.HK)	FY08	9/17/2008
Henderson Land (12.HK)	FY08	9/18/2008
Embry Form (1388.HK)	1H08	9/18/2008
China Foods (R) (506.HK)	1H08	9/19/2008
China Agri-Industries (R) (606.HK)	1H08	9/19/2008
Brilliance Auto (R) (1114.HK)	1H08	9/19/2008
Haier Electronics (P) (1169.HK)	1H08	9/22/2008
Shanghai Real Estate (P) (1207.HK)	1H08	9/24/2008
Asia Financial Holdings (662.HK)	1H08	9/25/2008
EVA Precision Industrial (838.HK)	1H08	9/30/2008

## Recently Published Research

Date	Title	Sector	Author(s)	Tel.	Email
3-Sep	Chengde Lolo	Consumer Prod— F & B	ZHAO Zongjun	(8621) 6860 4866 ext 8510	zongjun.zhao@bocigroup.com
27-Aug	Tencent Holdings	Technology - Internet	Frank HE	(852) 2905 2112	frank.he@bocigroup.com
25-Aug	Huarui Heavy Ind. Steel Casting	Industrials - Machinery	SHI Qi Eric HU	(8621) 6860 4866 ext 8368 (8621) 6860 4866 ext 8520	qi.shi@bocigroup.com eric.hu@bocigroup.com
11-Aug	Residential Outlook	Property - Developers	Sector Update	(852) 2905 2107	manfred.ho@bocigroup.com
6-Aug	Huaqiao In The Middle Kingdom - Aug08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
4-Aug	Hengan International	Consumer Prod. - Misc	Sarah XING	(852) 2905 2122	sarah.xing@bocigroup.com
30-Jul	Fushan Energy	Energy - Coal	Lawrence LAU	(852) 2905 2130	lawrence.lau@bocigroup.com
25-Jul	Looking Ahead to New Dawn	Property - Developers	TIAN Shixin	(8621) 6860 4866 ext 8519	shixin.tian@bocigroup.com
25-Jul	Residential Outlook	Property - Developers	Manfred HO	(852) 2905 2107	manfred.ho@bocigroup.com
24-Jul	Next Media	MEDIA - Publishing	Allan NG	(852) 2905 2128	allan.ng@bocigroup.com
21-Jul	Golden Eagle	Consumer - Retail	Jenny ZHENG LIU Du	(8621) 6860 4866 ext 8511 (8621) 6860 4866 ext 8511	yuan.zheng@bocigroup.com du.liu@bocigroup.com
14-Jul	Siyuan Electric	IND. - Power Equipment	Eric HU	(8621) 6860 4866 ext 8520	eric.hu@bocigroup.com
8-Jul	Huaqiao In The Middle Kingdom - Jul 08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
4-Jul	China Banking Sector	FINANCIALS - Banks	YUAN Lin	(8610) 9922 9070	lin.yuan@bocigroup.com
24-Jun	Digital China	Technology - H & E	Ashley CHEUNG	(852) 2905 2102	ashley.cheung@bocigroup.com
23-Jun	Xinyu Hengdeli	CONS. SVC - Retail	Sarah XING	(852) 2905 2122	sarah.xing@bocigroup.com
11-Jun	Ningbo Huaxiang	AUTOMOTIVE — P&C	WANG Yushen Eric HU	(8621) 6860 4866 ext 8523 (8621) 6860 4866 ext 8520	yusheng.wang@bocigroup.com eric.hu@bocigroup.com
4-Jun	China Molybdenum	M & M - NF Metals	Belle CHAN	(852) 2905 2103	belle.chan@bocigroup.com
2-Jun	Yanlord Land	Property — Developers	Frank LAI	(65) 6536 8538	frank.lai@bocigroup.com
30-May	Huaqiao In The Middle Kingdom - Jun 08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
26-May	Hong Kong Banks	FINANCIALS - Banks	K.W. WONG	(852) 2905 2120	kwokwai.wong@bocigroup.com
23-May	JinJiang Development	Consumer Svs - Hotel	LIU Du	(8621) 6860 4866 ext 8511	du.liu@bocigroup.com
22-May	SDIC Zhonglu Fruit Juice	Consumer Prod. - F & B	ZHAO Zongjun	(8621) 6860 4866 ext 8510	zongjun.zhao@bocigroup.com
14-May	Huaqiao In The Middle Kingdom - May 08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
8-May	Ladies' Consumption	Consumer Products	Sarah XING Frank HE Ashley CHEUNG Charles LAW	(852) 2905 2122 (852) 2905 2112 (852) 2905 2102 (852) 2905 2106	sarah.xing@bocigroup.com frank.he@bocigroup.com ashley.cheung@bocigroup.com charles.law@bocigroup.com
5-May	China Cement	Industrials - Const & Infra	Grace TANG Lawrence LAU	(8610) 9922 9077 (852) 2905 2130	qian.tang@bocigroup.com lawrence.lau@bocigroup.com
22-Apr	China Railway Construction Corporation	Industrials - Const & Infra	Patrick LI LIU Huiming	(8610) 6622 9073 (8610) 6622 9084	pan.li@bocigroup.com huiming.liu@bocigroup.com
8-Apr	Huaqiao In The Middle Kingdom - April 08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
13-Mar	Huaqiao In The Middle Kingdom - March 08	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
11-Mar	Supermarket	Consumer - Retail	Ashley CHEUNG	(852) 2905 2102	ashley.cheung@bocigroup.com

## BOCI Research Team

### MACRO & STRATEGY

Strategy	Anthony C.H. LOK	(852) 2905 2108	anthony.lok@bocigroup.com
China Economy	CHENG Manjiang	(8610) 6622 9128	mj.cheng@bocigroup.com
China Economy	YE Bingnan	(8610) 6622 9081	bingnan.ye@bocigroup.com
China Economy	LI Tao	(8610) 6622 9064	tao.li@bocigroup.com

### AUTO & PARTS

	Eric HU	(8621) 6860 4866 ext 8520	eric.hu@bocigroup.com
	SHI Qi, Levi	(8621) 6860 4866 ext 8368	qi.shi@bocigroup.com
	WANG Yusheng	(8621) 6860 4866 ext 8523	yusheng.wang@bocigroup.com
	Lawrence LAU	(852) 2905 2130	lawrence.lau@bocigroup.com
	NI Xiaoman	(8621) 6860 4866 ext 8319	xiaoman.ni@bocigroup.com
	CHEN Tian	(8621) 6860 4866 ext 8503	tian.chen@bocigroup.com

### CHEMICALS

### CONSUMER PRODUCTS/SERVICES

F & B	Jenny CHAN	(852) 2905 2127	jenny.chan@bocigroup.com
F & B	ZHAO Zongjun	(8621) 6860 4866 ext 8510	zongjun.zhao@bocigroup.com
Gaming & Retail	Ashley CHEUNG	(852) 2905 2102	ashley.cheung@bocigroup.com
Retail	LIU Du, Duke	(8621) 6860 4866 ext 8511	du.liu@bocigroup.com
Retail	ZHENG Yuan	(8621) 6860 4866 ext 8517	yuan.zheng@bocigroup.com
ENERGY	Lawrence LAU	(852) 2905 2130	lawrence.lau@bocigroup.com
	TANG Qian, Grace	(8610) 6622 9077	qian.tang@bocigroup.com
	SHI Meijuan	(8610) 6622 9091	meijuan.shi@bocigroup.com

### FINANCIALS

Banks/Insurance (HK)	K.W. WONG	(852) 2905 2120	kwokwai.wong@bocigroup.com
Banks/Insurance (China)	YUAN Lin	(8610) 6622 9070	lin.yuan@bocigroup.com
Securities	ZHANG Jian	(8610) 6622 9075	jian.zhang@bocigroup.com
Fund	LAN Xiaofei	(8610) 6622 9085	xiaofei.lan@bocigroup.com

### INDUSTRIALS

MEDIA	HAN Ling	(8621) 6860 4866 ext 8595	ling.han@bocigroup.com
Media/Tourism	Allan NG	(852) 2905 2128	allan.ng@bocigroup.com
Media/Tourism	LIU Du, Duke	(8621) 6860 4866 ext 8511	du.liu@bocigroup.com
	FENG Xue, Tracy	(8621) 6860 4866 ext 8590	tracy.feng@bocigroup.com

### METALS & MINING

	Belle CHAN	(852) 2905 2103	belle.chan@bocigroup.com
	LE Yukun	(8621) 6860 4866 ext 8559	yukun.le@bocigroup.com
	XU Minle	(8621) 6860 4866 ext 8589	minle.xu@bocigroup.com

### PHARMACEUTICALS

	HE Changming	(8610) 6622 9080	changming.he@bocigroup.com
	ZHANG Yin	(8621) 6860 4866 ext 8929	yin.zhang@bocigroup.com
	Manfred HO	(852) 2905 2107	manfred.ho@bocigroup.com
	TIAN Shixin	(8621) 6860 4866 ext 8519	shixin.tian@bocigroup.com
	ZHOU Lu	(8621) 6860 4866 ext 8587	lu.zhou@bocigroup.com

### SMALL/MID-CAP

	Sarah XING	(852) 2905 2122	sarah.xing@bocigroup.com
	Peter PAK	(852) 2905 2123	peter.pak@bocigroup.com
	Frank HE	(852) 2905 2112	frank.he@bocigroup.com
	Allan NG	(852) 2905 2128	allan.ng@bocigroup.com

### TECHNOLOGY

### TELECOMS

### TRANSPORT

Aviation	DU Jianping	(8610) 6622 9079	jianping.du@bocigroup.com
Aviation	LI Yan	(8610) 6622 9014	yan.li@bocigroup.com
Marine	Jimmy LAM	(852) 2905 2111	jimmy.lam@bocigroup.com
Land	LI Pan, Patrick	(8610) 6622 9073	pan.li@bocigroup.com
Land	LIU Huiming	(8610) 6622 9084	huiming.liu@bocigroup.com

### UTILITIES

	Peter Yao	(852) 2905 2105	peter.yao@bocigroup.com
	YU Nian	(8610) 6622 9124	nian.yu@bocigroup.com
	Frank LAI	(65) 6536 8538	frank.lai@bocigroup.com

### SINGAPORE STOCK

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20/F, Bank of China Tower  
1 Garden Road  
Hong Kong  
Tel: (852) 2867 6333  
Fax: (852) 2147 9513

**Toll free numbers to Hong Kong:**  
China North: 10800 8521065  
China South: 10800 1521065  
Singapore: 800 852 3392

**BOCI Securities Limited**  
20/F, Bank of China Tower  
1 Garden Road  
Hong Kong  
Tel: (852) 2867 6333  
Fax: (852) 2147 9513

**BOC International (UK) Limited**  
90 Cannon Street  
London EC4N 6HA  
United Kingdom  
Tel: (4420) 7022 8888  
Fax: (4420) 7022 8877

**BOC International (USA) Inc.**  
Room 202, 1270 Avenue of the Americas  
New York, NY 10020, USA  
Tel: (1) 212 259 0888  
Fax: (1) 212 259 0889

**BOC International (Singapore) Pte. Ltd.**  
Reg. No. 199303046Z  
4 Battery Road  
4/F Bank of China Building  
Singapore 049908  
Tel: (65) 6412 8856 / 6412 8630  
Fax: (65) 6534 3996 / 6532 3371

**BOC International (China) Limited**  
39/F Bank of China Tower  
200 Yincheng Zhong Road  
Shanghai Pudong District  
200121 China  
Tel: (8621) 6860 4866  
Fax: (8621) 5888 3554

**BOC International Holdings Limited**  
**Beijing Representative Office**  
15/F, Tower 2  
Yingtai Business Center No.28  
Finance Street, Xicheng District  
Beijing 100032, China  
Tel: (8610) 6622 9000  
Fax: (8610) 6657 895000