

Huaqiao in the Middle Kingdom

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Key Market Indices

	Value	1M	YTD
HSI	18,203	(2.0)	26.5
HSCEI	10,984	1.5	39.2
HSCCI	3,781	(4.8)	14.8
MSCI HK	8,605	(5.8)	31.3
MSCI China	55	(0.6)	34.8
FTSE-Xinhua A50	11,775	17.3	79.9
Shanghai Comp	3,088	11.1	69.6
CSI 300 (SHSZ 300)	3,327	13.2	83.0

After being been cautious on Chinese markets for the past two months, I am now turning bullish as I believe China will create a domestic asset bubble. While this may result in serious long-term economic problems, the short-term outlook for property and financial stocks is much improved.

■ China-HK recommended stocks:

In – Poly (Hong Kong), Golden Eagle.
Out – Chongqing Iron & Steel, Vinda.

■ HK-HK recommended stocks:

In – SHK Property, Link REIT.
Out – None.

■ China-A recommended stocks:

In – Shenhua Energy, Poly Real Estate.
Out – PetroChina, Ping An Insurance.

	P/E (x)		EPS (chg %)	
	09E	10E	09E	10E
HSI	16.4	15.0	(7.6)	9.6
HSCEI	15.1	14.4	16.5	4.8
HSCCI	14.0	12.1	(8.5)	15.9
MSCI HK	20.5	16.4	(23.6)	25.3
MSCI China	15.6	14.0	7.1	11.9
FTSE-Xinhua A50	22.6	23.2	7.3	(2.6)
SHSZ300	25.2	23.0	13.7	9.4
SHCOMP	25.2	23.2	6.2	8.9

Sources: Bloomberg, BOCI Research

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China's "Baburu Keiki" (中国のバブル景気)

"Those who don't know history are destined to repeat it." - British Statesman and Philosopher, Edmund Burke (1729-1797)

"We are like dwarfs sitting on the shoulders of giants. We see more, and things that are more distant, than they did, not because our sight is superior or because we are taller than they, but because they raise us up, and by their great stature add to ours." - John of Salisbury quoting Bernard of Chartres in his 1159 treatise on logic - Metalogicon

I am getting far too cynical with age. Not only do I believe that those who do not learn from history are destined to repeat it; I think that most of us are destined to make the same mistakes even if we have studied history. People are full of an infinite amount of hubris and ego that makes us believe we are smarter than all those who came before us and thus we are capable of avoiding the same mistakes because "now we know better" or "this time is different".

Isaac Newton observed that our ability to leverage off the cumulative knowledge of the past or "stand on the shoulders of giants" is the foundation of our continuous technological advancement. However, I would say it also creates the dangerous myth that we are smarter and thus can avoid the mistakes of our forefathers. While IQs have stayed constant over the millennia, our knowledge base and ability to tap that information (think Google and the Internet) have jumped dramatically, giving us the illusion that we are cleverer than our ancestors.

More importantly, even if we somehow miraculously manage to avoid a problem, we tend to have an infinite ability to make entirely new ones by accident in our misguided attempts to avoid the other mistake. For example, Alan Greenspan told us in 2004 that derivatives were a good thing and that, "not only have individual financial institutions become less vulnerable to shock from underlying risk factors, but also the financial system as a whole has become more resilient." Given the near collapse of American and global finance last year, this view seems somewhat naive in hindsight. It turns out that Wells Fargo CEO, John Stumpf was more insightful in his observation that, "it's interesting that the [banking] industry has invented new ways to lose money when the old ways seemed to work just fine."

So why all this nostalgia for looking at mistakes of the past? As readers know, my outlook for the US economy and most of the developed world next year is a repeat of the 70s. Governments' attempt to avert a 1930's style deflationary depression by massive stimulus and spending will result in stagflation with the US dollar weakening and commodity prices surging. My view on this has not changed.

Against this backdrop, I thought China's economy would be in trouble starting in 2010 as the Rmb4trn stimulus package starts to fade away and exports fail to recover given low external demand due to recession in the west. I never believed (and still do not) that China could successfully convert its export-driven economy into a domestic demand-driven one fast enough to compensate for the decline in external demand. But, there was always the possibility that China could temporarily avert a downturn by increasing fiscal expenditures and domestic credit. In simple terms, China could create a local asset price bubble.

I had fervently hoped that this would not happen and the first big litmus test was whether May and June incremental new lending would drop off from the torrid Rmb1trn-a-month plus pace set during the first quarter. This has not happened and, by all reckoning, while new loans are unlikely to continue to grow at over Rmb1trn a month for the rest of the year, the pace of new lending remains very high. The final straw was Premier Wen Jiabao's statements on 17 June during an executive meeting of the State Council when, according to *Xinhua*, he indicated that, "The government should continue a pro-active fiscal policy and moderately relaxed monetary policy... Government measures to fight the global economic crisis proved correct and effective, and should continue to be implemented and improved according to the changing situation... Central government-investment programs should be carefully carried out, while private investment should be expanded." The market, and myself, take this to mean that monetary and fiscal policy will remain quite loose for an extended period of time.

I wrote in May that, "like Martin Luther King Jr, Federal Reserve Chairman Ben Bernanke also 'has a dream.' In his dream, the Fed pumps in trillions of dollars of excess liquidity into the banking system and even prints money to get the economy going. Then, just as things are recovering, but before inflation starts to surge, he miraculously pulls all the liquidity back." It now appears that China also has a similar dream that goes something like this: The government spends trillions of renminbi on fiscal stimulus and also runs an extremely loose monetary policy by telling the banks to lend copious amounts of money. This succeeds in temporarily boosting the economy through increased domestic demand driven primarily by fixed asset investment (primarily infrastructure spending and real estate) which helps offsets the collapse in exports. Then, before this huge amount of lending and spending results in a massive asset bubble forming in property and stocks as well as large amounts of excess capacity, the US economy recovers next year and starts to buy Chinese goods again. Thus, with exports recovering and pulling demand again, the government can tighten monetary policy and prevent the asset bubble from becoming too large and dangerous.

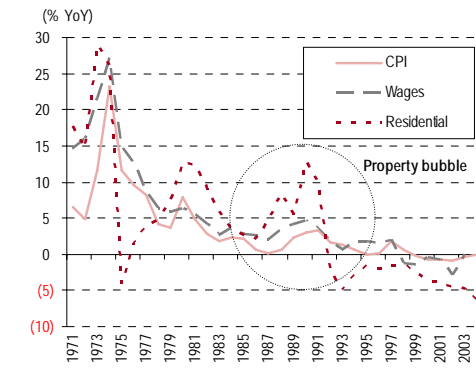
But the US economy is not going to recover. After the euphoria following the release of May employment statistics, the decline in June employment hit markets like an oncoming freight train. "Jobless report dashes lingering hopes of a rapid US-led recovery," was the headline for the *Financial Times*. Long suffering readers of my monthly missives will know full well that I have never believed that there were green shoots nor a rapid recovery in sight. I am firmly in the same camp as Bill Gross who writes, "PIMCO's driving thesis however, if not a juxtaposition, is succinctly described as a 'new normal' where growth is slower, profit margins are narrower, and asset returns are smaller than in decades past based upon the delivering and reregulating of the global economy, which in turn should substantially inhibit the 'gorging' of goods and services that we grew used to in decades past... The new normal will not be investor-friendly unless your forecasting dial is turned to 'Pollyanna' or your intelligence quotient is significantly less than 100."

So what's in store for China now? Here I borrow a term from the Japanese: *Baburu Keiki* (バブル景気) or "bubble economy" was the phrase used to describe the asset price bubble in Japan from the mid-to-late 1980s. In the paper titled *The Asset Price Bubble in Japan in the 1980s: Lessons for Financial and Macroeconomic Stability*, the author Shigenori Shiratsuka provides a checklist of factors that helped create the great Japanese *Baburu Keiki*. "The intensified bullish expectations are clearly observed in the increased equity yield spread during the period from the late 1980s to the early 1990s... The intensified bullish expectations were surely grounded in several factors intertwined with each other. The factors below are often pointed out as behind the emergence and expansion of the bubble:"

- Aggressive behavior of financial institutions
- Progress of financial deregulation
- Inadequate risk management on the part of financial institutions
- Introduction of the capital accord
- Protracted monetary easing
- Taxation and regulations biased toward accelerating the rise in land prices
- Overconfidence and euphoria
- Over-concentration of economic functions in Tokyo, and Tokyo becoming an international financial centre

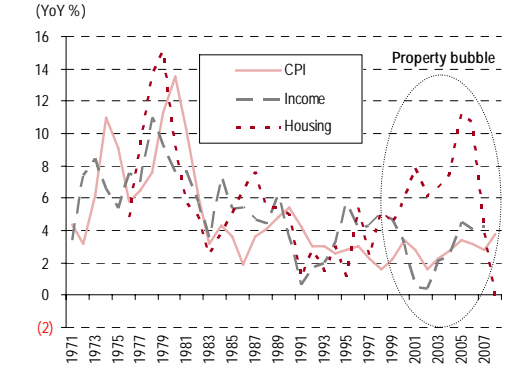
In fact, one could take the above checklist from the Japanese bubble economy of the mid-to-late 80s and apply it to the US bubble from 2001 to 2006. Aggressive behavior of financial institutions, financial deregulation and inadequate risk management? Call it sub-prime lending, excessive debt and derivatives trading. Protracted monetary easing and regulations biased to rising land prices? Interest rate cuts following 9/11 and Fannie Mae and Freddie Mac. Overconfidence and euphoria? McMansions, large flat-panel TVs and BMW sales. And of course, New York as the world's leading financial centre. Check, check, check.

Japan Property Prices, CPI and Wages



Source: Japan Bureau of Statistics

US Property Prices, CPI and Wages



Source: US Census Bureau, US Department of Labor

In fact, a simple way of looking at it can be found in the two charts above. Chinese investors have asked me whether property is a good hedge against inflation. The answer is, historically yes. One can see that even during the high inflationary period of the 70s, property price increases in Japan and the US kept pace with inflation. To this simple analysis, I would add three caveats.

First, I personally think that the correlation between property prices and inflation is not necessarily a causal one. In fact, I think property prices are more correlated with household income or wages which, historically, have kept pace with inflation. Remember, the stagflation of the 1970s was characterised by wage-push inflation which meant that inflation was, to a large degree, sustained because wages went up, driving prices. This distinction is important as the inflation going forward may be more a pure monetary phenomenon pushing up commodity prices while wages lag behind, given the high unemployment rate and recession in the west.

Second, the link between domestic income and property prices do not necessarily work so well if there is a large foreign investment component involved. The same charts that look so nice for Japan and the USA do not work nearly as well for Hong Kong and, probably, places like London where there is a large amount of foreign money speculating in local capital markets and property. I did create the same chart for Hong Kong and indeed it does not look very good as property price increases during the 1980s and 1990s were well in excess of wages and inflation. But this probably does not apply for China as the market (both for capital and property) is relatively closed, meaning that local property prices probably will reflect domestic conditions just as it did in Japan and the US.

Third, one can plainly see that when property prices increase substantially and continuously faster than wages, a bubble is formed. We see that in the case of Japan from 1985-1990 and for the US from 2001-2006. Thus, it is entirely possible that property prices can rise faster than domestic wages or inflation, and this can be sustained for many years; but this is an outcome that clearly signals a bubble.

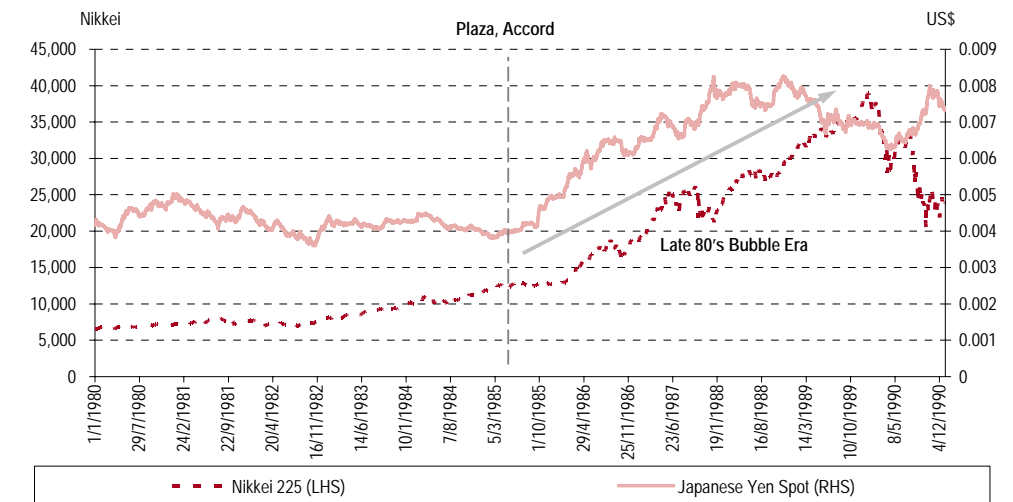
Let us assume that China will be successful in forming a bubble in asset prices, specifically property, over the next year. Preliminary signs of this are already abundant with transaction volume and prices rising in the major first-tier cities although it has not substantially migrated to the second and third-tier cities as yet. While some may be clever enough to call it a bubble and sound warning bells, I would guess a larger amount of people will be happy to participate in the recovery. In the early days when prices had not yet soared to astronomical levels and weird financial products had not been created like the “three-generation (100 year) mortgages” in Japan of the late 1980s or the “subprime mortgages” in the US, I would guess governments and individuals would see this as a good thing. This is because rising property prices and transaction volumes will inevitably lead to two things: A recovery in private sector investment in property development (this has only just started in China) and an increase in consumption due to the wealth effect.

Let us look at the longer history of the US bull market from 1982-2007. At the risk of being too general, one could say that economic growth over the first 20 years was driven by real productivity gains as technological innovations such as the personal computer and Internet helped boost efficiency. This effect was probably compounded by several other factors including the so-called “peace dividend” stemming from the collapse of the Soviet Union, while inflation was kept under control due to the deflationary impact of the additional three billion new workers in the global labour force (from the former Soviet Union, Eastern Block, China, and India). This was the golden era of the “Goldilocks Economy” (referred to by more clinical economists as the “Great Moderation”), when Americans thought, Asians perspired, and growth was not too hot nor too cold but just right.

But all good things eventually come to an end and when the technology bubble popped in 2000, the US was left looking for a new economic growth engine. Following 9/11, interest rates were slashed while the other major engine of American economic growth, financial services, flourished, resulting in the property bubble. In 1980, financial services accounted for about 10% of the S&P 500, and by the peak of the bubble in 2006, it was about 40%. But the bubble years were also a golden age, albeit short-lived. Rising property prices created the illusion of prosperity as housing pulls demand from all corners of the economy. Construction is labour-intensive and creates demand for a variety of upstream building materials such as wood, concrete, glass, steel, aluminium and copper. Housing also creates downstream demand as people fill their (heavily leveraged) homes with large flat-panel TVs, home appliances, curtains, furniture, fixtures and all the other accoutrements of modern life. At the same time, rising property prices also lead to the wealth effect where households believe they are richer and thus consume more. As such, while the reality was a property bubble, the background noise completely drowned this out as rising consumption also led to high corporate earnings and demand and turnover were strong, creating an apparently virtuous cycle.

I expect the same to happen in China over the next 12 months; rising property prices and investment will, on the surface, artificially increase domestic demand (although most market commentators will not spin it that way but instead call it a healthy rise in consumption), which will also pull corporate sales and earnings.

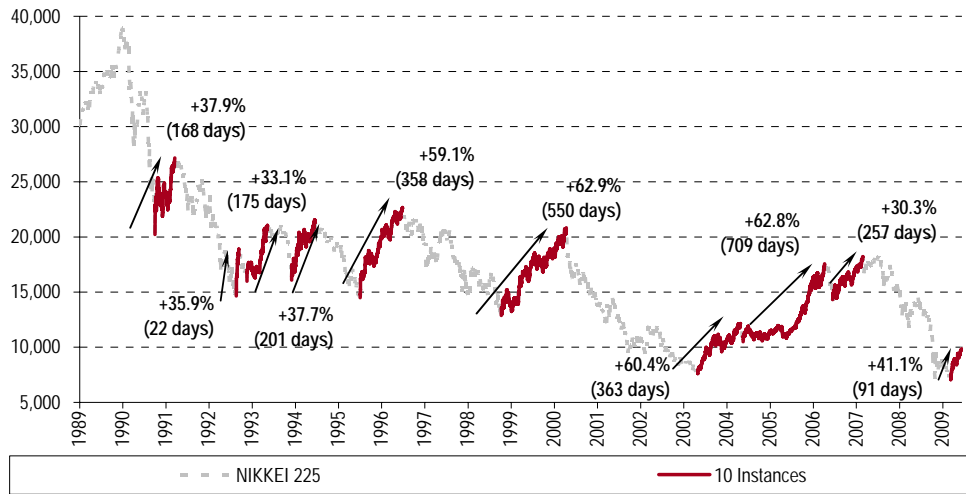
Japan's Bubble Economy Post-Plaza Accord (1985-1990) – Rising Yen and Stocks



Source: Bloomberg

Here I return to Japan's *Baburu Keiki* from 1985-90. Following the signing of the Plaza Accord in 1985, the Japanese yen began its sharp appreciation; or more accurately, the US dollar began its sharp depreciation versus other major world currencies including the Deutsche mark. As we saw earlier, this also marked the beginning of the sharp rise in Japanese property prices when, at its peak in 1990, commercial property in Ginza went for more than US\$1m per square metre and the value of the Imperial Palace in Tokyo was apocryphally said to be worth more than the State of California. Calculating as such, the market value of all the land in Japan was worth 50% more than the rest of the world combined. At the time, stocks also went on a tear, with the Nikkei 225 hitting its peak of almost 40,000 in 1989, a level that it has not come close to seeing again 20 years later. Of course, we all know well the aftermath of the collapse of the Japanese bubble economy. But during these horrible 20 years of economic stagnation and bear markets, the Nikkei has managed to have at least 10 major bear market rallies.

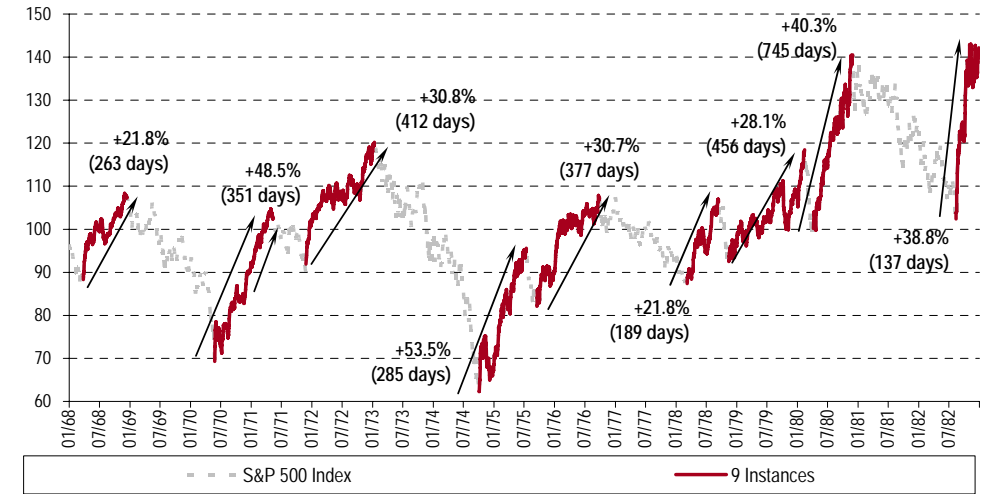
Nikkei 225 1980-2009 Bear Market Rallies



Source: Bloomberg

At this point I digress once more as there seems to be a common market misperception that bear markets last 12-18 months. In fact, real bear markets last 12-18 years punctuated by massive bear market rallies that sometimes last one or even two years and give the illusion that a new bull market has begun. Such is the case in Japan as well as the US during its 15-year bear market of 1968-82.

S&P 500 1968-1982 Bear Market Rallies



Source: Bloomberg

Many investors have asked me what they should buy in the case of inflation and, even worse, what should they do in the case of stagflation. Before I can answer these questions, one has to be familiar with the terminology. There is good inflation and bad inflation – just as there is good and bad deflation. Readers interested in the difference in the latter can revert to the June 2006 issue of *Huaqiao*. As for inflation, the bias in modern economic theory is that a little inflation (say 1-2 percent per year) is a good thing. I think that this bias stems also from the view that consumption is vital to every modern economy and thus a small amount of inflation helps reduce the propensity to save versus consuming. We all know the basic concept behind this – if a car is expected to be cheaper next year, at the margin, some people who do not need one right away may defer purchasing until next year.

Good inflation is the sort that happens when demand outstrips supply by just a little bit (demand-pull inflation). Thus, there are just enough people buying new gadgets to allow prices to rise a tiny little bit and allow businesses to ramp up their production lines a little as well. Then comes bad inflation, which almost always has its roots in excess money sloshing around the economy. However, it is also possible to have bad inflation due to structural changes such as the relaxation of price controls on things like food and petrol (or from an external shock such as the oil embargo of the 1970s) which then feeds into general domestic inflation (cost-push).

To the concept of bad inflation, we can add two other terms. Hyperinflation, where inflation rates are so high that the concepts of money and prices completely get wiped out, is clearly extremely bad as the market cannot adapt to prices changing at such a rapid rate. As I pointed out in April, as were the cases of Germany during the Weimar Republic of the 1920s and in Zimbabwe since 2003, you do not even need a functional banking system to create hyperinflation – all you need is a printing press. There is also another term, stagflation, that combines a stagnant economy (or one in recession) along with inflation. Until the 1970s, the concept of stagflation was an alien one to the “dismal science”, as economists (specifically Keynesians) considered it impossible to have both a recession and inflation at the same time.

This is an important fact to remember because the same Keynesians are the ones in the driver seat today telling government around the world to print money and spend trillions on fiscal stimulus. They are also the same people who are telling us that all this excess monetary expansion and printing will not result in inflation because there is a huge “output-gap” in the economy and the banking system is not functioning, which means that inflation cannot take root as there is no multiplier.

As I said earlier, my view of the world economy has not changed much over the past two years. I still think that the US and the developed world (including Japan) are in deep economic trouble and the process of unwinding the huge consumer-based leverage of the past two decades is going to take several years. I still believe that, in general, we are headed for a year or two (at least) of stagflation and that any talk of green shoots is still premature. What has changed substantially is my view on China, which I think will attempt a huge counter-cyclical reflation of the economy using its massive fiscal and monetary reserves. Thus, investors will be faced with two basic scenarios. Investing overseas will require a strategy best attuned to the stagflation scenario. Investing in China (and by proxy Hong Kong) should follow a bubble-economy strategy with a few domestic twists that apply only to the situation as it exists in China. More on this later.

For overseas investments, I first tried to discover what strategy would best suit the stagflation scenario. As I showed earlier, property is generally a good inflation hedge, but that may not apply this time given that the US and many other countries are currently still experiencing the aftermath of a collapsing property bubble. Investing in commodities is probably a good idea in any case, but since most readers are equity investors, telling you to buy property and resources is not very useful. So what is an equity investor to do?

As I said at the beginning, we seem to be doomed to repeat history. One possible explanation why this is so is that we always seem to think that “this time is different” or that we now know better and thus can avoid the same mistake. But history is full of repeated mistakes. For example, one would have thought that we could avoid dangerous asset bubbles, given that we have so many clear historical examples to warn us, ranging from the Dutch Tulip bubble of 1637, the South Seas bubble of 1720 and even the stock bubble of the roaring 1920s. And yet, we still managed to create the technology bubble of the late 1990s and the US property bubble of 2001-06. Even the maestro himself, Alan Greenspan, said that bubbles were nearly impossible to detect in advance and even if you could, the effects of trying to correct a bubble would be worse than if a central bank did nothing. He thus argued that the best policy decision for a central bank was to let things run their course and then try to set monetary policy after a bubble had burst in order to minimise the damage. Across the Atlantic, the Bank of England has an entirely different view, which is their belief that the central bank’s job is to ensure that all inflation, including asset price inflation, should be controlled. And yet, the result in both countries, despite completely opposite policy stances, was virtually identical.

But there may be an even more sinister agent at work which is, despite the Internet and the advent of the information age, we tend to ignore events and lose track of things that happened more than a decade ago. I tried to find information on the US stock market in the 1970s only to discover that most electronic services like Bloomberg and Reuters do not have data for most stocks prior to 1982. Moreover, I tried to find the relative performance of different industries during the great stagflation and bear market of the 1970s merely to find that Standard and Poor’s only began breaking down industrial sectors (in any useable form) in 1985.

Thus, I am left with anecdotes and speculation rather than cold hard data. Readers may remember in August 2008, I wrote about what *BusinessWeek* predicted in 1979 in the infamous article entitled *The Death of Equities*: “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.” Even this is not working out so well this time around as Las Vegas, along with other gaming companies and stocks, have been hammered in this crisis.

So when faced with an unanswerable conundrum, I turned again to the one man who seems to do very well over the long haul regardless if it is a boom or a bust – Warren Buffett. In May, I published a table showing that Berkshire Hathaway’s annualised investment returns during the great bear market of 1968-81 was 22.3% - even better than the 21.2% CAGR it showed during the bull market of 1982-2007.

So what did Warren Buffett buy during the stagflation and bear market of the 1970s? I replicate his core holdings in 1979 and 2008 below:

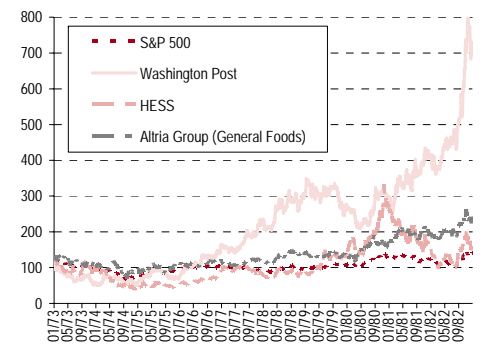
Berkshire Hathaway Equity Investments (1979 and 2008)

1979				2008			
(US\$ '000)		Cost	Market	(US\$ m)		Cost	Market
Affiliated Publications	Media & Advertising	2,821	8,800	American Express Company	Financial	1,287	2,812
Amerada Hess	Oil & Gas	2,861	5,487	The Coca-Cola Company	Consumer Staples	1,299	9,054
American Broadcasting Companies	Media & Advertising	6,082	9,673	ConocoPhillips	Oil & Gas	7,008	4,398
GEICO Corp. (Common Stock)	Insurance	28,288	68,045	Johnson & Johnson	Consumer Staples	1,847	1,795
General Foods, Inc.	Consumer Staples	11,437	11,053	Kraft Foods Inc	Consumer Staples	4,330	3,498
Handy & Harman	Media & Advertising	21,825	38,537	POSCO	Basic Materials	768	1,191
Interpublic Group of Companies	Media & Advertising	4,531	23,736	The Procter & Gamble Company	Consumer Staples	643	5,684
Kaiser Aluminum & Chemical Corp.	Basic Materials	20,629	23,328	Sanofi-Aventis	Pharmaceuticals	1,827	1,404
Media General, Inc.	Media & Advertising	4,545	7,345	Swiss Re	Insurance	773	530
Ogilvy & Mather International	Media & Advertising	3,709	7,828	Tesco plc	Consumer Retail	1,326	1,193
SAFECO Corporation	Insurance	23,867	35,527	U.S. Bancorp	Financial	2,337	1,879
The Washington Post Company	Media & Advertising	10,628	39,241	Wal-Mart Stores, Inc	Consumer Retail	942	1,118
F. W. Woolworth Company	Consumer Retail	15,515	19,394	The Washington Post Company	Media & Advertising	11	674
				Wells Fargo & Company	Financial	6,702	8,973
Others		28,675	38,686	Others		6,035	4,870
Total equities		185,413	336,680	Total equities		37,135	49,073

Source: Berkshire Hathaway

In the 1970s, his portfolio was heavily concentrated in media and advertising, oil and gas, consumer staples, retail, insurance and basic materials. In 2008, media and advertising are mostly gone, but the rest of the sector allocation remains remarkably similar, with a larger concentration on the consumer sector and the addition of a big position in banking and financial services.

Selected "Buffett" Stocks (1970s)



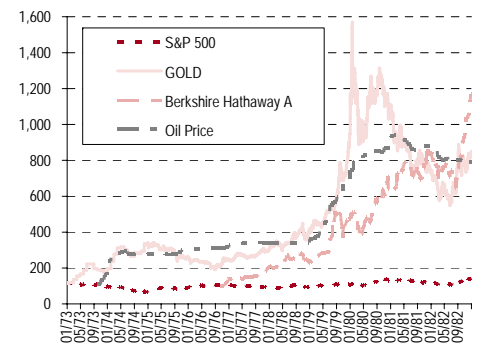
Source: Datastream

I picked three of Buffett's core holdings in 1979 that I could find data for: The Washington Post, Amerada Hess and General Foods. Not surprisingly, they did very well during the 1970s compared to the market. Berkshire Hathaway also performed extremely well during this period, which is not surprising given it managed to post annualised returns in excess of 20% despite the bear market. The absence of media in Buffett's 2008 portfolio requires some speculation. I suspect that this time around, the "new media" means Internet stocks like Google and Baidu, so Buffett's theory may still be intact, but it is hindered by the fact that he personally does not invest in high-technology stocks. For a domestic Chinese investor, this is of little use, given the paucity of Internet and technology stocks listed on the A and H markets (but for those who can invest overseas, there are a plethora of Chinese tech stocks listed on the Nasdaq). Sadly, and just as I suspected, the best performers during the 1970s was commodities like oil and gold. But in general, stocks, during a period of "bad inflation", and, even worse, stagflation, are not great investments.

As the *Economist* pointed out in its own discussion of the performance of equities during the 1970s, "At first blush, shares ought to be a good hedge against inflationary pressures. After all, inflation is a rise in the price of goods and services, and businesses make those goods and services. Their revenue should thus keep pace in real terms. In the jargon, equities are real assets and bonds a nominal one... Why have shares been such a flimsy hedge? It was not that profits failed to keep pace with prices... But simply keeping up with cantering inflation was not really good enough. As a share of GDP, American business profits fell from 12.2% in 1965 to 6.4% in 1982... Investors reacted to this long profits cycle by adjusting the stock-market rating. In the 1970s shares were savagely downgraded, with price/earnings ratios falling to single-digit levels. That explains the stock market's dismal performance."

But if I am right, China is not faced with this scenario. It is faced with a home-grown domestic asset bubble that will run counter-cyclical to the stagflationary pressures that are ravaging the world economy. That is why the cover illustration this month shows America going back to the 1970s (disco may not make a comeback but stagflation will) while China enjoy's its own version of *Baburu Keiki*. What to do now as a Chinese stock investor under this assumption is the topic of the next section.

Oil, Gold and Berkshire Hathaway (1970s)



Source: Datastream

The Second Wave: China's Asset Bubble

“Little more than a decade ago, the Japanese took the world by surprise with a frontal assault on world consumer electronics, automobile, motorcycle, and photographic markets... Today the Japanese are again on the move, and a second wave of Japanese competition is about to hit the western world. This time the target is services and financial services in particular. Once again it appears that the West will be taken largely by surprise” – Richard W. Wright and Gunter A. Pauli, 1987

Richard Wright was one of my professors at McGill University in 1993 while I was doing my MBA, and his book, *The Second Wave: Japan's Global Assault on Financial Services*, was required reading. Even by the early 1990s, professor Wright's magnum opus was already a bit dated given the collapse of the Japanese asset bubble and economy. Little did he, myself, or indeed the rest of the world, know that Japan was just entering a period of stagnation known as the *ushinawareta jūnen* (失われた 10年), or lost decade. I know that I am being a bit of a jerk making snide comments about my former teacher – a good Chinese student should always respect his masters, even if they are wrong. To be fair, professor Wright was intelligent and an interesting lecturer who always peppered his talks with anecdotes of his time in Japan, like his lament that he made a big mistake and should have married the daughter of some Japanese billionaire he met in Tokyo.

But his book was way off the mark. Even so, it is informative to note that his evidence to support the assertion that Japanese financial firms were about to take over the world was mostly based upon a few assertions. First, that the Japanese had tonnes of savings. Second, the Japanese banks and securities firms were huge in assets (nine of the top ten banks in the world were Japanese) and their profits were much higher than their western counterparts (Nomura was ten times more profitable than Merrill Lynch by the mid-1980s). Third, that they were nestled in a nicely protected Japanese market and part of large *keiretsu* (conglomerates) which gave them a huge advantage to launch their attacks on an unsuspecting west. Today, we can make the same comments about the Chinese financial services sector except we have to swap “state-owned enterprise” for “keiretsu”.

While nobody really thinks that the Chinese are going to take over the world, most reasonable forecasters do believe that the balance of economic power has clearly shifted to Asia (and specifically China) – especially given the financial crisis and depression that have swamped America and Europe. And, while professor Wright was wrong in the long-term, he was definitely right in the short-term as Japanese financial firms grew like crazy from 1985-1990 along with their stock prices.

So fearless prediction number one is that while Chinese banks may be creating an asset bubble that will eventually pop and end up causing massive damage to their balance sheet in the long-run; it is entirely possible and indeed likely that they will have fantastic growth in earnings and share prices as long as the bubble grows. Thus, while I am aware and cautious of the possible bad debt problem that Chinese banks are building up, I think this event will be several years in the future and you might as well enjoy the ride up in the mean time. So buy Chinese banks. Heck, even Warren Buffett thinks that financials are a decent inflationary hedge. This is a bit of a change of heart on my part as I have preferred insurance companies for the past few months. While I think life insurance will also do well as all financials should benefit from inflation, the big turning point for them will be when interest rates start to go back up, which will have a huge positive impact on long-term investment return assumptions and thus embedded value. Given that I would guess China keeps monetary policy loose (i.e. interest rates low) for some time, that event should be deferred until some later date.

Fearless prediction two is even scarier – buy property stocks. Yes, I know that they have already had a huge run up in price and, on NAV calculations may even seem expensive now. But if China's bubble is to be truly worthy of that title, it means that property values and transaction volumes will continue to be strong for some time. It also means that investment activity will also begin to pick up as developers resume construction of old projects and start building land bank again. Then we will have all the same old virtuous cycle of upward adjustments on NAV that always pushes property companies to lofty valuations. Property prices and volume rise, so gross margins and NAV rise. Then we start to price in increased land bank and future cash flow to NAV, and then add a premium to it just to be safe. My feeling is that we are just at the beginning of this trend despite the huge jump in share price over the past few months. While several hundred-percent increases may seem excessive, remember that they are off of very low valuations from the bottom which exaggerates the upward percentage rise in share prices.

Fearless prediction three is a counter-intuitive one and, as I suggested earlier, owes more to unique China factors than any global macro-trend. As the US economy struggles to recover and stagflation starts to take grip, I suspect that the government will continue to keep monetary policy loose and that the dollar will continue to weaken. Of course, it will not fall in a straight line and there will be major ups and downs. If you have huge amounts of debts denominated in your own local currency, it makes sense over the long haul to reduce the real burden of these debts through inflation and devaluation. Against this backdrop, we expect the renminbi to remain pegged to the greenback to protect Chinese manufacturers.

As I said previously, I think that China is going to deliberately create a domestic asset bubble to prop up the economy in the short-term but also in the hope that external demand (i.e. exports) recover next year. If this happens, it means that the manufacturing sector will recover which will give the government room to manoeuvre and tighten monetary and fiscal policy before the bubble inflates to stratospheric levels. But what if I am right and any recovery in America and Europe is weak and fleeting at best? This means that the hoped-for recovery in external demand does not emerge, but at the same time, pegging the renminbi to a devaluing US dollar means that China will import inflationary pressure in the form of rising commodity prices.

Faced with rising inflationary pressures, China may be tempted or forced to tighten monetary policy, which would cause an end to the asset bubble that I am talking about. But what if I am also correct in another assertion that this time the inflationary pressure is entirely a monetary phenomenon that pushes up commodity prices and input costs (i.e. cost-push), and does not have an immediate flow-through impact to wages and aggregate demand (i.e. not demand-pull inflation)? In this case, monetary policy in China will have little impact on the overall domestic inflation, as the cause of this inflation is mostly external. Under this scenario, China has administrative tools that it can employ, at least temporarily, to control the impact of this imported inflation. China used these price-control measures in 2006-07, the last time commodity prices soared, and it makes sense they will turn to them again. Thus, if the oil price moves over US\$80/bbl, upstream resources tax and price controls on refined products will start to adversely impact the profitability of listed oil and gas companies. Once over US\$100/bbl, as we saw in 2007, the impact is far greater with profits starting to fall and the government resorting to providing direct subsidies to Sinopec. Similarly, electricity prices also encountered price caps which, when faced with rising coal prices, which in turn caused power companies to lose money. Thus, for the short-term, we may still see upsides in oil and gas, and IPPs (especially as power generation statistics appears to have begun to recover) but over the medium-term, we are more inclined to believe the upside in the coal mining sector is better.

Some investors have commented that my still cautious view on the metals sectors seems at odds with my prediction of rising commodity prices. To this, I must clarify that my caution on listed Chinese metal companies is mostly because they are smelters which will suffer as the price of raw materials rise while demand and pricing for the finished products remains relatively weak. I do remain relatively positive on the few pure mining companies that are listed on the A and H share markets, especially gold miners which are a clear proxy to rising inflation.

I also remain positive on the consumption story in China, especially retail and consumer staples. These sectors will continue to do well in almost all the possible scenarios including inflation and an asset bubble. While consumer durables (of which autos and white goods are the biggest examples) will also benefit from a general increase in consumption driven by the excess cash and wealth effect from the domestic asset bubble, I believe that excess capacity in these industries is far too large to allow for a significant increase in bottom line profits. In other words, while sales volume may be robust, there is little pricing power, and given rising input costs, margins are likely to remain under pressure.

But global stock markets, including Hong Kong, have stagnated over the past month while the local A-share market hits new highs. Thus, I believe that there is the possibility of a retracement in Hong Kong, led by a decline in the US as the promised "green shoot" recovery falls short of expectations. I believe that any pull back in markets represents a great entry opportunity for investors to jump onto the bubble bandwagon at a lower cost.

In the end, valuations in Hong Kong remain, at best, already fairly-valued, although the possibility of further earnings upgrades should not be ignored given that domestic demand in a multitude of sectors will benefit from a reflation of the asset bubble. Valuations in the A-share market have long passed the point of being reasonable and are already in overvalued territory. Thus, investors who are willing to suspend disbelief and ride the next leg up are essentially counting on bubble valuations from excessive liquidity to sustain equity markets. I know that this is extremely risky as it has little fundamental backing but, as I see it, it is the most likely scenario to unfold over the next 6-12 months.

As for index targets, my original year-end targets (set at the end of last year) of 18,000 on the Hang Seng, 10,000 for H-shares and 2,500 for A-shares have been passed long ago. Rather than play the game of constant upward revisions in index targets to match rising stock prices, I prefer to say two things. First, any retreats below these levels is probably a reasonable entry point for new investors or those looking to add positions. Second, any moves substantially higher than these levels are basically dependent on China successfully puffing up an asset bubble, and thus fundamental valuations and analysis add little value in any case. I could say that I expect the Hang Seng to hit 25,000 and A-shares to hit 4,000 – but that would just be pulling numbers out of a hat, and investors can do just as good a job as me in guessing how big the bubble will get.

China – HK Strategy

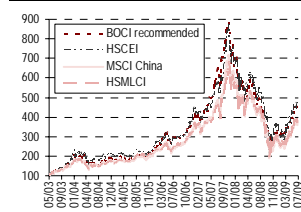
Performance Comparison

	% Change Since		
	1M	YTD	Incept*
BOCI recommended	2	42	356
MSCI China	0	35	280
HSMLCI	0	33	289
HSCEI	1	39	372

* Inception May 2003

Sources: Bloomberg, BOCI Research

Relative Performance



Source: BOCI Research

BOCI China-HK Recommended Stocks

	Stock code	Last price (HK\$)	3M avg. daily T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E (x)			Yield (%)			Change (%)			Date rec.	Wgt (%)
					FY08	FY09E	FY10E	FY08	FY09E	FY10E	1M	YTD	Since rec.		
Poly (Hong Kong)	0119.HK	5.38	74	2,085	44.8	20.3	13.8	1.0	1.3	48	210	0	03-Jul-09	4	
Golden Eagle	3308.HK	9.14	29	4,640	23.7	21.4	17.9	3.7	1.4	8	67	0	03-Jul-09	4	
Guangzhou Pharm.	0874.HK	3.96	19	871	6.8	6.5	5.5	7.7	10.9	17	53	17	05-Jun-09	8	
Huadian Power	1071.HK	2.56	38	15,414	(5.2)	11.8	7.8	2.1	3.2	5	43	5	05-Jun-09	7	
Weichai Power	2338.HK	24.90	48	4,978	9.5	9.5	7.7	0.6	0.7	(12)	72	(3)	08-May-09	4	
Tencent	0700.HK	88.75	362	76,552	51.7	32.8	26.2	0.6	0.8	(2)	78	49	03-Apr-09	4	
Tsingtao Brewery	0168.HK	24.95	37	16,340	40.7	29.7	24.4	1.1	1.7	12	55	39	03-Apr-09	4	
Phoenix Satellite	2008.HK	1.04	3	1,288	17.3	20.0	14.2	1.9	1.9	(9)	45	58	06-Mar-09	3	
Bank of China	3988.HK	3.70	1,865	309,937	13.0	10.2	10.9	5.2	4.9	4	73	70	06-Feb-09	7	
China Everbright Int'l	0257.HK	2.17	36	2,998	19.7	16.7	13.6	0.9	1.4	(13)	55	58	09-Jan-09	5	
Huabao	0336.HK	8.15	65	11,063	29.4	22.8	20.1	1.7	1.8	16	58	79	09-Jan-09	6	
Want Want	0151.HK	4.59	79	28,912	29.6	19.7	1.7	3.4	17	45	49	05-Dec-08	4		
Ajisen (China)	0538.HK	4.90	15	2,512	23.4	18.2	14.0	1.6	2.1	(8)	35	64	07-Nov-08	5	
Hengan International	1044.HK	37.00	98	17,240	32.0	23.2	20.3	2.5	3.0	7	48	41	05-Sep-08	6	
China Mobile	0941.HK	76.45	2,485	389,434	12.0	11.9	11.2	3.6	4.2	(4)	(2)	(33)	29-May-08	4	
Wumart Stores	8277.HK	9.44	10	6,357	25.8	23.2	19.3	2.2	2.6	6	63	58	07-Mar-08	7	
China Green	0904.HK	8.35	16	3,407	16.0	16.0	13.4	1.6	1.8	4	31	(1)	07-Mar-08	5	
CNOOC	0883.HK	9.38	1,152	121,386	8.3	12.3	8.6	2.8	4.1	(16)	28	(21)	01-Feb-08	3	
Beijing Enterprise	0392.HK	39.75	103	18,530	20.9	17.6	15.3	2.1	2.4	6	22	59	01-Jun-07	5	
Cash (incl. dividends)														7	
Total														100	
Stocks removed or reduced from the BOCI China-HK recommended list															
Chongqing	1053.HK	3.06	30	1,685	7.8	23.9	8.5	1.5	4.2	(17)	57	7	08-May-09	5	
Vinda International	3331.HK	4.95	13	2,237	28.4	16.0	13.7	1.6	1.8	24	147	60	06-Mar-09	4	

Stocks in bold are new additions to the recommended list.

Sources: Bloomberg, BOCI Research estimates

Hong Kong Strategy

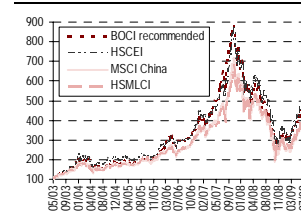
Performance Comparison

	% Change Since		
	1M	YTD	Incept*
BOCI recommended	(1)	35	202
MSCI HK	(5)	31	82
HSKCI	(5)	23	41
HSI	(3)	27	96

* Inception May 2003.

Sources: Bloomberg, BOCI Research

Relative Performance



Source: BOCI Research

BOCI HK-HK Recommended Stocks

	Stock code	Last price (HK\$)	3M avg. daily T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E (x)			Yield (%)			Change (%)			Date rec.	Wgt (%)
					FY08	FY09E	FY10E	FY08	FY09E	FY10E	1M	YTD	Since rec.		
Sun Hung Kai Property	0016.HK	95.25	832	141,648	21.5	20.7	20.2	2.6	2.7	(6)	46	0	3-Jul-09	7	
Link REIT	0823.HK	17.16	176	34,085	23.1	14.9	18.6	4.9	5.4	3	35	0	3-Jul-09	7	
Hysan	0014.HK	18.42	35	11,250	12.0	14.7	14.4	4.1	4.2	(1)	46	(1)	5-Jun-09	6	
PCCW	0008.HK	1.99	138	6,987	10.6	5.9	5.6	75.4	11.1	(10)	(16)	(10)	5-Jun-09	5	
Li & Fung	0494.HK	20.85	295	24,901	30.7	20.1	15.2	4.0	5.2	(17)	54	(3)	8-May-09	3	
SCMP	0583.HK	1.26	1	492	11.4	13.4	9.3	4.8	5.6	(9)	(52)	22	3-Apr-09	5	
Ports	0589.HK	18.40	34	6,285	21.5	19.4	16.6	4.5	3.7	1	93	108	6-Mar-09	6	
Comba	2342.HK	4.40	19	1,614	16.5	12.4	9.6	2.1	2.8	9	243	111	6-Feb-09	10	
Galaxy	0027.HK	2.03	39	2,009	101.5	7.8	n.a.	1.5	0.0	(6)	90	41	9-Jan-09	5	
Cafe de Coral	0341.HK	15.48	15	4,172	20.4	17.6	15.0	4.9	4.7	(0)	(1)	11	7-Nov-08	5	
TVB	0511.HK	31.50	25	9,382	13.1	14.1	10.8	5.4	5.7	(4)	23	18	7-Nov-08	5	
V-tech	0303.HK	54.10	19	7,985	7.9	12.0	10.2	7.6	7.9	26	65	18	26-Sep-08	7	
CLP	0002.HK	51.30	309	88,951	11.9	14.4	13.9	4.8	4.8	(1)	(2)	(21)	5-Sep-08	3	
Hang Seng Bank	0011.HK	106.30	374	77,022	14.4	16.4	14.8	5.9	6.2	(10)	4	(33)	1-Aug-08	5	
MTR Corporation	0066.HK	23.55	141	30,842	16.4	19.0	21.1	2.0	2.0	(6)	29	(26)	4-Jan-08	5	
Standard Chartered Bank	2888.HK	145.40	148	223,886	10.8	10.9	10.8	3.9	3.9	(8)	57	(22)	9-Mar-07	5	
HK & China Gas	0003.HK	16.00	140	57,594	24.6	25.0	23.2	2.2	2.3	(1)	36	61	23-May-03	5	
Cash (incl. dividends)														6	
Total														100	

Note: Stocks in bold are new additions to the recommended list.

Sources: Bloomberg, BOCI Research

China – A Strategy

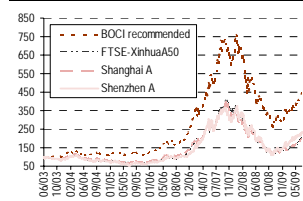
Performance Comparison

	% Change Since		
	1M	YTD	Incept. *
BOCI recommended	11	55	350
Shanghai A	12	70	102
Shenzhen A	9	81	137
FTSE-XinhuaA50	17	80	109

* Inception May 2003

Sources: Bloomberg, BOCI Research

Relative Performance



Source: BOCI Research

BOCI China-A Recommended Stocks

Stock code	Last price (Rmb)	3M avg. daily T/O (Rmb m)	Free float mkt cap (Rmb m)	P/E (x)	Yield (%)	Change (%)	Wgt.								
Shenhua Energy	601088.SS	33.45	1,392	59,879	25.0	23.6	22.2	1.5	1.6	23	94	0	3-Jul-09	6	
Poly Real Estate	600048.SS	30.51	667	32,169	33.4	25.4	21.1	0.3	0.4	24	168	0	3-Jul-09	6	
Dongfang Electric	600875.SS	40.91	251	12,990	204.6	22.4	15.3	0.0	0.1	(4)	34	(4)	5-Jun-09	4	
China Vanke	000002.SZ	14.28	1,839	135,027	38.9	28.4	20.6	0.5	0.7	34	124	34	5-Jun-09	6	
Yanjing Brewery	000729.SZ	14.83	148	7,178	38.9	29.2	23.7	1.4	1.7	7	13	7	8-May-09	6	
FAW Car	000800.SZ	16.21	264	12,403	24.3	21.6	18.4	2.0	1.8	8	127	2	8-May-09	6	
Bank of China	601988.SS	4.63	563	35,258	14.5	16.0	16.5	3.5	3.2	25	58	41	6-Feb-09	3	
ZTE - A	000063.SZ	28.81	312	38,692	23.9	22.3	19.0	0.9	1.1	10	39	38	9-Jan-09	3	
Wuhan Zhongbai	000759.SZ	9.71	126	5,159	33.3	28.0	22.8	1.0	1.0	4	3	9	5-Dec-08	3	
China Animal	600195.SS	20.80	171	3,775	49.5	27.7	25.1	2.0	2.2	4	71	92	5-Dec-08	6	
Hebei Chengde Lolo	000848.SZ	16.32	67	1,781	28.1	25.5	22.7	2.8	3.1	4	2	42	7-Nov-08	4	
Yantai Changyu Wine	000869.SZ	55.09	71	4,575	32.4	26.9	21.9	2.6	3.2	9	11	44	7-Nov-08	4	
China Life	601628.SS	29.47	926	44,205	82.7	46.3	36.8	1.2	1.7	22	58	12	1-Aug-08	3	
Yabao Pharmaceutical	600351.SS	11.03	156	1,743	20.4	27.0	22.0	1.5	2.3	8	75	55	29-May-08	4	
Qinghai Salt Lake Potash	000792.SS	56.81	429	22,208	31.9	15.7	16.8	2.9	4.4	5	(0)	(32)	7-Apr-08	4	
Wangfujing Dep.Store	600859.SS	26.19	103	5,197	29.9	28.0	22.7	0.7	0.7	6	35	(42)	7-Dec-07	1	
Shandong Gold Mining	600547.SS	63.55	1,243	9,954	35.5	26.7	23.7	1.7	2.0	10	158	50	2-Nov-07	6	
Pingdingshan Tian'an Coal	601666.SS	31.77	641	14,003	12.8	21.9	19.6	2.1	2.3	15	243	15	7-Sep-07	9	
Kweichow Moutai	600519.SS	145.92	385	59,495	33.2	27.2	23.1	1.5	1.7	16	32	902	20-Jun-03	8	
Cash (incl. dividends)														9	
Total														100	
Stocks removed or reduced from the BOCI China-A recommended list															
PetroChina	601857.SS	15.09	885	55,236	24.2	28.3	21.0	1.6	2.1	7	49	30	3-Apr-09	5	
Ping An Insurance	601318.SS	55.52	1,426	217,762	616.9	31.5	27.5	0.6	0.8	23	111	63	6-Mar-09	8	

Note: 600351 and 600547 shares up 100% (100% bonus), and all price are now adjusted; 002028 shares up 60% (60% bonus) and all price are adjusted; Stocks in bold are new additions to the recommended list.

Sources: Bloomberg, BOCI Research

China Economy

- June data from the US is mixed. The Supply Management's index of manufacturing activity surged to 44.8% in June from 42.8% in May; which suggested that US manufacturing activity is contracting at a slower pace. Pending home sales, an index of contracts signed that is typically released about a month before reported sales, also rose slightly; indicating that the property market is stabilising. However, the numbers also revealed some negative signals—new orders declined in June while the consumer confidence index dropped to 49.3 from a revised 54.8 in May, according to the Confidence Board.
- At the same time, worse-than expected employment data further dashed confidence in the recovery. Official data showed that the number of employed people fell 467,000 in June, and the unemployment rate rose from 9.4% to 9.5%, its highest in 26 years. There is much discussion over the dilemma the government faces in its interest rate policy. The yield on short-term US government debt fell, suggesting the market believes the prospect of an early rise in interest rates has diminished. Over the long term, however, the government will have to incur even more debt in order to boost employment, which could lead to higher interest rates and ultimately undermine the prospect of a V-shaped recovery.
- In contrast to the US, China continues to back its claim that it is on the path of sustainable recovery. On July 23, the National Statistical Bureau (NBS) published an article on its website saying that the growth of GDP approached 8% YoY in 2Q09. It is quite unusual for the NBS to publish such an article before the announcing the official data. However, people usually take for granted all NBS announcements. The article seems to have been published in order to add credence to the government's assessment that economic recovery is well underway. Since then, the market has become ever-more optimistic; even to the point that discussions have turned toward whether the economy may see overheating in 2010.
- Logically, if the economy overheats in the next few months, policy response should be rapid, which would cause the stock market to cool on the anticipation of tightening measures. However, this time is proving exceptional, as mainland stock markets continue to outperform those of other countries. We do not know if the market really believes the overheating story, or even if it wants to believe there may be a bubble at all!

- We note that Governor Zhou Xiaochuan has spoken publicly about the excessively high corporate saving ratio (corporate deposits to GDP), which reached 22.9% in 2007. The high corporate deposit ratio suggests that corporations need to find new investment targets. In line with Mr Zhou's analysis, some media outlets have reported that Beijing has recorded a tremendous surge in land (for residential housing) prices this week. We note that the claim was made by a state-owned chemical corporation as opposed to a property company. The claim suggested that overly high land prices could easily kill a company. This suggests that more and more companies are turning to the property sector, mainly owing to the fact that there are currently limited investment opportunities in their own given sectors. We do agree that greater amounts of liquidity are funnelling into property purchases, and housing prices are rising fast.
- China seems entering a period of property-driven economic growth. People now tend to believe the property sector will be the key growth engine and incur very long value chains. However, we are worried that China will repeat the Japanese story – where stellar housing prices eventually damaged domestic consumption and led to a resounding “pop” of the bubble. Beijing needs to be very cautious and strive for balance.
- Returning to the numbers, we have reasons to believe that with more data now coming out, GDP growth may well exceed 8% in 2Q09 and 7% in 1H09 with the accelerating FAI growth. Although expectations of inflation are already quite high, we do not see it coming back until the fourth quarter. It is astounding that China will see a combination of relatively high GDP growth (more than 8%) along with very low inflation in 2009—an ideal scenario for bull markets. However, we must point out the policy uncertainties that may arise in the fourth quarter, if not sooner.

China Monthly Economic Indicators (2007-09)

	2008	2009E	2010E	May08	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan09	Feb	Mar	Apr	May
Real economy (YoY %)																
GDP*	9.0	8.0	6.1	-	10.1	-	-	9.0	-	-	6.8	-	-	6.1		
VAIO (real)	13.0	9.0	8.5	16.0	16.0	14.7	12.8	11.4	8.2	5.4	5.7	-	3.8	8.3	7.3	8.9
-Light industry	12.3	8.5	7.5	13.5	13.3	12.2	11.7	11.2	10.3	10.1	8.1	-	6.5	8.5	8.2	9.7
-Heavy industry	13.2	10.2	8.6	17.0	17.1	15.7	13.2	11.5	7.3	3.4	4.7	-	2.7	8.3	6.9	8.6
Industrial sales ratio (%)	97.8	96.5	96.5	98.0	97.5	98.1	97.8	97.6	97.4	97.0	98.7	-	97.2	96.9	97.8	97.3
FAI* (YoY %)																
- Property	20.9	6.5	5	31.9	33.5	30.9	29.1	26.5	24.6	22.7	20.9	-	1	4.1	4.9	6.8
Retail sales*	21.6	12.0	10.2	21.6	23.0	23.3	23.2	23.2	22.0	20.8	19.0	-	15.2	14.7	14.8	15.2
External sector																
Exports (US\$ bn)	1,429	1,257.5	1,333.0	120.5	121.5	136.7	134.9	136.4	128.3	115.0	111.2	90.5	64.9	90.3	91.9	88.8
Export growth (YoY %)	17.2	(12.0)	6.0	28.1	17.6	26.9	21.1	21.5	19.2	(2.2)	(2.8)	(17.5)	(25.7)	(17.1)	(22.5)	(26.4)
Imports (US\$ bn)	1,133	1,031.0	1,113.5	100.3	100.2	111.4	106.2	107.1	93.1	74.9	72.2	51.3	60	71.7	78.8	75.4
Import growth (YoY %)	18.5	(9.0)	8.0	40.0	31.0	33.7	23.1	21.3	15.6	(17.9)	(21.3)	(43.1)	(24.1)	(25.2)	(23)	(25.2)
Trade balance (US\$ bn)	295.5	230	219.5	20.2	21.4	25.3	28.7	29.3	35.2	40.1	39.0	39.2	4.9	18.6	13.3	13.4
FDI* (US\$ bn)																
	92.4	60.0	65	7.8	9.6	8.3	7.0	6.7	6.7	5.3	6.0	7.5	5.8	8.4	5.9	6.4
Money supply (YoY %)																
M0	12.7	13.0	12.6	12.9	12.3	12.3	10.9	9.3	10.6	9.0	12.7	12.0	8.3	10.9	10.9	11.2
M1	9.1	16.0	11.5	15.3	14.2	14.0	11.5	9.4	8.9	6.8	9.1	6.7	10.9	17.0	17.0	18.7
M2	17.8	22.5	12.8	18.1	17.4	16.4	16.0	15.3	15.0	14.8	17.8	18.8	20.5	25.5	25.5	25.7
Deposit rate, 12M (%)	2.25	1.98	1.98	4.14	4.14	4.14	4.14	4.14	3.60	2.52	2.25	2.25	2.25	2.25	2.25	2.25
Lending rate, 12M (%)	5.31	5.04	5.04	7.47	7.47	7.47	7.47	7.20	6.66	5.58	5.31	5.31	5.31	5.31	5.31	5.31
FX reserves* (US\$ bn)	1,908	2,130	2400	1,797	1,809	1,845	1,884	1,906	1,880	1,885	1,946	1,913	1,912	1,954	-	-
Inflation (YoY %)																
National CPI	5.9	0	1.6	7.7	7.1	6.3	4.9	4.6	4.0	2.4	1.2	1	(1.6)	(1.2)	(1.5)	(1.4)

*Periodical; no single month data from the NBS

Sources: NBS, MOF, MOC, PBOC and BOCI Research

Value Added Industrial Output (VAIO)

YoY %	2008							2009				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May
VAIO	16	16	14.7	12.8	11.4	8.2	5.4	5.7	3.8	8.3	7.3	8.9
Heavy industry	17.0	17.1	15.7	13.2	11.5	7.3	3.4	4.7	2.7	8.3	6.9	8.6
Light Industry	13.5	13.3	12.2	11.7	11.2	10.3	10.1	8.1	6.5	8.5	8.2	9.7

Source: NBS

China's valued-added industrial output (VAIO) rose 8.9% YoY, up from the rise of 7.3% YoY in April, but 7.1ppts lower than the increase of 16% YoY in the same month last year, according to the National Bureau of Statistics (NBS). The delivery value for exports dropped 15% YoY in May, after decreasing 14.9% YoY in April, in line with the deterioration in May exports.

The rebound in VAIO was mainly due to the better performance in heavy industries in May. The output of smelting and pressing of ferrous metals rose 2.3% YoY, and that of communication & electronic equipment grew 4.3% YoY in May, rebounding from the decrease of 1.7% YoY and increase of 1.1% YoY, respectively, in April. Meanwhile, the VAIO growth rates in raw chemical materials and non-metal mineral products accelerated to 11.1% YoY and 14.7% YoY in May from the increase of 9.5% YoY and 11.7% YoY in April. Machinery sectors also saw a pick-up in VAIO in May. The VAIO of universal equipment registered a growth of 9.3% YoY, that of transport equipment grew 12.8% YoY, while output of electric machinery and equipment rose 11.2% YoY in May, compared to the increase of 7.1% YoY, 9.6% YoY and 11.1% YoY in April.

Despite the consecutive significant decline in exports, the VAIO growth saw a partial rebound in recent months compared to that in 4Q08. The main reason is the better performance of residential and automobile sales since the beginning of this year. Compared to the historical level, current VAIO growth is still quite low. Our forecast for overall VAIO growth in 2009 is about 9% YoY. We believe the industrial sector will maintain a steady climbing trend for the rest of the year.

Industrial Profits

YTD %	2007				2008				2009	
	Feb	May	Aug	Nov	Feb	May	Aug	Nov	Feb	May
Total profit (Rmb bn)	293.2	902.6	1,562.3	2,295.1	348.2	1,094.4	1,868.5	2,406.6	219.1	850.2
Change (%)	24.9	42.1	37.0	36.7	16.5	20.9	19.4	4.9	(37.3)	(22.9)
Net profit at SOEs	18.9	42.3	31.0	29.6	(5.6)	1.5	0.7	(14.5)	(59.2)	(41.5)
Tax payments	293.2	24.9	24.4	25.3	24.8	26.4	26.7	20.7	8.3	7.1
Receivables	43.8	18.8	19.5	18.8	17.2	17.2	16.0	12.3	7.3	8

Source: NBS

Profits of industrial enterprises above designated size (with annual sales revenue of more than Rmb5m) fell about 15.4% YoY during March-May 2009, after the decreases of 37.3% YoY in 2M09 and 26.6% YoY in September-November 2008. Sales revenue turned to positive growth of 1.5% YoY from the decline of 3.1% YoY in 2M09. Meanwhile, the main operating margin of overall industry rose to 13.9% from 12.7% in 2M09 and 12.1% in September-November 2009. The profit margin (profit as a percentage of sales revenue) climbed to 5.1% in March-May 2009 from 3.6% in 2M09 and 4.4% in September-November 2008. Meanwhile, the turnover time of account receivables and finished products showed an obvious decline to 30.6 days and 17.7 days in March-May 2009 from 41.7 and 24.9 days in 2M09, respectively, but a bit longer than in the same period last year.

As prices of most commodities saw a sharp decline from 2H08, most processed manufacturing industries saw a marked improvement in profit margins. Specifically, petroleum processing turned to a profit of Rmb44.8bn in 5M09 from a loss of Rmb44.9bn in 5M08, which contributed about 7ppts to the improvement in overall industrial profit growth. The profit margin in petroleum processing rose to 7% in March-May 2009 from 4.9% in 2M09. For steel and non-ferrous metals, respective profits dropped about 95.2% YoY and 61.2% YoY in March-May 2009, less severe than the decreases of 103% YoY and 115.9% YoY in 2M09. However, the profit margins of tobacco processing and garment & other fibre products deteriorated from 19.9% and 4.9% in 2M09 to 17.1% and 4.2% in March-May 2009 while margins in steel, chemical fibre and some export-driven sectors (such as textiles, furniture, cultural, educational & sport articles and electronic & communication equipment) were still quite low compared to the previous periods.

As the positive effects of cost declines and rebound in demand gradually set in, industrial profits may see further improvement in the near term. In the longer term, however, uncertainties still exist, especially in the sustainability of the demand rebound and the dynamic changes in commodity prices as expectations of inflation have actually started to pick up amid the easing of credit and fiscal expansion in recent months.

Fixed Asset Investments (FAI)

YTD %	2008								2009					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb	Mar	Apr	May
Total FAI	24.6	-	-	26.3			27.0			25.5		28.8		
Urban FAI	25.9	25.74	25.6	26.8	27.3	27.4	27.6	27.2	26.8	26.1	26.5	28.6	30.5	32.9
Urban FAI /total FAI (%)	83.9	-	-	85.4			85.9			86		83.8		
- Primary Industry	80.8	71.6	66.1	69.5	61.9	63.5	62.8	61.8	57.4	54.5	100.3	85.0	82	79.7
- Secondary Industry	25.9	25.9	25.6	26.6	27.9	28.8	30.2	30	29.5	28	24.8	26.8	27.8	29.1
- Tertiary Industry	25.3	24.9	25.0	26.2	26.0	25.5	24.8	24.3	24.1	24.1	26.9	29.1	31.6	34.9
- Property	32.3	32.1	31.9	33.5	30.9	29.1	26.5	24.6	22.7	20.9	1.0	4.1	4.9	6.8

Source: NBS

National Bureau of Statistics (NBS) data shows that China's urban fixed asset investments (FAI) grew 32.9% YoY in 5M09, stronger than the increase of 30.5% YoY in 4M09 and 28.6% YoY in 1Q09. The consecutive pick-ups in recent months have been mainly due to the government's stimulus measures for infrastructure projects and industrial upgrades, as well as a significant rebound in property investments. FAI in central government-approved projects rose 28.0% YoY in 5M09, down from 29.3% YoY in 4M09, while that in local government-approved project picked up 33.4% YoY in 5M09, 2.8ppts higher than the rise of 30.6% YoY in 4M09. Meanwhile, urban FAI in agriculture, the secondary industry and the tertiary sector (including transportation and other infrastructure) rose 79.7% YoY, 29.1% YoY and 34.9% YoY, respectively, in 5M09, compared to the corresponding increases of 82.1% YoY, 27.8% YoY and 31.6% YoY in 4M09.

On the back of the government's stimulus measures, urban FAI in railway transport, and electricity and heating power sustained high growth rates of 110.9% YoY and 20.5% YoY in 5M09, after rising 94.2% YoY and 18% YoY in 4M09, respectively. Probably due to fiscal subsidies and support for industrial upgrades, urban FAI in mining, smelting and pressing of ferrous metals and that in non ferrous metals rose 7.0% YoY and 25.8% YoY in 5M09, after increasing 4.7% YoY and 26.3% YoY in 4M09, respectively. For the property sector, FAI went up 6.8% YoY in 5M09 from 4.9% YoY in 4M09. In May alone, property investment increased 11.9% YoY, the highest level in the past several months.

The performance of the property sector actually beat the market expectation for obvious reasons in recent months. Amid the strong sales of residential properties and the expansionary monetary policy, property developers no longer face the cash constraints they saw last year as they are once again generating strong cash flows. The land market has been booming and investments in property development have rebounded. We have raised our urban FAI growth forecast for the current year from 14.5% YoY to 19.5% YoY, with property investments projected to turn around from a decline of 7.1% YoY in 2008 to growth 6.5% YoY in 2009. In the near term, due to the high growth rates of newly started projects and projects under construction, urban FAI may sustain stable and high growth in the near future.

Retail Sales

YoY %	2008								2009				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May	
Retail sales	21.6	23.0	23.3	23.2	23.2	22	20.8	19.0	15.2	14.7	14.8	15.2	
Urban	22.3	23.5	24.0	23.9	23.9	22.1	20.3	19.0	14.4	13.7	13.9	15	
Rural	20.1	22.0	21.8	21.8	21.8	21.9	21.8	18.9	17.0	16.8	16.7	15.6	

Source: NBS

China's retail sales grew 15.2% YoY in May, up from the rise of 14.8% YoY in April, according to the NBS. Retail sales in rural areas grew 15% YoY, and those at county and under-county level surged 15.6% YoY in May, compared to the respective increases of 13.9% YoY and 16.7% YoY in April.

The pick-up in retail sales in May was mainly due to the strong growth in sales of basic daily-use goods during the Dragon Boat Festival and May Day holidays, as well as a marked rebound in the residential, automobile and other related durable item purchases. In May, retail sales of grain and edible oil picked up 15.6% YoY, that of meat, poultry and eggs rose 13.3% YoY, and sales of clothing and daily use goods grew 22.1% YoY and 15.4% YoY, up significantly from the corresponding increases of 4.8% YoY, 6.5% YoY, 14% YoY and 13.7% YoY in April. Meanwhile, growth in sales of automobiles and petroleum-related products accelerated to 23.8% YoY and 5% YoY in May from the increases of 18.5% YoY and 0.3% YoY in April. Amid the strong rebound of residential sales, retail sales of furniture picked up 33.3% YoY, that of household electric & video appliances grew 12% YoY, and sales of construction & decoration materials rose 12.6% YoY in May, compared to the respective increases of 22.8% YoY, 0.6% YoY and 10.8% YoY in April. However, communication equipment sales still registered a decline of 7.8% YoY in May, after declining 8.4% YoY in April.

The steady growth of retail sales in recent months has resulted from the strong demand for basic goods and a marked pick-up in durable item consumption, primarily in the auto and residential sectors. Amid the strong sales of automobiles and homes, retail sales should maintain steady growth in the near term.

Foreign Trade

YoY %	2008								2009					
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Exports	21.8	28.1	17.6	26.9	21.1	21.5	19.2	(2.2)	(2.8)	(17.5)	(25.7)	(17.1)	(22.6)	(26.4)
Imports	26.3	40	31	33.7	23.1	21.3	15.6	(17.9)	(21.3)	(43.1)	(24.1)	(25.1)	(23)	(25.2)
Trade balance (US\$ bn)	16.7	20.2	21.4	25.3	28.7	28.7	35.2	40.1	39	39.1	4.9	18.6	13.3	13.4

Source: GAC

China's exports dropped 26.4% YoY in May, a deceleration from the declines of 22.6% YoY in April and 17.1% YoY in March, according to the official statistics. Imports fell 25.2% YoY after dropping 23.0% YoY in April and 25.1% YoY in March. Meanwhile, the trade surplus declined 33.7% YoY to about US\$13.4bn in May from US\$13.1bn in April.

Breaking down sectors, textile exports dropped 16.3% YoY, while those of garments and footwear declined about 13.7% YoY and 8% YoY in May, compared to the decreases of 14.4% YoY, 11.3% YoY and 4.4% YoY in April, respectively. Exports of most capital goods showed even more significant declines. Exports of steel products dropped 75.4% YoY, and those of automatic data processing machines plunged 25.5% YoY in May, after decreasing 64.5% YoY and 21.6% YoY in April, respectively. For mechanical and electrical products, exports decreased 24.3% YoY in May, versus the decline of 22.2% YoY in April. Exports of hi-tech products dropped 22.6% YoY in May, similar to April.

Although the global demand for commodities has declined sharply, China's imports have sustained strong growth in recent months. In May, China's import quantities of soybeans and iron ore rose 1.1% YoY and 37.4% YoY, compared to the increases of 55.2% YoY and 33% YoY in April, respectively. For crude oil, export volume rose 5.5% YoY in May, down from the increase of 13.6% YoY in April.

As the figures show, exports of most capital goods have seen further significant declines in recent months. On the demand side, the US and EU economies remain weak, especially in terms of consumption among debt-burdened households. On the supply side, both foreign direct investment (FDI) in China and urban fixed asset investment (FAI) showed weakening trends in recent weeks. Exports and imports of Korea, Taiwan and other neighbouring countries have also shown significant and consecutive declines of late. All these leading indicators show that China's exports are likely to remain weak in the coming months.

Foreign Direct Investment (FDI)

YoY %	2008					2009								
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Actual FDI	70.1	58.4	44.9	65.3	39.4	26.8	(0.86)	(36.5)	(5.7)	(32.7)	(15.8)	(9.5)	(22.5)	(17.8)
US\$ bn	7.6	7.8	9.6	8.3	7.0	6.7	6.7	5.3	6.0	7.5	5.8	8.5	5.9	6.4

Source: MOC

According to the Ministry of Commerce (MoC), China's actual foreign direct investment (FDI) declined 17.8% YoY in May, after dropping 22.5% YoY in April and 9.5% YoY in March 2009. The utilised FDI amounted to US\$6.4bn in May from US\$5.9bn in April and US\$8.5bn in March.

As foreign-funded enterprises account for about 85% of total processing exports in China, the change of FDI actually led the performance of exports. In other words, the consecutive declines of FDI suggest China's exports will remain weak going forward.

Consumer Price Index

YoY %	2008					2009							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
CPI	7.7	7.1	6.3	4.9	4.6	4	2.4	1.2	1.0	(1.6)	(1.2)	(1.5)	(1.4)
- Food	19.9	17.3	14.4	10.3	9.7	8.5	5.9	4.2	4.2	(1.9)	(0.7)	(1.3)	(0.6)
- Clothing	(1.5)	(1.5)	(1.4)	(1.1)	(1.2)	(1.3)	(1.7)	(2.2)	(2.7)	(2.3)	(2.3)	(2.3)	(2.3)
- Trans. & comm.	(1.6)	(1.1)	(0.3)	(0.2)	(0.2)	0.0	(0.7)	(1.4)	(2.5)	(3.0)	(2.5)	(2.2)	(2.3)
- Residences	7.1	7.7	7.7	7.1	6.5	4.6	1.1	(1.4)	(2.3)	(2.9)	(3.5)	(4)	(4.8)
- Medical segment	3.3	3.1	3.1	2.9	2.6	2.4	2.0	1.7	1.6	1.3	1.0	0.9	0.9

Source: NBS

China's Consumer Price Index (CPI) dropped 1.4% YoY in May, after decreasing 1.5% YoY in April 2009, according to the NBS. Month-on-month, the CPI edged down 0.1% in May from a drop of 0.2% in April.

The CPI decline was a tad bigger than our forecast, mainly due to the more significant drop in the price of pork. According to the NBS, the price of pork dropped 7.3% MoM, contributing to about 0.22ppt of the total decline (0.3% MoM) in May. Meanwhile, the price of residential units (for example building materials, rent, utilities, etc.) decreased 0.3% MoM in May. The price of non-food items declined 1.7% YoY and the overall services price decreased 1.3% YoY in May, after falling 1.5% YoY and 1.4% YoY in April. On a month-on-month basis, the services price was stable. The price of household appliances and services rose 0.5% YoY and that of medical and personal care increased 0.9% YoY in May, unchanged since April. The price of grain went up 0.8% MoM in May after consecutive month-on-month increases in 4M09.

Inflation/Deflation

YoY %	2008					2009								
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
EFPI	8.1	8.2	8.8	10	10.1	9.1	6.6	2.0	(1.1)	(3.3)	(4.5)	(6.0)	(6.6)	(7.2)
PPI	11.8	11.9	13.5	15.4	15.3	14	11	4.7	(0.16)	(5.3)	(7.1)	(8.9)	(9.6)	(10.4)
CPI	8.5	7.7	7.1	6.3	4.9	4.6	4	2.4	1.2	1	(1.6)	(1.2)	(1.5)	(1.4)
Crude oil	37.9	30.9	35.9	41.2	38.2	25.6	11.3	(14.7)	(39.7)	(49.9)	(54.8)	(54.2)	(53.6)	(50.6)

Source: NBS

The Ex-factory Price Index (EFPI) and the Purchasing Price Index (PPI) for materials, fuels and power declined 7.2% YoY and 10.4% YoY in May, compared to the falls of 6.6% YoY and 9.6% YoY in March, respectively.

Although most commodity prices rebounded strongly since last month, the EFPI and PPI still showed significant year-on-year declines in May because of the higher bases of comparison last year. In May, the prices of crude oil, ferrous metals, and non-ferrous metals declined 50.6% YoY, 22.4% YoY and 23.9% YoY, compared to the decreases of 53.6% YoY, 28.7% YoY and 25.7% YoY in April, respectively. The prices of non-ferrous metal materials, power, ferrous metal materials and chemical materials dropped 28.7% YoY, 14.5% YoY, 17.6% YoY and 9.8% YoY, respectively, in May, versus the corresponding decreases of 14% YoY, 13.7% YoY, 29% YoY and 9.4% YoY in April.

Amid the rebound in commodity prices and enterprises' stronger expectations of an economic recovery, if we assume that overall ex-factory prices will rise about 0.5% MoM in June, then the EFPI will decline 7.6% YoY this month. As a result of different sources of statistics, as well as weak end-user demand, it still hard to see rebounds in commodity prices translating to a higher increase in consumer prices and, ultimately, the CPI. However, if prices of commodities, especially, either rise consecutively or remain high, they may push up prices of chemical fertilisers and other agricultural input materials, which, in turn, will put upward pressure on prices of agricultural products and, again, the CPI. However, we cannot picture such a scenario, as it is still the "weak demand season" for fertilisers. Because of the rise in grain prices, increasing inflation expectations and likely pick-up in vegetable prices during south China's "rainy season" over the summer months, the overall price of food items may see a much smaller decline or even a modest rise after June. However, due to the high base last year, the CPI will probably still see negative year-on-year growths in June and July. We expect the CPI to decline about 1.2% YoY in each of June and July.

Monetary Performance

YoY %	2008								2009					
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
M0	10.7	12.9	12.3	12.3	10.9	9.3	10.6	9.0	12.7	12.0	8.3	10.9	11.3	11.2
M1	19.05	15.3	14.2	14.0	11.5	9.4	8.9	6.8	9.1	6.7	10.9	17.0	17.5	18.7
M2	16.94	18.1	17.4	16.4	16.0	15.3	15.0	14.8	17.8	18.8	20.5	25.5	26.0	25.7
Loan / deposit	66.22	65.6	65.2	65.4	65.1	65.2	65.1	63.9	65.1	66.4	66.4	66.9	66.7	66.3
M1/M2, %	35.35	35.1	34.9	34.7	35.0	34.4	34.7	34.4	35.0	33.3	32.8	33.3	33.0	33.2

Source: PBOC

Renminbi lending jumped 30.6% YoY in May, after rising 29.7% YoY in April and 29.8% YoY in March, according to People's Bank of China (PBOC) statistics. Renminbi deposits rose 26.7% YoY, higher than the increase of 26.2% YoY in April. The lending-to-deposit ratio was slightly down from 66.7% in April to 66.3% in May. Due to the high growth of lending, growth rates of demand deposit and the M1 supply accelerated to 20.5% YoY and 18.7% YoY in May from 19% YoY and 17.5% YoY in April. Meanwhile, the M2 supply rose 25.7% YoY in May, slightly down from 26% YoY in April.

PBOC statistics show that incremental renminbi lending reached about Rmb664.5bn in May, significantly higher than the former market expectation. The breakdown shows that incremental lending to households reached Rmb187.6bn in May 2009, up from Rmb147.2bn in April 2009 and Rmb69.3bn in the same period last year. The rise in household lending, especially long-term loans, has fallen in line with the rebound in residential sales over recent months. Meanwhile, incremental lending to non-financial corporations and others amounted to Rmb476.9bn in May, rising from Rmb444.6bn in April. We note that the weight of bill discounting loans in the overall incremental lending was about 13%, down sharply from 21.2% in April and 19% in March. This is a positive sign, as more incremental loans went into the real economy in term of project financing.

Renminbi deposits grew 26.7% YoY in May, up from 26.2% YoY in April and 25.7% YoY in March. In May, total incremental deposits reached Rmb1.3trn, compared to Rmb882.6bn in the same month last year. Specifically, incremental savings deposits amounted to about Rmb188.6bn, while non-financial corporate deposits increased about Rmb669.8bn, which were mainly derived from high incremental lending. Incremental fiscal deposits reached about Rmb447.4bn in May, compared to Rmb152.5bn in April and Rmb252.4bn in the same month last year.

Amid the rapid expansion of fiscal spending and incremental lending, FAI may maintain high growth in the short-term. However, we are concerned that the investment growth will gradually come down as manufacturing investments see further declines in the fourth quarter.

Policy Highlights

- **State Council to adhere to expansionary policy.** At a State Council executive meeting held on 18 June, Premier Wen Jiabao said China's economy was at a crucial stage of stabilisation and recovery, and called on the government to adhere to expansionary fiscal policies. He also called for a moderate easing of monetary policy and for the carrying out of all stimulus measures launched late last year. Our view is that the mainland economy has started to show positive signs, as favourable indicators are increasing and the overall situation has stabilised. However, it must be noted that the foundation for economic recovery was not yet stable and many uncertainties remained, as evidenced by sluggish exports, the fiscal deficit and trade protectionism. Premier Wen called for clear-headed assessments and for readiness in meeting the difficulties and complexities that may manifest over the long term. To drive the economy from stabilisation to a sustainable recovery, key emphasis should be placed on structural adjustments, domestic consumption and investment, agriculture, technology, energy conservation and waste reduction, balanced growth among regions, urbanisation, institutional reforms and the social security system.
- **State Council plans to promote development of Liaoning.** The State Council held an executive meeting yesterday and passed a development plan for the coastal areas of Liaoning. The plan encompasses seven major initiatives: i) to increase its participation in cooperative ventures with other northeast Asian countries; ii) to restructure its ports and improve its shipping and logistics services; iii) to accelerate and promote industrial reforms, close down obsolete production and modernise its manufacturing sector; iv) to facilitate developments in agriculture; v) to optimise transport, energy, water conservancy and information infrastructure systems; vi) to advance social development, and; vii) to promote the development of institutions. The plan outlines the medium-term development targets for the province and affirms that infrastructure investments will be ramped up this year.
- **PBOC to maintain moderately easing monetary policy.** After its recently held second quarter meeting, the PBOC announced it would maintain a moderately easing monetary policy going forward. Amid the on-going stimulus measures, China's economy has shown positive signs and now faces more favourable conditions than in recent months, a spokesperson said. However, economic recovery is still not a certainty, especially in light of the fact that China still faces huge pressure from the sharp decline in overseas demand. The PBOC said it would stick to a moderately easing monetary policy

and adhere to steady growth of renminbi lending in the next stage. Meanwhile, the PBOC plans to optimise the lending structure and provide more support to agriculture, small and medium enterprises (SME) and consumers. The announcement is an obvious indicator that the monetary authority will not suddenly change course in its policies or aggressively absorb liquidity from the inter-bank market in the short-term, even though expectations of inflation have begun to manifest recently. However, due to the high incremental lending in recent months, it is unlikely that the PBOC would further cut interest rates or the required reserve ratio in the near term.

- **China to carry out rural pension projects.** China's State Council reached a decision at an executive meeting on June 24 to promote a new pilot project for rural social pensions. According to official announcements, a new rural social pension programme was key to reducing rural poverty and narrowing the gap between urban and rural areas. It is also crucial to maintaining social stability and promoting domestic consumption. According to the circular, these new programmes will be carried out in 10% of all counties nationwide this year. Rural residents above the age of 16 are all eligible to participate. The Council also ordered local governments to strengthen supervision of pension funds.
- **Beijing and Hong Kong to launch renminbi trade settlements.** The PBOC and the Hong Kong Monetary Authority (HKMA) jointly approved the pilot programme for cross-trade settlements in renminbi. According to the programme, the authority will allow Shanghai and four cities in Guangdong Province (Guangzhou, Shenzhen, Dongguan and Zhuhai) to settle trade contracts with Hong Kong in renminbi instead of US dollars or other foreign currencies. Hong Kong Chief Executive Donald Tsang said that the program was a big step in promoting the city as an overseas trade settlement centre for China. We believe this programme and future moves to promote the internationalisation process of the renminbi will not only translate into new business opportunities for Hong Kong but also provide benefits for the government and private sectors on the mainland.
- **Further hikes in VAT rebates for certain exports.** The Ministry of Finance (MOF) and the State Administration of Tax (SAT) jointly announced further value added tax (VAT) rebates for exports of some agricultural processed goods, and electrical and mechanical equipment effective 1 June. The VAT rebate for exports of canned goods and fruits juice was raised from 13% to 15%, that for alloy steel profiles and stainless cold-rolled steel from 5%

to 9%, that for handbags, apparel and hats, toys and furniture from 13% to 15%, and that for some plastic and chinaware & glass from 11% to 13%, respectively. The authorities also introduced a VAT rebate of 5% for corn starch and alcohol. Also raised were rebate rates for exports of household appliances and high-technology products.

- **China to cancel a portion of interim export duties.** With a view to stabilise exports, the MoF announced on 22 June a further cut in export duties. The new measures, effective 1 July, will see the cancellation of interim export taxes on wheat, corn, soybeans and their flour as well as sulphuric acid and steel wire. Meanwhile, the special export duties on some chemical fertilisers and related materials (including yellow phosphorus, rock phosphate, synthetic ammonia, phosphoric acid and so on) will be discontinued. However, China will still levy a 20% export duty on yellow phosphorus, a 10-35% export interim duty on other phosphate rocks and a 10% export interim tax on synthetic ammonia, phosphoric acid and other chemical fertilisers. The MoF also announced it would lower the export tax rates on small and medium profile steel, tungsten, molybdenum, indium and related processed products. This move is mainly aimed at stabilising exports of agricultural products and some steel and non-ferrous metals.
- **NDRC lifts gasoline and diesel prices.** The National Development and Reform Commission (NDRC) announced on its website on 29 June that the ex-factory price of gasoline would rise by Rmb600/tonne (up 9.8%) and that of diesel by Rmb600/tonne (up 11.1%) as well, effective 30 June. The prices will rise from current levels to Rmb6,730/tonne and Rmb5,990/tonne, respectively, effective 30 June. The price adjustments are mainly due to the consecutive hikes in international oil prices in recent days, as well as the requirement of a price hike under the current oil pricing system. According to our rough estimates, petroleum weightings are account for about 2% in the Consumer Price Index (CPI) and about 3% in the Ex-factory Price Index (EFPI). The direct contribution of the price hikes is about 0.2ppt and 0.3ppt, respectively, to the two indices, respectively. However, considering the price transmission to other commodities, the price hikes will have greater influence on the EFPI. However, amid the current deflationary environment, the overall impact will be quite limited. Looking foreword, the authority will further accelerate the reform of resource prices such as those for electricity, gas and water.

Hong Kong Economy

- Hong Kong's Composite Consumer Price Index (CPI) grew 0.09% YoY in May 2009, down from a 0.6% YoY increase in April. Breaking down the data, the tail-raising factor accounted for 0.37% of the gain, while price levels dropped 0.27% in 5M09. In terms of sub-indices, footwear, clothing and miscellaneous services decreased slightly, while other items remained stable. Global expansionary policies are the catalysts for inflation expectations. Nevertheless, CPI numbers may remain relatively low due to the current A/H1N1 flu outbreak and the rising unemployment rate.
- In May 2009, Hong Kong's total exports in value terms fell 14.5% YoY and imports slid 19.2% YoY, compared with declines of 18.2% YoY and 17.0% YoY, respectively, in April 2009. Domestic exports plunged 37.4%, which is still low compared to the 40.2% loss in April. Re-exports decreased 13.7%, showing a continued rebound from April's -17.5%. Besides the progress in exports to US and European regions, Asian countries' demand recovery has also contributed to the narrowing of declines.
- Hong Kong's seasonally adjusted unemployment rate hit 5.3% in March-May 2009, flat compared to the preceding three-month period. The actual number of unemployed persons rose 2,800 from 196,900 to 199,700, though down significantly from the previous months. The rise came from the construction, trade, wholesale and manufacturing industries. On the other hand, the transport, storage, finance, real estate and public sectors have seen an increase the number of job openings.
- Total retail sales in May fell 6.2% YoY in value terms, which was a further drop from April's 4.3% YoY decline. In volume terms, retail sales slid 6.4% YoY versus the 5.4% YoY decrease in the preceding month.

Major Economic Indicators

% YoY	2008			2009												
	2008	2009E	2010E	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
GDP	2.5	(2.0)	1.0	-	4.1	-	-	1.5	-	-	(2.6)	-	-	(7.8)	-	-
Total exports	5.4	(10.5)	7.8	10.3	(0.6)	11.1	1.9	3.6	9.4	(5.3)	(11.4)	(21.8)	(23.0)	(21.1)	(18.2)	(14.5)
- Domestic exports	(16.8)	(25.0)	(2.0)	(12.0)	(20.2)	(16.3)	(17.1)	(20.0)	(23.1)	(31.5)	(39.0)	(50.6)	(39.6)	(41.1)	(40.2)	(37.4)
- Re-exports	6.0	(10.0)	8.0	11.3	0.2	12.4	2.7	4.6	10.9	(4.1)	(10.3)	(20.7)	(22.4)	(20.5)	(17.5)	(13.7)
Imports	5.1	(10.0)	5.0	15.4	1.3	15.4	1.5	3.9	11.3	(7.9)	(16.2)	(27.1)	(17.5)	(22.7)	(17.0)	(19.2)
Trade balance (HK\$ bn)	(202.0)	(195.0)	(136.0)	(27.5)	(24.0)	(19.5)	(12.9)	(16.0)	(14.3)	(8.2)	(11.8)	7.2	(23.2)	(18.2)	(16.4)	(11.0)
Retail sales value	10.3	(1.0)	3.0	13.0	11.6	13.6	10.3	7.1	0.4	1.3	1.1	7.4	(12.7)	(7.7)	(4.3)	(6.2)
Unemployment rate (%)	4.1	5.0	4.8	3.3	3.3	3.2	3.2	3.4	3.5	3.8	4.1	4.6	5.0	5.2	5.3	5.3
Composite CPI	2.1	1.0	1.5	5.7	6.1	6.3	4.6	3.0	1.8	3.1	2.1	3.1	0.8	1.2	0.6	0.1
Fiscal deficit/surplus (year-to-date HK\$ bn)	30.9	(95.0)	(80.0)	(5.7)	(16.5)	(24.2)	(36.2)	(48.6)	(37.3)	(9.3)	30.9	49.8	43.2	1.4	(1.8)	(12.2)
Tourist arrivals	4.8	2.0	6.0	6.3	5.6	10.4	(2.9)	3.5	(1.4)	(1.1)	(0.2)	11.0	(8.1)	1.7	0.8	(13.4)
M2	2.7	6.0	8.0	11.4	5.6	8.1	5.6	1.8	(6.1)	(3.6)	2.7	3.2	1.5	4.2	4.4	-
Monetary base	58.3	40.0	20.0	9.9	10.0	9.2	9.2	15.1	19.6	32.5	58.3	59.9	59.5	73.4	89.7	112.7
3-month HIBOR (period average, %)	1.43	1.50	2.00	1.81	2.15	2.19	2.17	2.64	3.72	2.17	1.43	0.82	0.73	0.78	0.76	0.44
HSBC prime lending rate (%)	5.00	4.75	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Property price (domestic)	(11.1)	(8.0)	(3.0)	25.8	24.6	21.5	18.2	15.8	5.3	(7.4)	(11.1)	(13.1)	(14.2)	(14.1)	(9.8)	-

Note: Forecast of unemployment rate and best lending rate refer to year-end figures.

Sources: Hong Kong Census and Statistics Department, HKMA, HTKB, CEIC, BOCI Research estimates

Policy Highlights

- CRD on opportunities arising from the PRD and the 12th Five-Year Plan.** The Commission on Strategic Development (CRD) held a meeting on 18 June 2009 to discuss the documents Outline for the Reform and Development of the Pearl River Delta (PRD) and the 12th Five-Year Plan to Enhance the Economic Strength of Hong Kong. The PRD and the 12th Five-Year Plan can provide major opportunities for Hong Kong to further develop the six economic areas identified in April by the Task Force on Economic Challenges (TFEC). These six areas include testing and certification, innovation and technology, educational services, medical services, cultural and creative industries and environmental industries. The commission's discussion focused on how to better leverage on the major plans, policies and development of China, particularly in the PRD region. The keys to success were summarised as follows: i) The HKSAR government's proactive role in facilitating access to the PRD market, the coordination of relationships between the public and private sectors and the creation of a favourable market environment; ii) cooperation with Guangdong Province in the six economic arenas, and; iii) regional initiatives and the broadening of Hong Kong's industrial base.

- Renminbi trade settlement.** On 29 June 2009, the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA) jointly approved the pilot scheme for cross-border trade settlements in renminbi. According to the scheme, the authority will allow Shanghai and four cities in Guangdong Province, including Guangzhou, Shenzhen, Dongguan and Zhuhai, to settle trade agreements with Hong Kong in renminbi instead of US dollars or other foreign currencies. The PBOC and other related central departments jointly announced on 3 July 2009 the administrative rules for this programme and that the relevant local governments are starting to recommend domestic enterprises to partake in the scheme. Hong Kong Chief Executive Donald Tsang said that the scheme is a big step in promoting Hong Kong as an overseas renminbi trade settlement centre for China. We believe this programme, as well as potential moves to promote the internationalisation process of the renminbi, will bring new business opportunities to Hong Kong's financial sector and provide benefits for both China's government and private interests. We estimate that the exports of the five mainland cities to Hong Kong accounted for about 11% of China's total exports in 2008. The PBOC has also set a quota on the amount of renminbi exchange and financing by domestic agent banks to overseas banks. Hence, the pilot scheme may have limited impact on capital flows in the short run, particularly in the earlier stages of the programme. In the long run, however, renminbi settlements will reduce the foreign exchange rate risk for exporters and importers, especially when the US dollar sees large fluctuations.

AUTOMOTIVE

Top pick: Foton Motor

HK listed – Neutral

A shares – Neutral

- Domestic passenger car sales in May 2009 totalled 829,071 units, up 47% YoY. As a result, domestic passenger car sales increased 21% YoY in 5M09. In particular, sales of minivan surged 51% YoY in 5M09.
- We believe China's new automotive stimulus measures may help boost this year's small car sales. Meanwhile, the government has also focused on the development of new energy vehicles. We now expect domestic passenger car sales to grow 25% YoY in 2009.
- Sales of heavy-duty trucks, including chassis, fell 12% YoY, while those of semi-tractors tumbled 40% YoY in May 2009. Large bus sales declined 15% YoY in May 2009.
- China's 19 key automobile manufacturing groups collectively registered total profit decrease of 28% YoY to Rmb20bn in 4M09.

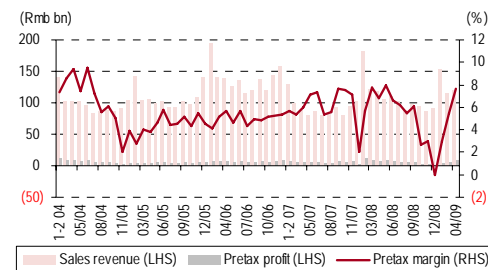
Yutong Bus (600066.SS/Rmb12.81) – BUY

Due to the global economic crisis, rapid deterioration of the Chinese economy and imposition of Euro III emission standards, the domestic bus sector had a poor operating environment in 1Q09. However, we believe bus sales had picked up in 2Q09 and we expect a year-on-year rise in the second half. With a sound balance sheet and inexpensive valuations, we estimate Yutong's yield to reach 3.6% in 2009. In addition, we anticipate the firm to sell about 7,200 buses in 2Q09, up 90% QoQ. As the government stimulus package kicks off, we see bus sales gradually improving for the rest of the year, and 2H09E sales should amount to 15,000 units, up 22% YoY.

Foton Motor (600166.SS/Rmb13.45) – BUY

Beiqi Foton Motor is one of China's largest commercial vehicle companies in terms of sales volume. Though Foton's heavy truck sales were sluggish in 1Q09, it saw Rmb0.20 in EPS since light truck (construction trucks included) segment sold well in March and steel costs had dropped. We believe the firm's 2Q09E earnings should grow considerably quarter-on-quarter thanks to increased sales of both heavy and light trucks. In our view, its 1H09E results should beat expectations and we are optimistic of its 3Q09 and full-year earnings. As heavy truck sales regained momentum in the second quarter, we expect 7,000 units per month to be sold in 3Q09.

Operating Performance of Auto Industry



Source: China Automotive Industry Newsletter

Key Statistics

	% YoY	07	08	09E	Dec08	Jan09	Feb	Mar	Apr	May	17
Trucks		19	6	9	(20)	(32)	42	2			
Heavy		44	12	(5)	(36)	(64)	7	(8)	(3)	(12)	
Semi-tractor		92	9	(20)	(62)	(87)	(73)	(71)	(57)	(40)	
Medium		17	(13)	10	(42)	(35)	42	2	11	18	
Light		16	5	8	(19)	(30)	43	(2)	5	13	
Mini		8	19	40	(13)	(2)	75	30	39	78	
Buses		21	(3)	6	(23)	(36)	(12)	(4)	(5)	(18)	
Large		27	10	5	(13)	(52)	(4)	(5)	(20)	(15)	
Medium		14	1	2	(40)	(38)	(5)	(6)	(14)	(14)	
Light		23	(6)	8	(35)	(31)	(4)	(4)	(3)	(20)	
Passenger cars											
Sedan		22	7	25	(8)	(8)	24	10	37	47	
MPV		23	7	24	(7)	(12)	20	6	33	42	
SUV		18	(13)	2	(37)	(30)	(5)	(11)	(4)	(1)	
Minivan		50	25	10	6	(1)	12	(7)	23	26	
Total		8	8	40	(13)	14	52	40	71	84	

Sources: China Automotive Industry Newsletter, BOCI Research estimates

CHEMICALS

Top pick: Gui Zhou Tyre

HK listed – Neutral

A shares – Neutral

- Although domestic market demand is rebounding in the property and auto industries, the gloomy overseas market demand and the higher crude oil price, the profitability of the chemicals sector causes us some concern. We maintain our **NEUTRAL** rating.

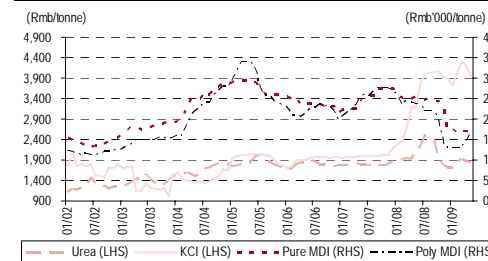
Yangnong Chemical (600486.SS/Rmb32.61) – BUY

One of the top players in China's pesticide sector, Yangnong Chemical has enjoyed a prominent technological edge and maintained stable operations. Despite the global financial crisis, the company has actively sought to reform its product mix and lower its operation/management expenses in 2009 so as to brave the headwinds facing the pesticide industry. Yangnong's earnings remained relatively steady in 1H09 and its projects in progress are set to finish on time. We raise our target price for the stock from Rmb34.60 to Rmb38.06 and reaffirm our **BUY** call.

Xingfa Chemicals (600141.SS/Rmb13.68) – NR

Hubei Xingfa Chemicals Group is one of China's largest phosphate producers, boasting a market share in excess of 50%. Its integrated industrial chain, dealing in mining, power and phosphates is the most complete in the industry. Its rich phosphorus-ore resources bode well for future development, and the company is now engaged in the R&D of deep processing. Increasing the added value per unit of phosphorous resources will greatly boost future earnings. The company is entering a period of rapid growth. Its Rmb1bn capex will be used for securing more phosphorus ore and for developing phosphate product series. Its current gearing ratio has already hit 85%, which may restrict to some extent its future development plans.

Product Prices



Source: China Petroleum & Chemical Industry Association

Key Statistics

	% YoY	07	08	09E	Dec08	Jan09	Feb	Mar	Apr	May
Output										
Urea		11.5	3.7	2.5	(0.9)	(2.3)	5.0	13.0	7.1	20.9
Potash		10.6	3.4	5.0	(44.3)	(20.0)	5.7	19.8	6.8	29.4
PVC		20.0	(5.3)	(2.1)	(22.7)	(8.5)	(7.2)	(6.5)	(9.2)	2.2
Nitric Acid		13.1	(6.0)	(2.8)	(30.2)	(15.0)	(17.0)	17.2	13.5	1.4
Price										
Urea		0.1	13.8	(5.2)	(3.4)	0.3	7.2	3.8	(2.6)	(1.1)
KCl		5.4	71.6	3.5	(0.5)	(6.0)	7.5	7.5	(1.6)	(6.6)
Nitric Acid		1.8	23.8	(15.1)	1.0	(1.0)	14.0	5.3	4.2	(3.6)
Pure MDI		5.5	(3.0)	(8.2)	(23.5)	0.0	(5.7)	3.6	0.0	0.0
Poly MDI		14.3	(14.7)	(25.0)	(7.1)	0.0	0.0	11.5	13.8	(2.0)
PVC		6.0	1.1	(10.8)	8.6	1.5	4.5	3.0	1.4	(2.0)

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

CONSUMER – Beer, Wine & Liquor

Top pick: Luzhou Laojiao

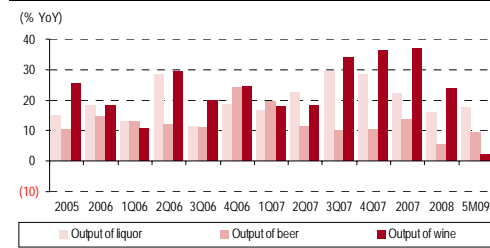
HK listed – Neutral
A shares – Overweight

- Beer output grew around 9.4% YoY to 16.3m kl in 5M09.
- Revenue and profit of the beer industry rose 9.6% and 10.8% YoY in 5M09, respectively.
- Liquor production volume increased about 17.4% YoY to 2.5m kl in 5M09.
- Revenue and profit of liquor industry rose 22.0% and 9.2% YoY in 5M09, respectively.
- Wine output grew about 2.2% to 0.33m kl in 5M09.
- Revenue and profit of wine industry rose 7.0% and 1.1% YoY in 5M09, respectively.

Luzhou Laojiao (000568.SZ/Rmb29.52) – BUY

Liquor sales volume in April-May 2009 rose from the previous two months. Also, we believe sales for high-end liquor bottomed in 1Q09 and should trend higher in 2H09. The company has made several channel adjustments to cope with the current financial crisis, including: i) replacing its sales team; ii) establishing a sales company by distributors and sales staff in key areas, and; iii) setting up a mechanism to subdivide and eliminate unwanted distributors. Our estimates for 2009-11 EPS are Rmb1.10, Rmb1.29 and Rmb1.48, respectively. Assuming that the firm's 35% stake in Huaxi Securities will generate Rmb0.19, Rmb0.15 and Rmb0.10 in EPS over the next three years, the EPS for Laojiao's liquor business should achieve Rmb0.91, Rmb1.14 and Rmb1.38 for 2009-11, respectively. Applying 27x 2010E P/E to its liquor business and 20x 2010E P/E to its brokerage business, our target price is Rmb33.00. We reaffirm our **BUY** call. The firm's superior management team, dual-brand strategy and channel-improvement measures are drivers for a recovery in its liquor segment.

Beer & Liquor Outputs



Sources: China Light Industry Association, BOCI Research

Key Statistics

(YoY %)	2007			2008			2009			
	06	07	08	5M	8M	11M	5M	8M	11M	5M
Revenue	16	17	16	20	18	16	14	16	16	10
Beer	31	33	30	31	34	34	33	36	30	22
Liquor	25	28	30	19	23	18	36	24	30	7
Wine	20	21	(3)	30	23	17	(4)	3	(3)	11
Profit	26	35	37	26	37	38	63	46	37	9
Beer	16	18	38	27	18	19	33	45	38	1
Liquor										
Wine										
Gross margin (%)	34.0	34.0	31.5	33.4	33.9	33.4	29.9	31.5	31.5	29.7
Beer	34.8	36.0	34.2	36.2	36.1	36.0	36.1	34.3	34.2	35.5
Liquor	36.7	37.0	32.8	39.3	36.1	35.7	37.5	34.3	32.8	32.0
Wine	16	17	16	20	18	16	14	16	16	10

Source: China Light Industry Association

CONSUMER – Dairy & Others

Top picks: Huabao Int'l, China Foods, Want Want China A shares – Neutral

HK listed – Overweight

- Liquid milk product output increased 3.2% YoY to about 6.4m tonnes in 5M09.
- Dairy product output grew 3.3% YoY to about 7.5m tonnes.
- Industry sales revenue rose 4.9% YoY to Rmb60.1bn.
- Industry profit up 17.6% YoY to Rmb3.6bn in 5M09.

Huabao International (0336.HK/HK\$8.15) – BUY

Our takeaways from the recent analysts' meeting lead us to remain positive on Huabao earnings outlook. We believe Huabao will be able to complete its second three-year plan aimed at achieving an annual organic turnover growth of 20% YoY. On a lower effective tax rate assumption, we have raised our earnings forecasts for Huabao by 4% for FY10 and 2% for FY11. We expect Huabao to post a CAGR in earnings of 19% for FY09-12. We reaffirm our **BUY** call for the stock and lift our target price to HK\$7.85 from HK\$7.00.

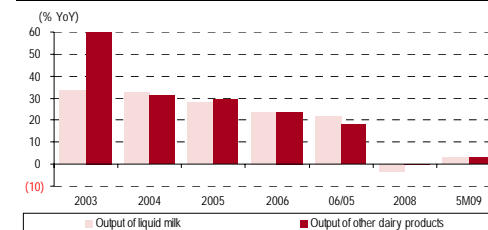
Chaoda Modern (0682.HK/HK\$4.49) – NR

Chaoda Modern has announced a plan to place 388m new shares at HK\$4.60 each to raise around HK\$1.784bn (HK\$1.740bn net proceed). On the completion of placement, the total issued share capital should increase by 14.7%. The funds raised will be used to meet working capital needs and repay a Rmb1.5bn senior unsecured loan due February 2010.

Huiyuan Juice (1886.HK/HK\$1.97) – NR

Warburg Pincus (WP) was the first major shareholder to pull out after the Chinese government blocked the Huiyuan-Coca-Cola deal. WP sold nearly all of its convertible bond holdings, equivalent to a 7% stake in the company if converted. The Netherlands' Stichting Pensioenfond, a pension fund for government and education employees, is believed to have taken up most of the CBs that Warburg Pincus sold off.

Liquid Milk & Other Dairy Product Outputs



Sources: China Dairy Yearbook, BOCI Research

Key Statistics

YoY %	2007			2008		2009	
	06	07	08	1H	2H	1H	2H
Outputs							
Liquid milk	29	25	16	(4)	7	25	9
Other dairy products	18	15	23	(1)	16	29	13
Industry							
Total assets	21	11	15	19	14	15	19
Total sales	38	21	22	18	22	23	29
Gross margin (%)	24	23	22	20	23	22	21

Sources: China Statistical Yearbook, BOCI Research

CONSUMER – Retail

Top pick: Wangfujing

HK listed – Neutral

A shares – Neutral

- Revenue from the top 100 chain retailers grew 20.9% YoY in May thanks to the low base last year, the holiday effect and the improving consumer sentiment. Jewellery, clothes and cosmetics were the top three growth engines, sales of which increased 38.3%, 18.8% and 18.5% YoY, respectively.
- Sales of social consumables rose 15.2% YoY in May, gaining momentum from the 14.8% YoY increase in April. During the period, sales in urban area were up 15% YoY whereas those in rural areas climbed 15.6%.

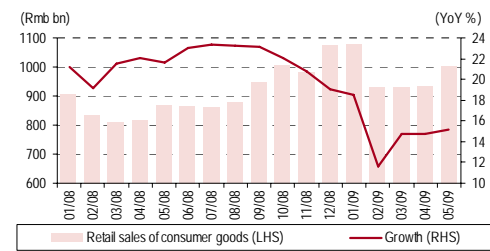
Suning Appliance (002024.SZ/Rmb15.92) – HOLD

A share placement would help Suning Appliances increase its market share and advance its long-term development strategy, but would not decrease short-term pressure on operations. Its strategy transformation and marketing initiatives will require time and patience. We maintain our estimates of same-store sales growth of -5% for 2009, 1% for 2011, and 8% for 2011 and net growth in stores of 170, 140 and 150 for the period. We lift our 2009-11 attributable EPS estimates by 1-2%. Based on the higher overall market valuation, we raise our target price to Rmb14.25 and maintain our **HOLD** call.

Pou Sheng International (3813.HK/HK\$1.15) – BUY ▲

Pou Sheng's net profit for the first half of its fiscal year to 30 September 2009 plunged 86% YoY to US\$4.8m, as expected in the market. We believe it has almost emerged from its worst operating period and expect its profits to improve on a quarterly basis for the rest of 2009 on stable retail sales growth and clearance of excessive inventory. As soon as the inventory turnover returns to normal, Pou Sheng will no longer offer extraordinarily deep discounts. Pegging it against our FY10 EPS, we raise our target price from HK\$0.56 to HK\$1.39, a potential upside of 24%. We upgrade our rating for the stock from **SELL** to **BUY**.

Retail Sales of Consumer Goods



Source: CEIC

Key Statistics

Wholesale and retail trades by category of main commodities					
YoY %	2008	Jan-Feb 1Q09	Apr09	May09	
Grain and oil	22.7	16.3	9.6	4.8	15.6
Meet, poultry and eggs	22.3	12.0	9.6	6.5	13.3
Clothing, shoes, hats & textiles	25.9	17.4	15.6	14.0	22.1
Sports & recreation articles	17.9	13.5	8.4	5.0	6.9
Household & video appliances	14.2	2.7	1.4	0.6	12.0
Furniture	22.6	27.1	na	22.8	33.3
Cosmetics	22.1	14.6	14.8	18.2	21.7
Gold, silver & jewellery	38.6	16.3	11.8	10.4	28.7
Communications appliances	1.4	(9.2)	(7.5)	(8.4)	(7.8)
Automobiles	25.3	9.3	11.1	18.5	12.0

Source: NBS

CONSUMER SERVICES – Gaming

Top pick: Galaxy Entertainment

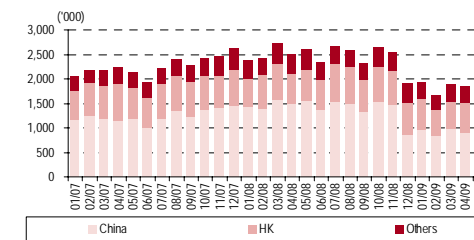
HK listed – Neutral

- Macau's visitor arrivals in May fell 20.4% YoY to 1.59m. Total visitor arrivals in 5M09 dropped 10.6% YoY, among which those from China slid 16.6%; HK edged up 0.4% and the rest declined 10.1%.
- The A/H1N1 flu scare was the main reason behind the drop in visitor numbers in May, and June data is likely to remain at similarly low levels, as stated by the President of the Travel Industry Council of Macau.
- Gross gaming revenue in April dropped 8.7% YoY to MOP8,403.9m, according to the Macau government's Statistics and Census Service. Total 4M09 gaming revenue reached MOP34,656m, down 11.8% YoY.

Melco International Development (0200.HK/HK\$3.93) – SELL

Melco's City of Dreams welcomed its one millionth guest on 27 June 2009, just 27 days after its opening on 1 June. On average, more than 37,000 visitors per day have visited this much anticipated leisure and entertainment destination ever since its opening. City of Dreams is seen as a strategic move on the part of Melco to re-establish its standing in the casino industry amid the lacklustre VIP high-rollers market. It aims to attract a younger crowd from mainland China, Hong Kong and even Japan. It is located across from Venetian Macao-Resort-Hotel, one of the world's largest casinos, operated by Las Vegas Sands. The rivals are likely to wage fierce battles to poach each other's customers.

Macau Visitor Arrivals



Source: CEIC

Key Statistics

Gross revenue from game of fortune						
MOP m	1Q08	2Q08	3Q08	4Q08	2008	1Q09
VIP Baccarat	20,801	20,100	17,255	15,616	73,772	16,828
YoY %	73	52	26	(8)	32	(19)
Slot machine	1,354	1,395	1,426	1,478	5,653	1,533
YoY %	80	69	63	30	57	13
Others	7,668	7,390	7,306	6,984	29,348	7,658
YoY %	36	33	26	5	24	(0)
Total	29,823	28,885	25,987	24,078	108,773	26,019
YoY %	62	48	28	(3)	31	(13)

Source: CEIC

ENERGY

Top pick: PetroChina

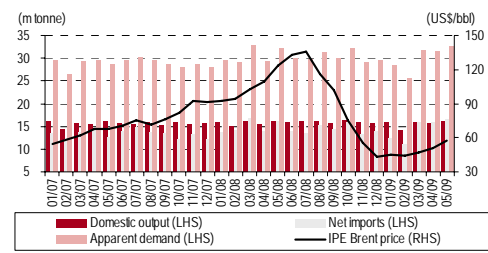
**HK listed – Neutral
A shares – Neutral**

- The oil price moved within a relatively narrow range in June. The spot price of ICE Brent started the month at US\$65/bbl and rose to US\$72/bbl in the first two weeks of the month. Then it retraced to US\$67/bbl before it closed the month at US\$70/bbl.
- The prices of Asian benchmark oils weakened a bit relative to those of global benchmarks in June. The premium of the price of Minas (the benchmark for Daqing oil) to that of ICE Brent shrank from US\$1.8/bbl to US\$1.5/bbl. The discount of the price of Duri (the benchmark for Shengli oil) to that of ICE Brent widened slightly from US\$2.0/bbl to US\$2.7/bbl.
- In June, the median settlement price of Datong high-grade coal at Qinhuangdao dropped 3% MoM to Rmb600/tonne and that of Shanxi high-grade coal also fell 3% MoM to Rmb568/tonne. The spot FOB price of thermal coal at Newcastle rose 9% MoM to US\$70.9/tonne on 25 June. The coal inventory at Qinhuangdao jumped 38% MoM to 6.5m tonnes as of end-June.
- On 30 June, NDRC raised the ex-factory prices of gasoline and diesel by Rmb600/tonne each to Rmb6,730/tonne and Rmb5,990/tonne respectively. It also raised the price of jet fuel by Rmb1,030/tonne to Rmb5,050/tonne.
- We have raised our forecasts for the average price of ICE Brent from US\$56.9/bbl to US\$62.7/bbl for 2009, from US\$66.7/bbl to US\$77.6/bbl for 2010 and from US\$70/bbl to US\$80.8/bbl for 2011. We have also increased our long-term oil price forecast from US\$70/bbl to US\$85/bbl.
- Based on the pricing mechanism for refined products, we expect the NDRC to raise the prices of gasoline and diesel by Rmb400/tonne, respectively, in August 2009. We expect further increases in the price of gasoline, diesel and jet fuel by Rmb500/tonne each in January 2010 and October 2011.

PetroChina (0857.HK/HK\$8.53; 601857.SS/Rmb15.09) –BUY↑(H) / BUY(A)

We raise our 2009-11 earnings forecasts by 19-32% given the changes in our oil price and refined product prices forecasts. PetroChina offers a relatively safe bet on the increases in refined product prices and is a beneficiary of the expected increase in natural gas price in a China. We upgrade our call on its H shares from *HOLD* to **BUY** and lift our target price from HK\$7.06 to HK\$9.91.

Crude Production, Import & Demand



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

Key Statistics

	08	09E	10E	Dec08	Jan09	Feb	Mar	Apr	May
YoY % Output									
Crude oil	1.8	(1.4)	2.7	0.2	0.3	(3.8)	(1.1)	1.2	(0.9)
Natural gas	18.8	9.9	9.0	12.7	6.4	4.0	0.7	11.0	(8.0)
Refining throughput	4.1	1.5	3.0	(6.5)	(9.4)	(5.7)	1.7	7.5	12.3
Coal	7.5	4.9	7.9	(10.1)	(8.7)	38.3	27.1	(22.6)	(1.3)
Imports									
Crude oil	9.6	5.1	6.4	11.6	(8.0)	(17.9)	(5.6)	13.6	5.5
Price									
IPE Brent (US\$/bbl)	98.5	62.7	77.6	43.5	45.0	44.0	47.3	51.2	57.5

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

FINANCIALS (China)

Top picks: Bank of China, BoCom

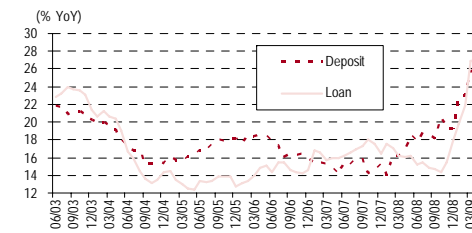
**HK listed – Neutral
A shares – Neutral**

- According to the People's Bank of China (PBOC), new incremental loans for May amounted to Rmb664.5bn, and the lending balance as at end-5M09 reached Rmb36.2trn, up 30.6% YoY. We anticipate that new incremental lending for June will again exceed Rmb1trn, resulting in total new lending of nearly Rmb7trn for 1H09. Recently, the PBOC and other central departments jointly announced the rules for cross-border trade settlements in renminbi in order to accelerate the internationalisation process of the Chinese currency. We believe that there will be two positive effects on Chinese banks; the greater amount of commission fees resulting from more trade settlements, and the growth in trade financing. However, the effects will be manifest more in the long term, while contributions over the next 1-2 years should be minimal. We reiterate our **NEUTRAL** ratings for both A-share and H-share-listed mainland banks.

Shenzhen Development Bank (000001.SZ/Rmb23.60) –HOLD↑

Shenzhen Development Bank (SDB) and Ping An Insurance have finalised their transaction plans. Ping An will purchase all of Newbridge's 520m shares (accounting for 16.76% of the total) in SDB by end-2010, and also purchase SDB's new issuance of between 370m and 585m shares. After the transaction, SDB's shareholding structure will be more stable, which will be positive for its long-term strategy. In addition, SDB will be able to take advantage of Ping An's development platform and client resources in expanding its businesses. SDB will also be able to solve its problem of having an excessively low capital adequacy ratio (CAR). Based on our calculations, SDB's core CAR and total CAR will rise to maximums of 8.1% and 10.8%, respectively. As a result, SDB will have enough funds to forward its expansion plans. As such, we believe the deal will be significantly positive for SDB. We upgrade our rating for SDB from *SELL* to **HOLD**.

Growth of Loans & Deposits



Source: NBS

Key Statistics

	08	09E	Dec08	Jan09	Feb	Mar	Apr	May
New incremental loans (Rmb bn)	4,910	8,000	772	1,618	1,071	1,893	592	665
Deposit (% YoY)	20.0	25.0	19.7	23.0	23.0	25.7	26.2	26.7
Lending (% YoY)	19.0	26.0	18.8	21.3	24.2	29.8	29.7	30.6
7-day inter-bank lending rate (%)	1.2	1.0	1.2	0.9	0.9	0.8	0.9	0.9
Excess deposit reserve ratio (%)	5.1	2.5	5.1	n.a	n.a	2.3	n.a	n.a
NPLs (%)	2.5	2.2	2.4	n.a	n.a	2.0	n.a	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 – Neutral

Top picks: BOCHK, Standard Chartered, Ming An

- Market shares for new home mortgages in May 2009 stood at 20.8% for BOC (Hong Kong), 17% for HSBC, 13.2% for Hang Seng Bank, 9.2% for Standard Chartered, 5.6% for Bank of East Asia, 4.1% for CCB (Asia), 3% for DBS HK, 2.7% for Dah Sing Banking, 2.5% for Wing Hang Bank and 2.3% for Fubon Bank (HK), according to mreferral.com.

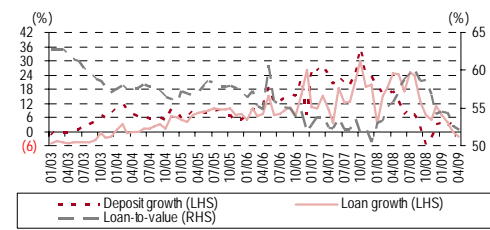
BOC Hong Kong (2388.HK/HK\$14.24) – BUY

BOCHK's 1Q09 net operating income came in at HK\$6.0bn and pre-provision operating profit amounted to HK\$4.0bn, both broadly in line with our estimates and representing 25.9% and 28.0% of our 2009E forecasts, respectively. The lender posted a total net securities charge of HK\$1.2bn, of which HK\$1.06bn was for US residential mortgage-backed securities. With the additional charge, we calculate provisioning of approximately 35% of gross value (HK\$9.2bn) and we understand that there is no underlying default for such securities. BOCHK's capital adequacy ratio remains high and we still believe that it will have strong dividend-paying capability when macro and operating environments normalise, despite it continuing to face margin pressure in the near term. The lender's impaired loans ratio fell from last year and was more benign than we expected. Accordingly, we reaffirm our **BUY** rating for the stock.

Standard Chartered (2888.HK/HK\$145.40) – BUY

Standard Chartered released a pre-close trading update highlighting record profit and income during 5M09 (after previous highs in 1Q09 income and profit), even after stripping out an exceptional gain from a bond repurchase. However, 2Q09 wholesale impairment rose QoQ while consumer lending margins came under pressure. We believe the record profit was primarily driven by strong trading gains, from both client-driven FX/rate positions and its own positions in asset-liability management on the yield curve. However, we are slightly concerned over the increasing wholesale credit impairments, which we believe were primarily driven by the SME sector. We continue to recommend investors accumulate on dips. Over the longer term, StanChart is well positioned for a rerating when economic conditions normalise (positive jaws achieved during the period). We reaffirm our **BUY** rating.

Growth of Loans & Deposits



Sources: HKMA

Key Statistics

	2008	2009E	2010E	Dec08	Jan09	Feb	Mar	Apr	May
Prime	5.00	5.00	5.15	5.00	5.00	5.00	5.00	5.00	5.00
3M HIBOR	1.47	0.47	0.72	1.47	0.88	0.82	0.90	0.87	0.54
Prime - HIBOR	3.53	4.53	4.43	3.53	4.12	4.18	4.10	4.13	4.46
Savings deposit rate	0.01	0.01	0.16	0.01	0.01	0.01	0.01	0.01	0.01
Loan growth (% YoY)	10.9	5.0	7.5	10.9	6.7	3.8	(0.1)	(2.2)	
Deposit growth (% YoY)	13.3	2.5	5.0	13.3	3.7	1.9	4.5	4.6	

Sources: HKMA, BOCI Research estimates

FINANCIALS – Insurance

HK listed – Neutral

Top pick: China Life Insurance

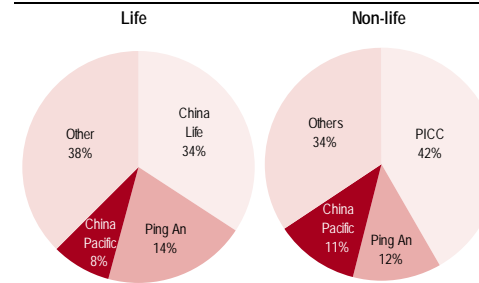
A shares – Neutral

- China's total accumulative premium income of the entire sector amounted to Rmb495bn in 5M09, up 7.64% YoY and slightly lower than 4M09. Non-life insurers posted 15.01% YoY accumulative premium growth to a record high of Rmb120.9bn. On the other hand, life-insurance companies registered premium growth of 5.45% YoY to Rmb374bn. Ping An Insurance maintained its high total premium growth of 35.1% YoY, while China Life's premium income continued to slow down and fell 3.87% YoY as at end-5M09. Nevertheless, we expect China Life to record positive growth in 9M09. According to the China Insurance Regulatory Commission (CIRC), investment assets increased from Rmb2,202.6bn to Rmb2,247.4bn by end-5M09. Furthermore, we believe the investment yield for Chinese insurers is climbing up. We reaffirm our **NEUTRAL** rating for the insurance sector.

China Ping An (2318.HK/HK\$56.65; 601318.SS/Rmb55.52) – HOLD (H); BUY (A)

Ping An's investment in Shenzhen Development Bank (SDB) marks an important move in the former's strategy to become a leading integrated financial service provider with balanced growth in insurance, banking and assets management. We expect a positive short-term impact since this acquisition will enhance Ping An's EPS and may expand its banking business. However, we believe the uncertainties over an ultimate synergy between its banking and insurance businesses will pose risks for the insurer over the long term. We also need time to determine whether or not the strategy of becoming a financial group will work. Furthermore, the price paid to acquire SDB is not cheap, which means a financially unattractive investment yield if the bank sees an earnings decline amid tough economic conditions and in the face of equity investment risks. We maintain our **HOLD** rating for Ping An's H shares and a **BUY** call on its A shares.

Market Share Breakdown – May 2009



Source: CIRC

Insurance Premium Growth

(Rmb bn)	07	08	Dec08	Jan09	Feb	Mar	Apr	May
Non-life insurance premiums	199	234	18	30	17	25	26	23
Life insurance premiums	494	745	45	85	81	90	60	59
Total insurance premiums	693	978	63	115	98	115	86	81
Growth rate (%)								
Non-life insurance premiums	28	17	17	6	11	12	14	15
Life insurance premiums	22	48	48	10	14	9	8	6
Total insurance premiums	23	39	39	9	13	10	9	8

Sources: Bloomberg, Company data, BOCI Research estimates

MEDIA

Top pick: TVB

**HK listed – Overweight
A listed – Underweight**

- In a groundbreaking build-operate-transfer (BOT) mode for China's cable industry, provincial cable network operator Jiangsu Cable has agreed to invest an initial Rmb12.5m in a digital interactive TV platform in Kunming, Yunnan Province.

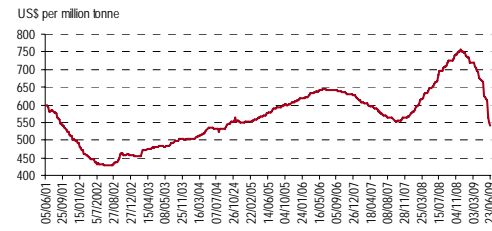
Sichuan Xinhua Winshare (0811.HK/HK\$2.79) – BUY

Sichuan Xinhua Media has announced a Rmb260m acquisition of a 24.3% stake in the Chengdu Institute Sichuan International Studies University. The company will have a prior claim on distributable profit, although there is no minimum guarantee. If all goes well, the investment is likely to generate an attractive annual return of more than 5% (after interest foregone and tax). If the Chengdu Institute is not listed by 2014, Winshare can sell its stake to the founder at cost. We have conservatively raised our 2009-11 profit forecasts by 1-3%, and our HK\$4.00 target price remains intact. We rate the stock a **BUY**.

Chengdu B-Ray Media (600880.SS/Rmb8.35) – NR

Our recent visit to Chengdu B-Ray Media reveals that the company has successfully diversified its core business from newspaper advertising agency to outdoor advertising and commercial printing. As the only media company in the A-share market that has an employee stock option plan, it is well positioned for long-term cross-regional development.

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.

China print advertising volume growth (% YoY)									
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.
Total	n.a.	n.a.	n.a.	17.5	n.a.	n.a.	n.a.	n.a.	n.a.

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

** assuming 40% off discount

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

METALS & MINING

Top pick: Baosteel

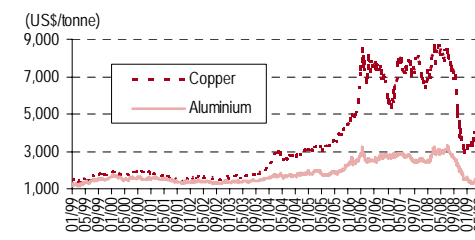
**HK listed – Neutral
A shares – Outperform**

- We continue to see positive trends in China's metal demand.
- Domestic crude steel consumption growth had a close correlation of 0.96x to that of fixed-asset investments (FAI) during 1995-2008. In May 2009, China recorded strong FAI growth of 32.9% YoY versus the 28.6% rise in 1Q09 and 30.5% in April. We believe steel consumption will grow along with FAI.
- Average spot prices for long steel increased 4.5% in June 2009. The prices of hot-rolled steel plates edged up 4.4% MoM, while cold-rolled steel plates rose 6.6% MoM.
- Imports of copper and nickel were at a record high in May, indicating strong domestic demand. Copper prices in China went up 3.4% MoM in May to Rmb39,931/tonne and up 4% MoM to Rmb13,640/tonne in June.
- We are more positive on steel players in the near term and recommend investors to accumulate gold stocks, which are more resilient to turbulent times. The outlook for non-ferrous metal prices is more speculative as earlier Chinese government measures and private stockpiling have distorted prices.

Shandong Gold (600547.SS/Rmb63.55) – BUY

Shandong Gold Mining's (SGM) much-improved fundamentals and huge growth potential warrant a higher valuation for the stock. We expect the company to double its gold reserves to 160 tonnes this year through acquisition, and its mine production to surge 155% to 13 tonnes this year. We reaffirm our **BUY** rating.

3-month Futures Aluminium and Copper



Source: LME

Key Statistics

(% YoY)	07	08	09E	Feb09	Mar	Apr	May	Jun
Quick speed wire rod	(5.0)	15.0	(19.9)	(19.9)	(32.2)	(35.4)	(40.1)	(38.1)
Ord. Plate -40mm	(12.0)	17.0	(27.7)	(28.2)	39.3	(44.6)	(47.6)	(46.7)
Hot-rolled sheet	(10.0)	10.0	(22.7)	(22.3)	(33.5)	(38.1)	(40.9)	(39.3)
Cold-rolled sheet	(19.0)	5.0	(21.7)	(24.7)	(33.6)	(36.5)	(38.3)	(38.3)
Galvanised steel	(13.0)	1.0	(17.2)	(20.0)	(32.1)	(36.0)	(38.0)	(36.8)
Aluminium	21.0	(5.0)	(35.6)	(36.8)	(35.7)	(24.9)	(30.4)	(26.0)
Copper	77.0	0.0	(52.1)	(56.9)	(53.3)	(39.8)	(40.6)	(35.8)

Sources: Bloomberg, Company data, BOCI Research estimates

PHARMACEUTICALS

Top picks: Tianjin Tasly, Tiantan Biological

HK listed – Overweight

A shares – Overweight

- According to government statistics, 5M09 sales and net profit of the pharmaceutical industry increased 18.5% YoY and 18.7% YoY, respectively. The medical device segment performed best, followed by TCM Yinpian.

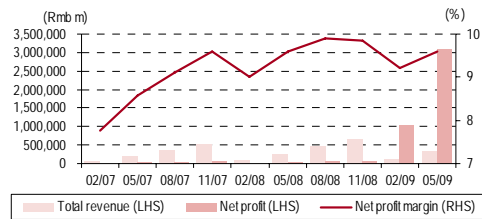
Medical device and TCM Yinpian segments performed best in 5M09

According to recent official statistics, the medical devices segment performed the best with increases of 33.6% and 50.2% in sales and net profit, respectively. The growth rates for the TCM Yinpian segment were 32.8% and 60.7%. With the launch of the new health care system reforms, we believe both segments will continue to perform well in the near future.

Continuing spread of A-H1N1 Swine Flu

The A-H1N1 Swine flu has spread rapidly worldwide. Although the mortality rate is quite low, the pandemic is the source of great concern in some areas, and related listcos may benefit. A locally made PCR reagent for the A-H1N1 Swine Flu virus passed Ministry of Science and Technology tests on 1 July. Kehua Biological and Da An Gene may benefit in the future. An A-H1N1 vaccine will be manufactured and tested in the near future. Tiantan Biological and Hualan Biological may stand to benefit going forward.

Revenue of Pharmaceutical Industry



Sources: Chinese Medicine Economic Information

Key Statistics

	Sales increase (%)			Profit increase (%)		
	Nov08	Feb09	May09	Nov08	Feb09	May09
Pharmaceutical total	26.0	16.4	18.5	29.3	19.1	18.7
Finished drugs	28.5	19.3	25.9	38.0	17.0	20.5
TCM Yinpian	36.2	75.5	32.8	34.1	117.8	60.7
TCM	20.0	19.4	16.8	6.8	18.2	27.5
Biological drugs	44.1	10.0	12.6	37.8	33.0	13.9
Bulk drugs	19.4	(2.5)	5.6	41.8	(7.7)	(4.0)
Medical devices	23.2	31.0	33.6	24.2	74.6	50.2

Sources: Chinese Medicine Economic Information, BOCI Research estimates

PROPERTY (China)

Top picks: CR Land, Poly, China Enterprise

HK listed – Neutral

A shares – Overweight

- The average selling prices of commodity houses in 70 mainland cities declined 0.6% YoY in May, 0.5ppt lower than April, according to NDRC statistics. Shenzhen, Shijiazhuang and Guangzhou led the way for price decreases, posting declines of 6.9%, 6.3% and 5.6%, respectively.

China Enterprise (600675.SS/Rmb18.84) – BUY ↑

With Shanghai once again becoming a property hotspot, the prices of China Enterprise's existing and upcoming projects are likely to be much higher than expected. We have a buoyant sales outlook for the firm due to the superior locations of its residential developments. We upgrade our rating from *HOLD* to *BUY*.

Overseas Chinese Town (000069.SZ/Rmb24.90) – BUY

Amendments to Overseas Chinese Town's integrated listing plan are now complete, and the company is going to issue 486m shares to its major stockholder at Rmb15.16 per share, as opposed to making a public offering. We reaffirm our *BUY* rating.

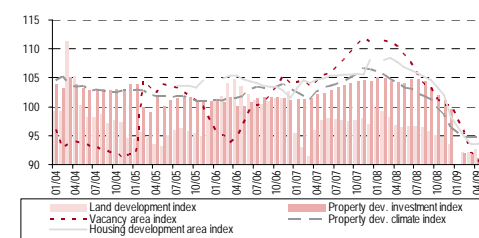
China Resources Land (1109.HK/HK\$17.48) – BUY ↑

Following the strong response to the Park Lane Manor in Shenzhen and improving average selling prices, we lift our earnings estimates for China Resources Land (CR Land) by 8-14% for 2009-11. We also revise up our 2009E NAV for the stock by 16% to HK\$20.92. With the robust lock-in and earnings boost from the Shenzhen project, we upgrade our rating on CR Land from *HOLD* to *BUY*.

China Overseas Land and Investment (0688.HK/HK\$17.88) – HOLD

We raise our 2009-11 earnings forecasts for China Overseas Land and Investment (COLI) by 14%, 17% and 27%, respectively, given its strong contract sales. Factoring in our price assumptions of flat growth in 2H09 and a 5% price hike next year, we also lift our forward 2009E NAV estimate by 9% to HK\$14.54. We reiterate our *HOLD* rating on the stock.

Property Indices



Sources: Soufun.com

Key Statistics

(% YoY)	06	07	08	Nov08	Dec	J-F09	Mar	Apr	May
Property investment	23	30	21	8	11	1	7	6	12
Residential property investment	26	32	23	8	7	1	6	4	7
Commodity housing starts (area)	17	21	3	(16)	(9)	(15)	(18)	(14)	(18)
Commodity housing completion area	9	10	1	(11)	(7)	29	23	30	6
Commodity housing sales area	38	26	(19)	(33)	(19)	(0)	16	39	51
Commodity housing sales amount	55	44	(19)	(39)	(14)	11	36	64	76
Average selling prices	13	15	(0)	(2)	(0)	12	14	15	16

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

PROPERTY (Hong Kong)

Top pick: **MTR Corp**

Developers – Underweight

- Residential transactions in June rose 33% YoY to 15,747, and transaction value edged up 1.2% YoY to HK\$58.2bn, according to the Land Registry.
- Given the easing of global monetary policies, currently low interest rate and rising demand from mainland investors, we forecast changes in property prices between the range of 3% to -3% this year instead of our earlier projection of a 20-25% decline. We also upgrade our rating for Hong Kong developers from Underweight to Neutral and expect the sector to remain volatile in the near term. Among local developers, we prefer MTR Corp and Sun Hung Kai Properties (SHKP).

Sun Hung Kai Properties (0016.HK/HK\$95.25) – BUY ↑

We upgrade SHKP from *HOLD* to **BUY** given an improving outlook for Hong Kong's property sector, which has undemanding valuations.

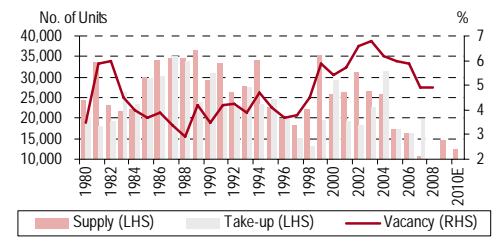
Kerry Properties (0683.HK/HK\$35.85) – HOLD ↑

We lift our rating for Kerry from *SELL* to **HOLD** due to better prospects for its China property business.

New World Development (0017.HK/HK\$14.18) – HOLD ↑

We also upgrade New World Development from *SELL* to **HOLD** as its business outlook in the mainland property market is seeing improvement. The sales of its Hanoi Road project in Tsim Sha Tsui, Hong Kong, will be a potential driver.

Private Residential Property Completions & Sales



Sources: Housing Department, Centaline

Key Statistics

	07	08	09E	Dec08	Jan09	Feb	Mar	Apr	May
CCI	1	25	(8)	(15)	(18)	(20)	(20)	(15)	-
CCL Index	3	24	(15)	(15)	(17)	(20)	(17)	(12)	(9)
Trans. No.	(20)	47	(22)	(22)	(66)	(65)	(27)	2	29
Trans. Val	(20)	67	(21)	(21)	(72)	(69)	(35)	20	30
Primary trans	(19)	40	(48)	(48)	(71)	(48)	(66)	276	604
Unsold stock	12	(58)	7	13	29	43	33	42	37

Sources: Centaline, Midland, BOCI Research estimates

SMALL/MID-CAP

Top pick: **Vinda International**

HK listed – Overweight

- Xinyu Hengdeli raised HK\$618m through share placement for its retail network expansion, easing concerns over its indebtedness. We expect the company's cash flow to turn positive this year. We upgrade the stock from *SELL* to *HOLD*.

Ports Design (0589.HK/HK\$18.40) – BUY

Ports Design posted 1Q09 same-store sales growth in the low teens, and we expect the firm to see a similar performance in the second quarter. We believe 2H09 growth will accelerate due to the better economic environment and a low comparative base in 2H08. We revise up our 2009 same-store sales growth assumption for Ports Design from 6% to 12%. Thus, we raise our earnings forecasts by 7.7% for 2009, 12.1% for 2010 and 13.3% for 2011. Based on 19.0x historical average forward P/E, we lift our target price from HK\$12.52 to HK\$19.46 and reaffirm our **BUY** rating for the stock.

China Dongxiang (3818.HK/HK\$5.23) – BUY ↑

China Dongxiang recorded 21% YoY growth in order value at its trade fair for 4Q09, exceeding the 8% YoY gain at its trade fair for 3Q09. Its growth was mainly attributed to a volume increase coupled with a low single-digit advance in average selling prices. Operational data of its distributors has been improving since March. In addition, inventory risks related to its distributors have lowered versus three months ago. Projecting 18x 2009 P/E to its 12-month forward EPS, which is on a par with our target multiple for Li Ning, we raise our target price for China Dongxiang from HK\$3.00 to HK\$5.62 and upgrade the stock from *HOLD* to **BUY**.

Ports Design – Profit & Loss

Year ended 30 Jun	2007	2008	2009E	2010E	2011E
Revenue (HK\$)	1,355	1,489	1,738	2,099	2,642
Change (%)	28	10	17	21	26
Net profit (Rmb)	397	422	473	554	658
Fully diluted EPS (Rmb)	0.729	0.755	0.837	0.979	1.164
Change (%)	55.1	3.6	10.8	17.1	18.8
Core EPS (Rmb)	0.622	0.712	0.837	0.979	1.164
Change (%)	59.4	14.6	17.4	17.1	18.8
Fully diluted P/E (x)	22.1	21.3	19.2	16.4	13.8
Core P/E (x)	25.9	22.6	19.2	16.4	13.8
CFPS (Rmb)	0.55	0.92	0.91	1.14	1.10
P/CF (x)	29.3	17.5	17.6	14.1	14.6
EV/EBITDA (x)	21.3	18.0	15.2	12.3	9.9
DPS (Rmb)	0.937	0.210	0.733	0.593	0.705
Yield (%)	5.8	1.3	4.6	3.7	4.4

Sources: Company data, BOCI Research estimates

China Dongxiang – Profit & Loss

Year ended 31 Dec	2007	2008	2009E	2010E	2011E
Revenue (HK\$)	1,711	3,322	4,205	5,067	6,188
Change (%)	99	94	27	21	22
Net profit (Rmb)	734	1,368	1,435	1,752	2,094
Fully diluted EPS (Rmb)	0.129	0.240	0.252	0.308	0.368
Change (%)	82.3	86.4	5.1	22.1	19.5
Core EPS (Rmb)	0.130	0.214	0.252	0.308	0.368
Change (%)	93.4	63.9	18.0	22.1	19.5
Fully diluted P/E (x)	36.6	19.6	18.7	15.3	12.8
Core P/E (x)	36.2	22.1	18.7	15.3	12.8
CFPS (Rmb)	0.13	0.15	0.22	0.28	0.33
P/CF (x)	36.0	31.7	21.3	17.1	14.4
EV/EBITDA (x)	29.7	16.2	12.4	9.4	7.2
DPS (Rmb)	0.009	0.129	0.101	0.124	0.148
Yield (%)	0.2	2.7	2.1	2.6	3.1

Source: Company data, BOCI Research estimates

TECHNOLOGY

Top picks: Tencent, Comba Telecom

HK listed – Outperform ↑

A shares – Outperform ↑

- The China software industry recorded revenue of Rmb329.1bn in 5M09, a growth of 23.3% YoY. The IT service segment led the way with a 28.2% YoY growth to Rmb65.9bn, which was mainly driven by a 84.7% YoY surge in outsourcing sales.
- Global LCD Monitor panel shipments increased 5% MoM to 16.6m units in May, while LCD shipments also achieved 14% MoM growth to 12.2m units, according to the website of Display Search.
- North America semiconductor equipment bookings in May rose 16% MoM (down 72% YoY) to US\$288.5m, while billings edged up 2% MoM (down 72% YoY) to US\$391.9m. The book-to-bill ratio thus further increased from 0.65 in April to 0.74 in May.

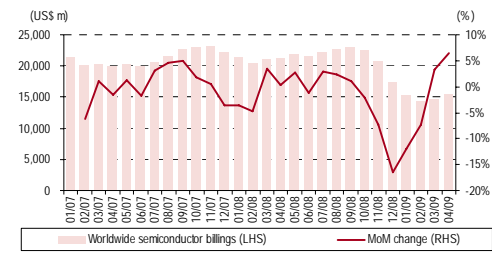
VTech (0303.HK/HK\$54.10) – BUY

We believe VTech's growth in FY10 will stem mainly from the telephone business. The company gained most of the 12% share arising from General Electronic's exit from the telephone market in North America, which will cause VTech's revenue in the region to stop declining. In addition, VTech's contract manufacturing services (CMS) did better than the industrial average in achieving 5% YoY growth in FY09. We expect CMS to keep delivering YoY growth through the new customer acquisitions. We expect VTech's margin to improve in FY10 on falling raw material costs, stabilisation of foreign exchange rates and re-engineering ability that can lead to lower costs.

Comba Telecom (2342.HK/HK\$4.40) – BUY

We believe Comba will deliver strong 1H09 results thanks to the WCDMA antenna orders from China Unicom and China Mobile's wireless coverage orders. 2G still accounts for 80% of Comba's revenue, but we believe the company should benefit from a sustainable 3G wireless enhancement capex over time. Comba's defensive growth momentum remains intact, in our view, but the stock is trading at an unjustified discount to its peers.

Worldwide Semiconductor Billings



Sources: SIA

Key Statistics

Semiconductor sales revenue	07	08	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
America (US\$ bn)	44.0	39.0	11.3	10.2	10.4	9.9	9.0	7.6
Europe (US\$ bn)	39.1	39.6	10.8	10.2	10.2	10.3	9.1	6.6
Japan (US\$ bn)	45.5	49.3	13.1	12.3	12.5	12.6	12.0	8.5
Asia Pacific (US\$ bn)	123.5	127.4	33.2	30.4	31.5	35.1	30.6	21.5
Total	252.1	255.3	68.4	63.1	64.6	67.9	60.8	44.2

Capacity & utilisation rate	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Foundry capacity (wafer start per weekx1000)	261	272	307	313	298	308	290	291
Foundry utilisation rate (%)	79	93	94	94	94	93	86	60
Total IC capacity (wafer start per weekx1000)	1,872	1,972	2,093	2,118	2,152	2,198	2,223	2,185
Total IC utilisation rate (%)	87	89	90	90	91	89	87	69

Sources: SIA, SICAS

TELECOMS

Top pick: China Mobile

HK listed – Overweight

A shares – Neutral

- The Office of the Telecommunications Authority, Hong Kong's industry regulator, has auctioned 3.2MHz of radio spectrum (in the 1,780-1,880MHz range) to each of China Mobile, PCCW and SmarTone for a total of HK\$46.1m in upfront payment plus an annual usage fee.

China Mobile (0941.HK/HK\$76.45) – BUY

Market leader China Mobile has announced the net addition of 5.12m subscribers in May versus 5.83m in April to take its total to 488.11m. This was slightly slower than our growth estimate. We maintain our HK\$89 target price for the stock and reaffirm our **BUY** call.

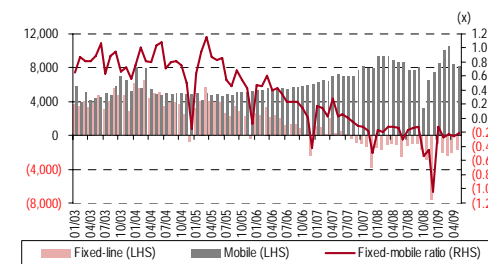
China Telecom (0728.HK/HK\$3.70) – HOLD

China Telecom added 2.2m CDMA subscribers in May versus 1.87m in April, now totalling 36.91m. It also added 750,000 broadband subscribers to put its total at 48.24m, but it lost 1.35m fixed-line users to 200.75m. We are leaving our forecasts and target price for the stock intact at HK\$2.90. We reiterate our **HOLD** rating.

China Unicom (0762.HK/HK\$10.02; 600050.SS/Rmb6.82) – SELL (H&A)

China Unicom added merely 680,000 GSM subscribers in May, much lower than the 1.14m in April, to take its total to 139.52m. It also grew its broadband subscriber base by 780,000 to 33.93m in total. However, it lost 290,000 fixed-line users, leaving it with just about 108.7m in total. We are leaving our profit forecasts and target price unchanged for now. The stock remains a **SELL**.

Fixed-line and Mobile Networks' Monthly Net Additions in China



Sources: MII

Key Statistics

	2008	2009E	2010E	Jan09	Feb	Mar	Apr	May
(m subscribers)	641.2	763.0	857.5	649.7	659.8	670.3	678.8	686.9
National mobile sub. net adds	93.9	121.8	94.5	8.5	10.1	10.6	8.5	8.1
CM total subscribers	457.2	532.0	584.3	463.9	470.7	477.2	483.0	488.1
net adds in period	87.9	74.7	52.3	6.7	6.8	6.5	5.8	5.1
CU-G total sub. net adds in period	14.2	13.6	20.4	0.8	1.6	1.8	1.1	0.7
CU-C total sub. net adds in period	27.9	55.6	77.4	28.9	30.6	32.8	34.7	36.9
net adds in period	(13.5)	27.7	21.8	1.0	1.7	2.2	1.9	2.2
National broadband sub net adds in period	83.4	103.9	117.0	84.6	86.5	88.1	89.8	91.6
net adds in period	17.0	20.5	13.1	1.2	1.9	1.7	1.7	1.8
CT broadband sub. net adds in period	44.3	52.0	59.0	45.0	45.9	46.8	47.5	48.2
net adds in period	8.6	7.8	7.0	0.8	0.9	0.9	0.7	0.8
CN broadband sub. net adds in period	25.4	38.1	41.8	31.1	31.7	32.6	33.2	33.9
net adds in period	5.6	12.7	3.7	5.6	0.6	0.9	0.5	0.8
National fixed-line sub. net adds	340.8	311.2	281.6	340	338	335	333	332
net adds	(24.6)	(29.6)	(29.6)	(1.0)	(2.1)	(2.4)	(2.1)	(1.7)

Sources: MII, Company data, BOCI Research estimates

TRANSPORT – Aviation

Top picks: Air China, Baiyun & Shenzhen Airport

Airports – Overweight

Airlines – Neutral

- The traditional weak season for domestic air traffic drove down airfare indices in May 2009. Domestic passenger volume soared 17.8% YoY, while international passenger and cargo demand remained weak. However, the numbers did not show any further decline.
- NDRC announced on 29 June 2009 that the ex-factory price of jet fuel would hike Rmb1,030 to Rmb5,050/tonne, which equals a 25.6% increase, effective 30 June. We estimate that the rise in jet fuel prices will lift the airline industry's costs by Rmb6bn in 2H09. Also, we expect domestic jet fuel surcharges to be restored accordingly, but the benchmark has yet to be decided. If we assume Rmb20/person for routes below 800km and Rmb40/person for those above 800km, the surcharges will cover roughly 60-65% of the cost increase. We believe other measures may be taken to compensate the cost hike of airlines.
- We reaffirm our **OVERWEIGHT** rating for the airport sector. We continue to rate the airlines industry as NEUTRAL for H and A shares because of weak demand in both global and domestic cargo volume and international passenger volume, as well as the uncertainty over future capacity expansion.

Air China (0753.HK/HK\$3.80; 601111.SS/Rmb6.98) – BUY (H&A)

Air China's revenue passenger kilometres (RPK) in May rose 7.0% YoY to 5,607m, while its passenger load factor (PLF) dropped 0.1ppt YoY to 71.2%.

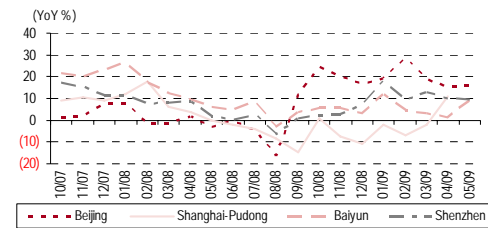
China Southern Airlines (1055.HK/HK\$2.03; 600029.SS/Rmb5.28) – BUY (H&A)

China Southern Airlines' RPK climbed 6.5% YoY in the same month to 7,039m, while its PLF went up 1.7ppts YoY to 71.6%.

Baiyun Airport (600004.SS/Rmb9.76) – HOLD

Passenger throughput posted growth of 9.0% YoY in May, while aircraft movements gained 6.9% and cargo throughput grew 26.0% (including that of FedEx, whose Asia-Pacific hub is located in Baiyun Airport, Guangzhou).

Passenger Throughput YoY% - Major Airports



Sources: NBS, BOCI Research estimates

Key Statistics

	07	08	Oct08	Nov	Dec	Jan09	Feb	Mar	Apr	May
RPK YoY %										
Air China	14	(2)	1	3	2	10	6	5	5	7
CEA	12	(6)	(5)	(4)	(4)	7	3	9	9	11
CSA	15	2	7	4	4	11	3	5	2	7
PLF YoY %										
Air China	77	75	78	76	74	77	77	74	76	71
CEA	70	71	72	70	68	70	72	70	73	69
CSA	73	74	80	75	72	75	78	76	76	72

Sources: Bloomberg, Company data, BOCI Research estimates

TRANSPORT – Land

Top pick: Chutian Expressway

HK listed – Neutral

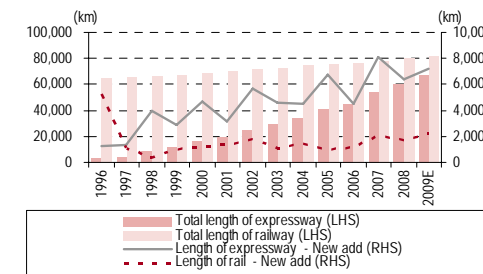
A listed – Neutral

- China's total railway passenger volume reached 640m in 5M09, representing 6.3% YoY growth. Railway passenger turnover totalled 342.3bn person-kilometres, gaining 1.6% YoY. However, cargo transportation volume dropped 4.6% YoY to 1.32bn tonnes, and turnover reached 983bn tonne-kilometres, down 4.9% YoY.

Shenzhen Expressway (0548.HK/HK\$3.69; 600548.SS/Rmb6.11) – HOLD

Shenzhen Expressway's (SZE) earnings growth is likely to slow in 2009 due to the decelerating macro economy since 2H08 and the expansion of Meiguan Expressway. In addition, its dividend payout ratio may decrease from 52% in 2008 to 40% this year because of a high CAPEX budget for its Nanguang Expressway, Yanba C section and Qinglian project, totalling about Rmb2.36bn in 2009. Moreover, the firm's entrusted construction management business will not have any earnings contribution until 2010. Trading at above 14x 2009E P/E, the stock is at a 15% premium to the H-share sector average, which is unattractive in our view. We believe investors should wait for a better entry point to buy the stock as the H-share market's overall P/E is just 16x. The biggest uncertainties for SZE are its financial costs and the valuation of its Qinglian project. Despite its large CAPEX, financing plans remain uncertain. It is difficult to forecast the traffic flow and toll revenue for the new Qinglian Road at the moment, which explains why the market has varied expectations on these two factors. From its operating data, we note that most of SZE's roads posted better growth rates in April versus March. We expect better data in May as the worst seems to have passed. With the macro-economic recovery, coupled with the completed upgrade of Qinglian Road into an expressway, we expect SZE to enjoy rapid growth in 2010. Our 2009-11E earnings forecasts for SZE are Rmb0.247, Rmb0.327 and Rmb0.357, respectively. We reiterate our **HOLD** ratings for the company's H and A shares.

Total Lengths of Railways & Expressways



Sources: MOC, CEIC

Key Statistics

	08	09E	10E	Jan09	Feb	Mar	Apr	May
Railway								
Passenger carried (person, bn)	1,456	1,718	1,924	133	136	118	125	129
Passenger turnover (person-km, bn)	773	897	987	77	78	65	66	63
Freight carried (tonne, bn)	3,301	3,641	3,932	252	234	265	260	278
Freight turnover (tonne-km, bn)	2,512	2,592	2,800	190	173	211	204	207
FAI (Rmb bn)	402	480	720	34	0	20	42	37
Road								
Passenger carried (person, bn)	20.5	22.1	23.9	2.0	1.9	1.9	2.2	2.3
Passenger turnover (person-km, bn)	1,151	1,264	1,339	112	113	110	100	111
Freight carried (tonne, bn)	18.2	18.7	19.2	1.5	1.4	1.5	1.6	1.7
Freight turnover (tonne-km, bn)	1,135	1,317	1,357	106	103	118	264	293
FAI (Rmb bn)	733	913	1,095	49	0	59	72	88

Sources: CEIC, MOC, BOCI Research estimates

TRANSPORT – Marine

Top pick: China Communications Const

HK listed – Underweight

A shares – Underweight

- The Baltic Dry Index (BDI) was up 7.5% MoM in June from 3,494 points to 3,757 points. The year-to-date average closing of the index was 2,107.0.
- The rate for very large crude carriers (VLCC) closed at WS35 in June, up 75% MoM from WS20. The year-to-date average closing was WS30.6.

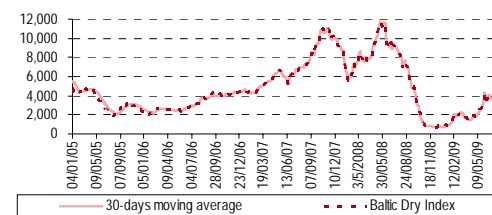
China Shipping Container Lines (2866.HK/HK\$2.06; 601866.SS/Rmb4.46) – SELL

Due to the prevailing tough operating environment for CSCL amid low shipment volumes and weak freight rates along with the inability to implement fuel surcharges in the face of rising oil prices, we revise up our volume assumption but lower that for average revenue per TEU in our 2009 and 2010 forecasts. We expect total lifting volume to drop 10.9% YoY to 6.2m TEU in 2009 before rising 5.5% YoY to 6.5m TEU in 2010. Our average revenue per TEU assumptions for the two years stand at Rmb3,634 and Rmb3,818, representing a fall 26.8% YoY and a rise 5.1% YoY, respectively. Our average total cost per TEU assumptions are Rmb4,160 and Rmb3,943, down 15.7% YoY and 5.2% YoY, respectively. We raise our loss forecasts for CSCL by 42.3% from Rmb1.9bn to Rmb2.7bn for 2009 and 57% from Rmb527m to Rmb827.6m for 2010. We reiterate our **SELL** ratings for both the H and A shares, but raise our target prices to HK\$1.50 and Rmb3.05, respectively, based on a forward P/B ratio of 0.5x and the average A-H share price premium of 166% over the last 12 months.

Pacific Basin (2343.HK/HK\$4.89) – SELL

Although spot dry bulk shipping rates rebounded significantly in 2Q09, we believe PBS can only benefit slightly due to its relative high coverage ratio at end-1Q09. The huge upcoming supply of newbuildings will weigh on the market. To factor in the market movements in 2Q09, we raise our 2009 and 2010 timecharter-equivalent rate assumptions for PBS by 1.9% and by 5.8% for its Handysize fleet to US\$14,236 and US\$11,389, respectively, and by 1.1% and 8.9% for its Handymax fleet to US\$26,406 and US\$18,484. As such, we revise up our 2009-10 earnings forecasts for PBS by 5.8% and 74.2% to US\$110.5m and US\$38.4m, respectively. Amid expectations of a volatile market for the rest of the year, we reiterate our **SELL** rating for the stock, but raise our target price from HK\$2.50 to HK\$4.00, equal to a target 2010E P/B multiple of 0.7x.

Baltic Dry Index (BDI) Trend



Sources: Bloomberg

Key Statistics

% YoY	07	08	09E	Dec08	Jan09	Feb	Mar	Apr	May
Shenzhen	10	2	(15)	(28)	(17)	(26)	(21)	(25)	(17)
Shanghai	25	7	(10)	(5)	(19)	(18)	(9)	(19)	(13)
Dalian	20	18	5	16	7	(9)	(6)	(6)	1
Tianjin	28	20	7	20	(4)	3	6	5	5
Qingdao	24	6	4	38	2	2	3	2	3
Xiamen	18	8	(5)	(9)	(6)	(12)	(8)	(16)	(13)
Ningbo	30	16	(6)	27	(7)	(22)	(4)	(16)	(10)
Guangzhou	40	22	(12)	(21)	(34)	(22)	(14)	(8)	(7)

Sources: MOC, BOCI Research estimates

UTILITIES (China)

Top pick: Shenzhen Energy, CR Gas

HK listed – Overweight ↑

A shares – Overweight ↑

- According to the State Grid Corporation of China, China power generation grew 3.59% in June. This is a significant increase compared to the -3.55% YoY growth seen in the previous month.
- Regionally, the acceleration in power consumption in southern Hebei Province indicated that steel production had picked up. Coastal areas and load centre provinces have seen big improvements in power consumption.
- The power industry profits increased 15% YoY in 5M09. Coal-fired power generation registered profits of Rmb11.4bn against losses of Rmb2.8bn in 5M08. Hydropower generation earnings surged 80% YoY to Rmb7.9bn.

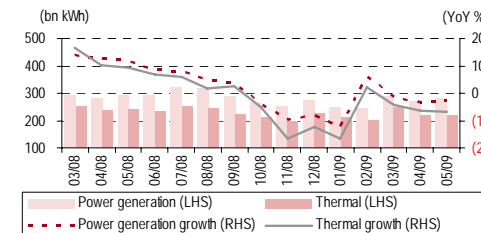
Shenzhen Energy Group (000027.SZ/Rmb11.64) – BUY

Power demand in Shenzhen staged a recovery during May-June 2009. Shenzhen Energy Group (SEG), a major independent power producer (IPP) in the city, has come out as the biggest beneficiary. The company has demonstrated a better-than-expected ability to develop superior-quality projects. It also has plenty of projects in hand, which should provide solid support for its mid- to long-term growth. In addition, its current valuation is relatively cheap, and we believe the market will revalue the stock. Given its share sell-offs in other listed companies, we lift our 2009 investment income estimate for the group and raise our EPS forecast from Rmb0.62 to Rmb0.64. We raise our target price to Rmb12.30.

China Resources Gas (1193.HK/HK\$5.40) – BUY

The stock liquidity of China Resources Gas (CR Gas) has improved with its share sale. CR Gas is well positioned for a rapid transformation into a city gas industry leader due to its Scheme of Control (SOE) background, clear focus and positive operating environment. We raise our gas sales volume forecasts by 11% for 2009, 20% for 2010 and 47% for 2011 due to its newly acquired projects at strategic locations. In light of its stable gross margin and improving operating margin due to scale benefits, we revise our EPS forecasts by 7.8% for 2009, -2.5% for 2010 and 19.0% for 2011 and raise our target price from HK\$4.43 to HK\$6.00.

Monthly Electricity Growth



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

Key Statistics

	2008	2009E	2010E	1Q09	5M09
Power generation (bn kWh)	3,433	3,526	3,748	780	1,333
Power generation YoY%	5.2	2.7	6.3	(2.0)	(3.2)
Thermal YoY%	2.2	0.9	3.6	(6.1)	(6.5)
Hydro YoY%	19.5	9.5	15.4	24.0	19.4
Installed capacity YoY%	10.3	8.3	7.5	10.6	
Utilisation hours	4,677	4,500	4,450	1,009	
Thermal utilisation hours	4,911	4,691	4,640	1,100	

Sources: Company data, BOCI Research estimates

UTILITIES (Hong Kong)

HK listed – Underweight ↓

Top pick: CLP Holdings

- CLP and Hong Kong Electric (HKE) exhibited market performance last month after underperforming by nearly 30% in the previous three months. Despite offering stable yield, we think the two stocks offer little upside potential given the earning cut in Hong Kong after the scheme of control (SOC) change and as the murky demand overseas has affected volume and tariff levels.
- HK & China Gas has bought back cumulatively 107.2m shares (or 1.6%) at HK\$13.9 since 20 March, supporting its recent stock performance.

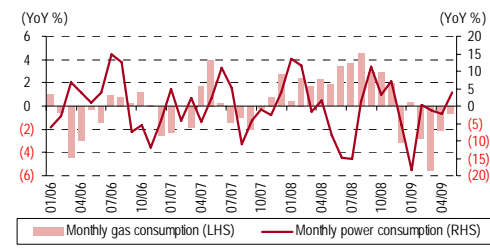
CLP Holdings (0002.HK/HK\$51.30) – HOLD

Although CLP's domestic business revenue fell due to a basic tariff cut, its Scheme of Control (SOC) returns may not have been directly affected. The company's 1Q09 operating data offers little guidance for us to change our earnings forecasts and its overseas progress was satisfactory. We cut our target price for CLP from HK\$60.50 to HK\$55.00 mainly on rolling debt to end-2009 estimates. We also cut our target price for Hong Kong Electric (HKE) by nearly 10% on applying a higher risk premium of the market. Both trade at fair valuations, implying a yield gap of about 0.6ppt.

HK & China Gas (0003.HK/HK\$16.00) – SELL

Its ongoing rapid development of new energy projects will add earnings uncertainties. Despite HK Gas' strong financial position, it is already the most expensive utility stock in Hong Kong space. We think a higher premium is not justified.

Power and Gas Production/Consumption



Sources: Company data, BOCI Research estimates

HK & China Gas – Investment Summary

Year ended 31 Dec	2007	2008	2009E	2010E	2011E
Revenue (HK\$ m)	50,789	54,297	50,178	54,344	58,247
Change (%)	-	7	(8)	8	7
Net profit (HK\$ m)	10,608	10,423	8,571	8,893	9,146
Fully diluted EPS (HK\$)	4.405	4.328	3.559	3.693	3.798
Change (%)	-	(1.7)	(17.8)	3.8	2.8
Fully diluted P/E (x)	11.6	11.8	14.4	13.9	13.5
CFPS (HK\$)	7.98	5.06	6.80	7.37	7.64
P/CF (x)	6.4	10.1	7.5	6.9	6.7
EV/EBITDA (x)	8.3	7.9	9.5	9.1	8.8
DPS (HK\$)	2.480	2.479	2.456	2.474	2.469
Yield (%)	4.8	4.8	4.8	4.8	4.8

Sources: Company data, BOCI Research estimates

BOCI Stock Universe

China – HK

RIC Company	Price Y/E (3/7/09)	1M chg (%)	YTD chg (%)	3M avg daily T/O	Free float mkt.cap.^ (HK\$ m)	EPS 09E (HK\$)	EPS 10E (HK\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (HK\$)	
Automotive																	
2357 AvlChina	Dec	1.95	(3)	86	25	3,532	(0.07)	0.12	n.m.	16.7	n.a.	n.a.	0.0	0.0	XU Minle	Buy	2.34
1114 Brilliance Auto	Dec	0.93	19	130	44	2,082	0.05	0.06	20.5	16.4	33	25	0.0	0.0	WANG Yusheng	Sell	0.76
0203 Denway Motor	Dec	3.32	(12)	38	106	15,475	0.32	0.34	10.2	9.8	3	5	2.5	2.6	Eric HU	Hold	3.25
0489 Dongfeng Motor	Dec	6.68	(11)	167	195	18,993	0.51	0.59	13.1	11.3	(4)	16	0.7	0.8	Eric HU	Buy	6.20
0300 Kunming Machine (A#)	Dec	4.49	(10)	47	8	1,107	0.71	0.73	6.3	6.2	(3)	2	2.3	2.5	SHI Qi	Buy	7.16
1122 Qingling Motor	Dec	1.46	(2)	90	12	1,087	0.09	0.10	16.7	14.5	8	16	4.3	4.9	Eric HU	Buy	2.23
2338 Weichai Power (A#)	Dec	24.90	(16)	71	48	4,978	2.61	3.25	9.5	7.7	(1)	25	0.6	0.7	Eric HU	Buy	33.80
Average			(5)	90	63	6,751	0.60	0.74	12.7	11.8	6	15	1.5	1.7			
Chemicals																	
0338 Shanghai Petrochem (A#)	Dec	2.67	(6)	34	110	6,152	(0.14)	0.03	n.m.	90.5	n.a.	n.a.	0.0	0.0	Lawrence LAU	Sell	1.59
0297 Sinoferet HK Hldg (R)	Dec	3.60	(15)	(4)	143	29,639	0.25	0.26	14.4	13.8	(19)	5	0.0	0.6	NI Xiaoman	Hold	3.50
Average			(10)	15	126	17,895	0.06	0.15	14.4	52.2	(19)	5	0.3	0.3			
Conglomerates																	
0291 China Resources (R)	Dec	15.16	(14)	12	136	16,944	0.74	0.84	20.4	18.0	(24)	13	2.0	2.3	Ashley CHEUNG	Hold	16.30
Average			(14)	12	136	16,944	0.74	0.84	20.4	18.0	(24)	13	2.0	2.3			
Consumer Products																	
2020 Anta	Dec	9.96	19	186	59	6,944	0.48	0.56	20.6	17.6	19	17	2.4	2.8	Sarah XING	Hold	7.78
0606 China Agri-Industries (R)	Dec	5.08	(12)	32	58	7,728	0.49	0.65	10.5	7.9	(34)	33	1.9	2.7	Jenny CHAN	Hold	4.15
3818 China Dongxiang (P)	Dec	5.23	14	183	111	14,252	0.29	0.35	18.3	15.0	5	22	2.2	2.7	Sarah XING	Buy	5.62
0506 China Foods (R)	Dec	4.64	(1)	61	18	9,713	0.27	0.31	17.2	15.0	59	15	1.9	2.2	Jenny CHAN	Buy	4.90
0904 China Green	Apr	8.35	4	35	16	3,407	0.52	0.62	16.0	13.4	0	20	1.6	1.8	Jenny CHAN	Buy	7.60
0359 China Haiseng Juice (P)	Dec	0.62	(17)	28	3	249	0.36	0.40	1.7	1.6	5	10	11.0	12.8	Jenny CHAN	Buy	2.50
3398 China Ting (P)	Dec	0.90	(6)	74	3	546	0.14	0.18	6.6	5.0	(25)	33	7.6	10.0	Sarah XING	Buy	0.60
1044 Hengan International	Dec	37.00	6	49	98	17,240	1.60	1.82	23.2	20.3	38	14	2.5	3.0	Sarah XING	Buy	39.00
0336 Huabao International	Mar	8.15	20	60	65	11,063	0.36	0.41	22.8	20.1	29	13	1.7	1.8	Jenny CHAN	Buy	7.85
2331 Li Ning	Dec	22.50	22	86	90	15,836	0.92	1.14	24.4	19.7	18	24	2.1	2.6	Sarah XING	Hold	18.33
2319 Mengniu Dairy	Dec	19.10	7	89	149	22,063	0.45	0.68	42.8	28.2	n.a.	52	0.5	0.7	Jenny CHAN	Sell	8.30
0157 Natural Beauty (P)	Dec	1.28	(2)	6	4	881	0.12	0.13	10.8	9.9	0	8	6.5	7.0	Sarah XING	Buy	1.60
0322 Tingyi Holding	Dec	12.58	11	40	69	21,085	0.49	0.60	25.8	20.8	34	24	2.0	2.4	Jenny CHAN	Buy	13.50
0168 Tsingtao Brewery (A#)	Dec	24.95	14	54	37	16,340	0.84	1.02	29.7	24.4	37	22	1.1	1.7	ZHAO Zongjun	Buy	18.00
3331 Vinda International	Dec	4.95	23	136	13	2,237	0.31	0.36	16.0	13.7	78	16	1.6	1.8	Sarah XING	Buy	4.64
0151 Want Want China	Dec	4.59	16	43	79	28,912	0.16	0.23	29.6	19.7	0	50	1.7	3.4	Jenny CHAN	Buy	4.00
2088 Xiwang Sugar (P)	Dec	1.39	(19)	16	10	372	0.12	0.16	11.1	8.5	51	32	3.1	3.5	Jenny CHAN	Sell	0.78
8259 Yantai North Andre Juice (A)	Dec	0.38	(3)	27	7	401	0.12	0.14	3.1	2.8	40	12	9.6	10.7	Jenny CHAN	Buy	1.05
Average			5	67	49	9,959	0.45	0.54	18.3	14.6	21	23	3.4	4.1			
Consumer Services																	
0538 Aijisen	Dec	4.90	(5)	37	15	2,512	0.27	0.35	18.2	14.0	29	30	1.6	2.1	Sarah XING	Hold	4.40
1880 Belle International	Dec	7.20	15	112	119	20,664	0.33	0.38	22.0	19.2	21	15	1.2	1.4	Ashley CHEUNG	Hold	6.60
3308 Golden Eagle	Dec	9.14	17	68	29	4,640	0.43	0.51	21.4	17.9	11	20	3.7	1.4	LIU Du	Buy	8.90
0493 Gome Electrical Appliances	Dec	1.74	73	73	104	12,144	0.09	0.15	18.7	12.0	(38)	56	1.2	1.8	Ashley CHEUNG	Buy	1.90
0980 Lianhua Supermarket	Dec	13.10	19	36	7	3,650	0.80	1.04	16.3	12.5	13	30	2.5	3.2	Ashley CHEUNG	Buy	16.40
0825 New World Dept Store	Dec	6.11	2	44	19	2,884	0.29	0.34	21.1	18.2	2	16	1.9	1.7	Ashley CHEUNG	Buy	7.40
3368 Parkson Group	Dec	11.30	4	28	74	14,497	0.37	0.46	30.5	24.8	8	23	1.6	2.0	ZHENG Yuan	Sell	8.20
1832 Time Ltd	Dec	2.43	(2)	19	1	531	0.26	0.32	9.2	7.5	31	23	4.7	n.a.	Ashley CHEUNG	Buy	4.10
8277 Wumart Store	Dec	9.44	8	64	10	6,357	0.41	0.49	23.2	19.3	11	20	2.2	2.6	Ashley CHEUNG	Buy	7.20
3389 Xinyu Hengdeli (P)	Dec	2.28	(23)	90	29	2,824	0.18	0.20	13.0	11.7	(3)	11	2.3	2.5	Sarah XING	Hold	2.40
Average			11	57	41	7,070	0.34	0.42	19.4	15.7	9	24	2.3	2.1			
Energy																	
1898 China Coal (A#)	Dec	9.19	(7)	49	415	37,774	0.61	0.80	15.0	11.6	(1)	30	1.9	2.5	Lawrence LAU	Hold	8.33
2883 China Oilfield Service (A#)	Dec	7.93	(14)	27	175	12,155	0.88	1.05	9.0	7.6	12	19	2.3	2.7	Lawrence LAU	Buy	8.76
0883 CNOOC Limited	Dec	9.38	(14)	30	1,152	121,386	0.76	1.09	12.3	8.6	(32)	43	2.8	4.1	Lawrence LAU	Buy	10.25
0639 Fushan Energy	Dec	4.42	12	128	139	6,679	0.35	0.40	12.5	10.9	109	14	3.2	3.7	Lawrence LAU	Buy	4.94
0857 PetroChina (A#)	Dec	8.53	(7)	26	1,273	179,974	0.61	0.82	14.0	10.4	(14)	34	3.2	4.3	Lawrence LAU	Buy	9.91
1088 Shenhua Energy (A#)	Dec	29.00	8	77	637	98,635	1.61	1.71	18.0	16.9	6	6	1.9	2.0	Lawrence LAU	Buy	32.41
0386 Sinopec (A#)	Dec	5.96	(1)	27	1,236	100,009	0.67	0.82	8.9	7.3	76	23	3.2	3.6	Lawrence LAU	Buy	6.66
1171 Yanzhou Coal (A#)	Dec	10.82	1	90	324	21,285	0.75	0.84	14.5	12.9	(50)	13	2.1	2.4	Lawrence LAU	Buy	13.24
Average			(3)	57	669	72,237	0.78	0.94	13.0	10.8	13	23	2.6	3.2			

China – HK

RIC Company	Price Y/E (3/7/09)	1M chg (%)	YTD chg (%)	3M avg. daily T/O (\$HK\$m)	Free float mkt.cap* (\$HK\$m)	EPS 09E (\$HK\$)	EPS 10E (\$HK\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (\$HK\$)	
Financials																	
3988 Bank of China (A+)	Dec 3.70	6	75	1,865	309,937	0.36	0.34	10.2	10.9	28	(6)	5.2	4.9	YUAN Lin	Buy	3.48	
3328 Bank of Communication (A+)	Dec 8.73	17	56	479	201,027	0.59	0.42	14.8	20.8	(10)	(29)	2.3	1.7	YUAN Lin	Buy	7.45	
0998 China Citic Bank (A+)	Dec 5.27	11	99	316	22,240	0.42	0.27	12.6	19.4	0	(35)	3.4	2.6	YUAN Lin	Hold	3.68	
0939 China Construction Bank (A+)	Dec 5.95	15	40	4,144	305,899	0.45	0.45	13.2	13.1	30	1	3.8	3.8	YUAN Lin	Hold	5.00	
0165 China Everbright Limited	Dec 18.52	1	95	101	13,391	0.64	0.63	28.9	29.4	0	(2)	0.3	0.3	-	Buy	14.20	
0966 China Insurance	Dec 18.30	19	54	32	10,197	0.74	0.97	24.7	18.9			31	0.4	0.5	0.5	Hold	11.20
2628 China Life (A+)	Dec 29.10	(2)	24	1,754	213,853	1.05	1.32	27.6	22.1	21	25	1.4	1.7	YUAN Lin	Hold	31.20	
3968 China Merchants Bank (A+)	Dec 17.76	7	61	739	47,270	1.60	1.15	11.1	15.5	1	(28)	2.6	1.9	YUAN Lin	Sell	15.17	
1398 ICBC (A+)	Dec 5.34	8	31	2,332	89,183	0.39	0.27	13.7	19.8	4	(31)	3.6	2.5	YUAN Lin	Hold	4.58	
2328 PICC	Dec 5.39	(8)	29	2,552	18,617	0.58	0.00	9.3	n.a.	16	n.a.	7.8	n.a.	YUAN Lin	Buy	12.60	
2318 Ping An (A+)	Dec 56.65	(1)	51	704	144,967	1.84	2.27	30.8	25.0	3,950	23	0.7	0.8	YUAN Lin	Hold	62.00	
Average	7	56	1,156	125,144	0.79	0.74	17.9	19.5	404	(5)	2.9	2.1					
Industrials																	
0914 Anhui Conch (A+)	Dec 48.80	(10)	37	200	21,545	2.59	3.73	18.9	13.1	47	44	1.0	1.5	Grace TANG	Buy	65.60	
1800 China Commun. Construction (H)	Dec 8.79	(20)	(8)	333	35,184	0.68	0.87	12.9	10.1	52	28	1.9	2.4	Jimmy LAM	Hold	10.00	
3323 China National Building Material	Dec 14.42	(15)	55	285	13,054	1.43	1.92	10.1	7.5	84	34	0.6	0.9	Grace TANG	Buy	20.40	
0390 China Railway (A+)	Dec 6.31	(5)	18	209	23,117	0.34	0.45	18.7	14.0	373	34	1.3	1.8	Patrick LI	Buy	6.77	
1186 China Railway Construction (A+)	Dec 11.96	0	4	236	20,954	0.55	0.76	21.7	15.6	64	39	1.2	1.6	Patrick LI	Buy	12.27	
1766 China South Locomotive	Dec 4.36	(7)	4	134	8,776	0.19	0.25	23.3	17.6	27	33	1.4	1.9	SHI Qi	Buy	4.64	
3898 CSR Times Electric (H)	Dec 11.38	9	82	39	5,181	0.54	0.69	20.9	16.4	26	27	2.2	2.8	SHI Qi	Buy	8.14	
1072 Dongfang Electric	Dec 27.65	(9)	43	51	13,413	2.27	3.21	12.2	8.6	268	41	0.1	0.1	HAN Ling	Buy	35.00	
0317 Guangzhou Shipyard Int'l	Dec 14.00	(1)	97	46	2,205	1.79	1.36	7.8	10.3	(5)	(24)	3.4	2.5	XU Minle	Buy	17.96	
3339 Lonking Holdings	Dec 3.85	(16)	94	35	1,936	0.85	0.98	4.6	3.9	20	16	5.6	6.5	Eric HU	Buy	8.50	
2689 Nine Dragons Paper (P)	Jun 4.97	(21)	125	82	6,398	0.26	0.34	19.0	14.6	(47)	30	0.0	1.1	Sarah XING	Sell	1.68	
1893 Sinoma	Dec 6.67	2	43	113	7,860	0.30	0.39	22.3	17.0	67	31	1.3	1.8	Lawrence LAU	Buy	7.52	
0505 Xingye Copper (P)	Dec 1.16	(23)	55	8	271	0.03	0.07	34.1	17.0	n.a.	100	0.0	0.0	Sarah XING	Sell	0.40	
Average	(9)	50	136	12,300	0.91	1.16	17.4	12.8	81	33	1.5	1.9					
Media																	
1000 Beijing Media	Dec 4.10	11	60	1	294	0.27	0.00	15.3		2		5.5	n.a.	Allan NG	Sell	9.00	
2008 Phoenix Satellite TV	Dec 1.04	(12)	46	3	1,288	0.05	0.07	20.0	14.2	(13)	40	1.9	1.9	Allan NG	Buy	0.90	
0811 Xinhua Winshare	Dec 2.79	1	69	14	1,235	0.37	0.42	7.6	6.7	9	14	4.1	4.5	Allan NG	Buy	4.00	
Average	0	59	6	939	0.23	0.16	14.3	10.5	(1)	27	3.8	3.2					
Metals & Mining																	
0347 Angang New Steel (A+)	Dec 12.92	(7)	49	306	14,021	0.21	0.74	61.2	17.6	(55)	249	0.8	2.8	Belle CHAN	Hold	12.50	
2600 CHALCO (A+)	Dec 7.24	(13)	77	582	29,375	(0.06)	0.10	n.m.	76.0			0.0	0.0	Belle CHAN	Sell	1.85	
3993 China Molybdenum (H)	Dec 5.65	(6)	61	109	6,254	0.16	0.20	35.6	27.7	(59)	29	1.0	1.2	Belle CHAN	Sell	2.36	
1053 Chongqing Iron & Steel (A+)	Dec 3.06	(13)	55	30	1,685	0.13	0.36	64.2	13.3	(67)	182	1.5	4.2	Belle CHAN	Buy	4.00	
2626 Hunan Nonferrous Metals	Dec 1.850	(10)	68	63	2,532	(0.27)	(0.28)	n.m.	n.m.			0.0	0.0	Belle CHAN	Sell	0.55	
0358 Jiangxi Copper (A+)	Dec 12.88	(10)	127	491	15,574	0.27	0.63	48.1	20.5	(69)	135	0.6	1.5	Belle CHAN	Sell	3.10	
3330 Lingbao (H)	Dec 2.80	(18)	41	17	776	0.37	0.39	7.5	7.3	154	3	4.5	4.9	Belle CHAN	Hold	3.00	
0323 Maanshan Iron and Steel (A+)	Dec 4.95	(4)	79	189	10,292	0.08	0.37	64.2	13.3	(35)	384	0.5	2.3	Belle CHAN	Buy	6.00	
1862 Sino Gold (P)	Dec 29.70	(26)	21	1	5,724	1.61	2.10	18.5	14.1	-	31	0.0	0.0	Belle CHAN	Buy	39.00	
3833 Xinjiang Xinmin Mining (H)	Dec 4.33	(12)	117	30	2,986	0.11	0.19	38.2	23.0	(48)	66	0.7	1.1	Belle CHAN	Buy	4.90	
2899 Zijin Mining	Dec 6.82	(13)	45	292	29,751	0.29	0.36	23.1	18.8	24	23	2.3	3.0	Belle CHAN	Buy	6.80	
Average	(12)	67	192	10,815	0.26	0.47	35.6	22.7	(19)	223	1.1	1.9					
Pharmaceuticals																	
0874 Guangzhou Pharmaceutical (H/A)	Dec 3.96	19	51	19	871	0.61	0.73	6.5	5.5	6	19	7.7	10.9	HE Changming	Buy	6.14	
Average	19	51	19	871	0.61	0.73	6.5	5.5	6	19	7.7	10.9					

China – HK

RIC Company	Price Y/E (3/7/09)	1M chg (%)	YTD chg (%)	3M avg. daily T/O (\$HK\$m)	Free float mkt.cap* (\$HK\$m)	EPS 09E (\$HK\$)	EPS 10E (\$HK\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (\$HK\$)
Property																
3383 Agile Properties	Dec 11.00	5	172	270	16,425	0.49	0.48	22.3	22.7	(70)	(2)	0.9	0.7	Vivien ZHANG	Buy	6.50
2868 Beijing Capital Land	Dec 3.89	21	214	31	3,156	0.15	0.23	26.8	16.8	(32)	59	1.2	1.7	Vivien ZHANG	Sell	0.85
0832 Central China Real Estate	Dec 2.68	8	277	16	1,340	0.43	0.51	6.2	5.3	23	18	4.1	4.9	TIAN Shixin	Hold	1.04
0688 China Overseas (R)	Dec 17.88	11	66	471	68,197	0.74	0.92	24.2	19.5	15	24	1.0	1.3	Manfred HO	Hold	20.20
1109 China Resources Land (R)	Dec 17.48	6	84	364	30,540	0.66	0.87	26.6	20.0	40	33	0.6	0.7	Manfred HO	Buy	20.70
2007 Country Garden	Dec 3.73	(3)	96	217	10,374	0.19	0.23	20.1	16.0	93	25	1.8	2.2	Vivien ZHANG	Sell	2.00
3900 Greentown	Dec 11.90	22	274	51	7,208	0.93	1.36	12.8	8.7	56	46	1.3	2.8	Vivien ZHANG	Sell	3.70
1387 Renhe Commercial	Dec 1.54	(1)	31	191	9,548	0.26	0.22	5.9	7.0	144	(16)	8.5	7.1	Vivien ZHANG	Buy	2.30
0604 Shenzhen Investment (R)	Dec 3.40	(5)	146	73	5,599	0.29	0.41	11.8	8.3	7	43	3.4	4.9	Vivien ZHANG	Buy	3.00
0272 Shui On Land	Dec 5.36	(6)	141	204	11,105	0.25	0.36	21.1	14.8	(62)	42	0.6	0.8	Vivien ZHANG	Hold	3.50
3377 Sino-ocean Land (R)	Dec 9.21	15	N/A	204	25,971	0.28	0.46	33.3	20.0	(22)	66	1.2	1.2	Vivien ZHANG	Buy	5.80
Average	7	150	190	17,224	0.42	0.55	19.2	14.5	17	31	2.2	2.6				
Technology																
1688 Alibaba.com	Dec 13.60	(6)	144	156	15,116	0.25	0.33	55.0	41.5	(8)	33	0.0	0.0	Frank HE	Sell	7.40
1211 BYD Company	Dec 31.85	(6)	151	210	7,835	0.66	0.86	48.5	37.2	16	30	0.7	0.9	Frank HE	Sell	9.30
0861 Digital China	Mar 5.25	1	134	6	2,578	0.67	0.71	7.9	7.4	55	7	2.8	3.4	Frank HE	Buy	6.80
0992 Lenovo Group (R)	Mar 2.81	(11)	33	164	11,844	(0.20)	0.10	n.m.	27.9	n.a.	n.a.	1.1	1.1	Frank HE	Sell	1.80
0700 Tencent Holdings	Dec 88.75	(0)	78	362	76,552	2.71	3.38	32.8	26.2	58	25	0.6	0.8	Frank HE	Buy	84.50
0763 ZTE Corporation (A+)	Dec 26.45	(8)	69	96	35,522	1.46	1.72	18.1	15.3	7	18	1.1	1.3	Frank HE	Hold	29.30
Average	(5)	102	166	24,908	0.92	1.18	32.4	25.9	26	22	1.1	1.3				
Telecoms																
0941 China Mobile	Dec 76.45	(3)	(2)	2,485	389,434	6.44	6.85	11.9	11.2	1	6	3.6	4.2	Allan NG	Buy	89.00
0728 China Telecom	Dec 3.70	(3)	28	486	51,206	0.17	0.19	21.5	19.1	13	21	2.1	2.1	Allan NG	Hold	2.90
0762 China Unicom (A+)	Dec 10.02	(10)	8	416	69,524	0.47	0.37	21.2	26.8							

HK – HK

RIC Company	Price Y/E	1M chg.	YTD chg.	3M avg. daily T/O	Free float mkt. cap.^(HK\$ m)	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (HK\$)	
Consumer Products																	
0330 Esprit Holdings	Jun	44.20	(12)	1	344	46,662	4.46	4.62	9.9	9.6	(14)	4	6.1	6.3	Ashley CHEUNG	Sell	28.80
0709 Giordano International	Dec	1.55	(20)	(21)	8	2,266	0.18	0.21	8.6	7.4	(5)	17	5.2	5.8	Ashley CHEUNG	Sell	1.40
0494 Li & Fung	Dec	20.85	(5)	57	295	24,901	1.04	1.37	20.1	15.2	53	32	4.0	5.2	Ashley CHEUNG	Hold	22.80
0589 Ports Design	Dec	18.40	10	96	34	6,285	0.95	1.11	19.4	16.6	11	17	4.5	3.7	Sarah XING	Buy	19.46
0210 Daphne International	Dec	4.18	1	232	21	3,608	0.30	0.36	14.1	11.7	(2)	21	1.5	1.8	Ashley CHEUNG	Sell	5.80
Average			(5)	73	140	16,745	1.38	1.53	14.4	12.1	9	18	4.2	4.6			
Consumer Services																	
0341 Café de Coral	Mar	15.48	(2)	(1)	15	4,172	0.88	1.03	17.6	15.0	16	17	4.9	4.7	Ashley CHEUNG	Buy	18.10
0052 Fairwood	Mar	7.81	14	43	1	555	0.75	0.88	10.4	8.9	(5)	17	2.9	3.3	Ashley CHEUNG	Buy	6.30
0027 Galaxy Entertainment	Dec	2.03	(12)	92	39	2,009	0.26	0.00	7.8	n.a.	1,200	n.a.	1.5	n.a.	Ashley CHEUNG	Buy	10.00
1212 Lifestyle International	Dec	10.82	0	38	19	9,755	0.50	0.52	21.6	20.8	2	4	2.0	2.1	Ashley CHEUNG	Sell	4.63
0200 Melco Int'l	Dec	3.93	(31)	53	81	2,606	1.40	0.00	2.8	n.a.	66	n.a.	7.1	n.a.	Ashley CHEUNG	Sell	13.00
3813 Pou Sheng Int'l	Sep	1.15	(8)	39	14	2,175	0.03	0.09	37.1	12.4	(79)	200	0.0	0.0	Ashley CHEUNG	Buy	1.39
1836 Stella International	Dec	12.94	8	105	5	3,169	1.01	0.93	12.8	13.9	(19)	(8)	6.0	6.0	Ashley CHEUNG	Hold	8.50
Average			(4)	53	25	3,492	0.69	0.49	15.7	14.2	169	46	3.5	3.2			
Financials																	
0662 Asia Financial Hldgs	Dec	2.40	(10)	14	1	635	0.14	0.18	17.1	13.3	n.a.	29	1.7	2.1	-	Buy	2.30
0023 Bank of East Asia	Dec	23.20	(16)	58	221	30,592	1.73	2.38	13.4	9.7	441	38	4.7	6.5	-	Hold	15.20
2388 BOC Hong Kong	Dec	14.24	2	62	403	51,490	0.97	1.03	14.7	13.8	203	6	4.1	4.3	-	Buy	11.20
1111 Chong Hing Bank	Dec	13.42	1	45	2	1,372	0.54	0.51	24.9	26.3	286	(6)	2.4	2.3	-	Sell	7.30
2356 Dah Sing Banking Gp	Dec	7.77	(4)	39	25	1,819	0.43	0.67	18.1	11.6	115	56	2.2	3.5	-	Hold	4.80
0440 Dah Sing Financial	Dec	31.15	(14)	57	19	3,195	3.27	3.96	9.5	7.9	698	21	4.0	4.9	-	Hold	18.00
0636 Fubon Bank	Dec	3.65	(5)	46	30	1,069	0.09	0.16	40.6	22.8	0	78	1.4	2.7	-	Sell	1.60
0011 Hang Seng Bank	Dec	106.30	(6)	5	374	77,022	6.48	7.18	16.4	14.8	(12)	11	5.9	6.2	-	Buy	84.40
0388 Hong Kong Exchange	Dec	120.50	(5)	64	1,323	122,024	3.77	4.05	32.0	29.8	(21)	7	2.8	3.0	-	Sell	89.00
0005 HSBC	Dec	64.00	(4)	(6)	2,615	774,784	2.80	2.50	22.9	25.6	(33)	(11)	3.9	3.1	-	Hold	55.00
0349 ICBC (Asia)	Dec	14.20	2	71	29	5,256	1.04	1.02	13.7	13.9	39	(2)	4.4	4.3	-	Buy	10.00
1389 Ming An (Holdings)	Dec	1.67	18	114	7	1,344	0.04	0.07	41.8	23.9	n.a.	75	0.6	0.6	-	Buy	0.95
2888 Standard Chartered Bank	Dec	145.40	(8)	58	148	223,886	13.30	13.42	10.9	10.8	(1)	1	3.9	3.9	-	Buy	170.40
0302 Wing Hang Bank	Dec	66.60	(10)	49	48	8,956	3.96	4.25	16.8	15.7	1	7	1.8	1.9	-	Sell	33.40
Average			(4)	48	375	93,103	2.75	2.96	20.9	17.1	143	22	3.1	3.5			
Industrials																	
2314 Lee & Man	Mar	7.54	(18)	98	48	3,172	0.76	0.57	9.9	13.2	(40)	(25)	1.5	1.2	Sarah XING	Sell	2.87
0303 V-Tech Holdings	Mar	54.10	29	65	19	7,985	4.53	5.31	12.0	10.2	(34)	17	7.6	7.9	Frank HE	Buy	53.00
0551 Yue Yuen Industrial	Sep	19.10	9	25	92	12,077	1.64	1.78	11.7	10.7	(11)	9	3.4	3.2	Ashley CHEUNG	Buy	21.70
Average			7	63	53	7,745	2.31	2.55	11.2	11.4	(28)	0	4.2	4.1			
Media																	
0100 Clear Media	Dec	3.28	(1)	228	1	856	0.21	0.32	15.6	10.3	(36)	52	0.0	0.0	Allan NG	Buy	2.20
1097 I-Cable Communications	Dec	0.72	(16)	24	0	479	0.00	0.04	0.0	18.0	n.a.	n.a.	0.0	1.4	Allan NG	Sell	0.50
0685 Media Chinese Int'l	Mar	1.00	(19)	(14)	0	109	0.18	0.00	5.6	n.a.	57	n.a.	9.0	n.a.	Allan NG	Buy	1.88
0282 Next Media	Mar	1.00	(17)	11	5	627	0.11	0.12	9.3	8.6	(50)	8	0.0	0.0	Allan NG	Sell	1.25
0018 Oriental Press Group	Mar	0.91	(6)	25	3	919	0.00	0.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Allan NG	Sell	1.14
0583 SCMP Group	Dec	1.26	(7)	(51)	1	492	0.09	0.14	13.4	9.3	(15)	44	4.8	5.6	Allan NG	Buy	1.25
0511 Television Broadcasting	Dec	31.50	(5)	25	25	9,382	2.24	2.93	14.1	10.8	(7)	31	5.4	5.7	Allan NG	Buy	31.50
Average			(10)	35	5	1,838	0.40	0.51	9.7	11.4	(11)	34	3.2	2.5			

HK – HK

RIC Company	Price Y/E	1M chg.	YTD chg.	3M avg. daily T/O	Free float mkt. cap.^(HK\$ m)	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (HK\$)	
Property																	
2778 Champion REIT	Dec	2.59	(0)	25	32	5,284	0.30	0.30	8.6	8.6	0	9.7	8.1	Vivien ZHANG	Hold	1.43	
0001 Cheung Kong	Dec	87.15	(9)	19	490	121,112	4.43	7.48	19.7	11.7	(38)	69	2.8	3.2	Manfred HO	Hold	92.06
0041 Great Eagle	Dec	15.50	(6)	80	23	5,175	1.50	1.30	10.3	11.9	1,400	(13)	3.2	3.2	Vivien ZHANG	Buy	13.50
0405 GZI REIT	Dec	2.60	4	45	6	1,109	0.26	0.30	10.0	8.7	18	15	8.1	9.2	Vivien ZHANG	Buy	2.40
0010 Hang Lung Group	Jun	34.75	(7)	48	45	29,183	1.20	1.90	29.0	18.3	(36)	58	2.0	2.3	Manfred HO	Hold	34.70
0101 Hang Lung Properties	Jun	23.90	(10)	42	199	48,542	0.79	1.23	30.4	19.4	(36)	57	2.8	3.3	Manfred HO	Hold	25.77
0012 Henderson Land	Jun	43.70	(11)	52	194	43,722	0.73	2.17	60.3	20.1	(90)	200	2.0	2.2	Manfred HO	Hold	48.10
0014 Hysan Development	Dec	18.42	0	47	35	11,250	1.25	1.28	14.7	14.4	(18)	2	4.1	4.2	Vivien ZHANG	Buy	12.70
0683 Kerry Properties	Dec	35.85	(1)	74	171	23,942	1.70	2.33	21.1	15.4	(18)	37	2.1	2.7	Manfred HO	Hold	35.57
0066 MTR Corporation	Dec	23.55	(7)	31	141	30,842	1.24	1.12	19.0	21.1	(14)	(10)	2.0	2.0	Manfred HO	Buy	28.01
0017 New World Deve.	Jun	14.18	(11)	80	184	33,384	0.22	1.25	63.6	11.4	(91)	460	1.8	3.0	Manfred HO	Hold	15.10
0808 Prosperity REIT	Dec	1.08	(3)	20	3	973	0.12	0.14	9.0	7.7	9	17	11.1	11.1	Vivien ZHANG	Hold	0.86
0016 SHKP	Jun	95.25	(5)	47	832	141,648	4.59	4.72	20.7	20.2	4	3	2.6	2.7	Manfred HO	Buy	106.35
0083 Sino Land	Jun	13.06	(11)	63	204	30,076	0.60	0.88	21.7	14.9	(63)	46	2.8	2.3	Manfred HO	Sell	10.72
0823 The Link REIT	Mar	17.16	5	34	176	34,085	1.15	0.93	14.9	18.6	55	(20)	4.9	5.4	Vivien ZHANG	Buy	21.30
Average			(5)	47	182	37,355	1.34	1.82	23.5	14.8	77	61	4.1	4.3			
Technology																	
0522 ASM Pacific	Dec	42.00	(12)	65	32	7,710	0.44	1.44	95.5	29.2	(82)	227	0.8	2.7	Frank HE	Sell	20.10
2342 Comba Telecom	Dec	4.40	10	221	19	1,614	0.36	0.46	12.4	9.6	33	28	2.1	2.8	Frank HE	Buy	5.20
2038 Foxconn International	Dec	4.97	(7)	93	135	9,823	0.13	0.21	37.7	23.8	0	59	0.0	0.0	Frank HE	Hold	3.90
0903 TPV Technology	Dec	3.50	3	40	18	3,301	0.26	0.40	13.3	8.9	(17)	50	2.7	4.0	Frank HE	Buy	3.90
Average			(1)	105	51	5,612	0.30	0.62	39.7	17.9	(17)	91	1.4	2.4			
Telecoms																	
2332 Hutchison Telecom	Dec	1.81	14	54	33	3,572	0.05	(0.04)	36.2	n.m.	(87)	0.0	1.7	Allan NG	Sell	2.46	
0008 PCCW	Dec	1.99	(9)	(16)	138	6,987	0.34	0.35	5.9	5.6	79	5	75.4	11.1	Allan NG	Buy	5.00
0315 SmarTone	Jun	4.92	(2)	(14)	2	1,410	0.09	0.19	53.5	26.2	(81)	104	1.6	3.3	Allan NG	Sell	4.40
Average																	

China – A

RIC	Company	Price (3/7/09)	1M YTD chg. (%)	3M avg. daily T/O (Y m)	Free float mkt. cap. (Y m)	EPS (Y)	EPS 10E (Y)	P/E (X)	P/E 10E (X)	EPS gr. (%)	EPS gr. 10E (%)	Yield (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)	
Agriculture																	
600195	China Animal Husbandry	20.80	3	77	171	3,775	0.75	0.83	27.7	25.1	79	11	2.0	2.2	ZHAO Zongjun	Buy	23.00
Average			3	77	171	3,775	0.75	0.83	27.7	25.1	79	11	2.0	2.2			
Automotive																	
600166	Beiqi Foton Motor	13.45	3	180	285	7,679	0.85	0.92	15.8	14.6	125	8	0.1	0.6	WANG Yusheng	Buy	17.50
000625	Changan Automobile (A/B)	8.52	(7)	132	335	10,738	0.18	0.25	47.1	34.5	1,710	36	0.2	0.4	WANG Yusheng	Hold	9.07
000951	Zoomlion Heavy Industry	23.46	14	84	115	3,539	1.16	1.49	20.2	15.7	(9)	28	1.0	1.3	Eric HU	Hold	11.60
000800	FAW Car	16.21	4	126	264	12,403	0.75	0.88	21.6	18.4	12	18	2.0	1.8	WANG Yusheng	Buy	19.36
000927	FAW Xiali	8.13	19	113	115	2,594	0.19	0.29	43.9	28.0	194	57	0.4	1.1	WANG Yusheng	Sell	6.38
600660	Fuyao Group Glass Ind.	8.29	(1)	113	267	7,655	0.32	0.39	25.9	21.3	167	22	0.7	1.9	WANG Yusheng	Hold	5.76
600478	Hunan Corun New Energy	18.29	(1)	130	184	3,609	0.20	0.78	90.1	23.6	62	282	0.0	0.4	WANG Yusheng	Buy	23.30
000550	Jiangling Motors (A/B)	14.39	(0)	71	55	2,360	0.81	0.93	17.8	15.5	(11)	15	2.1	2.1	WANG Yusheng	Hold	14.60
002048	Huaxiang Electronic	10.26	2	185	144	3,774	0.33	0.45	31.5	22.7	12	39	0.6	0.7	WANG Yusheng	Hold	8.13
600104	Shanghai Auto	16.00	6	199	325	23,606	0.62	0.75	25.8	21.3	520	21	0.8	1.6	WANG Yusheng	Hold	15.00
000338	Weichai Power (A/B)	35.75	2	99	168	10,125	2.30	2.87	15.5	12.5	(1)	25	0.4	0.5	Eric HU	Buy	46.00
000581	Weifu High Tech	11.42	(7)	128	205	3,859	0.59	0.65	19.5	17.7	72	10	1.4	1.5	WANG Yusheng	Hold	12.94
600686	Xiamen King Long Motor Co	8.97	14	92	195	3,616	0.47	0.55	18.9	16.4	7	15	0.6	0.7	Eric HU	Hold	8.50
600066	Zhengzhou Yutong Bus	12.81	4	42	112	5,129	0.79	0.98	16.2	13.0	(22)	24	3.6	4.5	Eric HU	Buy	15.80
Average			4	121	198	7,153	0.68	0.87	29.3	19.7	203	43	1.0	1.4			
Chemicals																	
600299	Bluestar New Chemical	11.53	(4)	57	164	1,799	0.36	0.49	31.7	23.4	7	35	0.9	1.0	NI Xiaoman	Sell	11.50
000839	CITIC Guano	16.01	5	169	641	24,226	0.34	0.40	47.2	39.8	49	19	0.6	0.7	NI Xiaoman	Hold	13.20
000589	Guizhou Tyre	10.02	12	125	76	1,705	0.62	0.65	16.2	15.4	208	5	1.9	1.9	CHEN Tian	Buy	10.20
600124	Hualu Hengsheng	15.50	(7)	46	133	2,845	0.88	1.34	17.5	11.6	16	52	0.8	0.8	NI Xiaoman	Buy	18.80
000707	Hubei Shuanghuan S & T	7.35	(3)	39	147	2,484	0.72	0.84	10.2	8.7	26	17	4.1	4.1	CHEN Tian	Hold	8.02
002037	Jiu Lian Development	11.80	4	52	43	1,004	0.60	0.69	19.7	17.1	91	16	1.5	1.8	CHEN Tian	Buy	14.00
600423	Liuzhou Chemical	9.43	(6)	20	83	1,465	1.00	1.36	9.4	7.0	39	35	0.6	0.7	NI Xiaoman	Hold	10.00
000792	Qinghai Salt Lake Potash	56.81	5	(0)	429	22,208	3.62	3.39	15.7	16.8	103	(6)	2.9	4.4	NI Xiaoman	Hold	54.50
600409	Sanyou Chemical Industries	5.67	(2)	72	143	3,088	0.16	0.24	35.4	23.6	(27)	50	0.4	0.4	CHEN Tian	Hold	5.60
000677	Shandong Helon	5.88	(0)	117	143	2,918	0.17	0.30	34.0	19.7	21	72	0.9	0.9	CHEN Tian	Buy	7.00
600315	Shanghai Jahwa United	22.93	11	23	45	3,011	1.14	1.61	20.1	14.2	34	41	0.9	0.9	NI Xiaoman	Buy	38.80
600688	Shanghai Petrochem (A/B)	8.35	4	51	118	6,012	(0.13)	0.02	-	379.5	-	-	-	-	Lawrence LAU	Sell	2.80
000731	Sichuan Meifeng	8.05	1	26	104	3,091	0.51	0.65	15.8	12.4	28	27	2.5	3.1	NI Xiaoman	Hold	8.20
600500	Sinochem Int'l	11.98	5	54	245	9,820	0.63	0.76	19.0	15.8	(6)	20	1.3	1.5	NI Xiaoman	Hold	11.00
600486	Yangrong Chemical	32.61	(3)	30	47	2,415	1.73	2.14	18.9	15.3	10	24	0.5	0.5	CHEN Tian	Buy	38.06
600309	Yantai Wanhua	15.82	(7)	58	325	10,260	0.84	0.98	18.7	16.2	(7)	16	3.2	2.2	NI Xiaoman	Buy	19.20
600096	Yantianhua	23.29	1	32	382	4,894	0.87	1.03	26.8	22.6	(29)	18	1.3	1.5	NI Xiaoman	Hold	24.00
600352	Zhejiang Longsheng	7.16	(6)	127	244	4,718	0.72	0.80	9.9	9.0	1	10	0.4	0.4	CHEN Tian	Hold	7.10
Average			1	61	195	5,998	0.82	0.98	21.5	37.1	33	26	1.4	1.5			
Consumer Products																	
000848	Hebei Chengde Lolo	16.32	6	3	67	1,781	0.64	0.72	25.5	22.7	10	13	2.8	3.1	ZHAO Zongjun	Buy	16.50
600519	Kweichow Moutai	145.92	22	34	385	59,495	5.36	6.32	27.2	23.1	22	18	1.5	1.7	ZHAO Zongjun	Buy	120.00
000559	Laobaigan Liquor	12.35	8	54	46	824	0.55	0.78	22.5	15.8	77	42	1.1	2.0	ZHAO Zongjun	Buy	15.00
000568	Luzhou Laojiao	29.52	29	62	544	21,113	1.10	1.29	26.8	22.8	21	17	2.7	3.1	ZHAO Zongjun	Buy	33.00
600962	SDIC Zhonglu Fruit Juice	12.21	(4)	62	99	1,488	0.72	0.80	17.0	15.3	11	11	2.4	2.6	ZHAO Zongjun	Hold	17.93
600779	Sichuan Swellfun	16.39	13	46	249	4,816	0.58	0.66	28.3	24.8	(9)	14	2.8	3.2	ZHAO Zongjun	Hold	15.00
600600	Tsingtao Brewery (A/B)	27.98	12	40	85	6,595	0.74	0.90	37.8	31.1	37	22	0.9	1.3	ZHAO Zongjun	Hold	22.00
000729	Yanjing Brewery	14.83	8	12	148	7,178	0.51	0.63	29.2	23.7	33	23	1.4	1.7	ZHAO Zongjun	Buy	15.00
000869	Yantai Changyu	55.09	8	14	71	4,575	2.05	2.51	26.9	21.9	21	22	2.6	3.2	ZHAO Zongjun	Buy	55.00
000858	Yibin Wuliangye	19.86	15	49	953	40,642	0.48	0.53	41.4	37.5	0	10	0.3	0.3	ZHAO Zongjun	Hold	17.00
600887	Yili Industrial Group	14.86	2	86	233	5,517	1.14	0.00	13.0	-	19	-	2.7	n.a.	ZHAO Zongjun	Sell	24.00
Average			11	42	262	14,002	1.26	1.38	26.9	23.9	22	19	1.9	2.2			
Consumer Services																	
600258	Beijing Capital Tourism	16.18	(2)	75	77	1,679	0.69	0.42	23.4	38.5	(8)	(39)	2.6	1.7	LIU Du	Hold	15.14
600828	Chengshang Group	19.58	20	101	16	1,313	0.50	0.62	39.5	31.6	(1)	25	0.0	0.3	LIU Du	Hold	13.40
600138	CYTS	11.24	1	47	180	3,732	0.38	0.49	29.6	22.9	23	29	1.4	1.8	LIU Du	Hold	8.74
600693	Fujian Dongbai Group	8.71	(4)	30	59	1,800	0.48	0.55	18.3	15.8	23	16	1.4	1.6	LIU Du	Hold	11.90
002264	Fujian New HuaDu	28.36	14	56	41	759	0.58	0.70	49.3	40.8	(11)	21	0.6	0.9	ZHENG Yuan	Sell	16.80
000978	Gullin Travel	10.07	5	57	44	941	0.24	0.33	42.0	30.5	85	38	0.0	1.8	LIU Du	Hold	8.19
600054	Huangshan Tourism	16.29	6	22	52	1,920	0.45	0.55	36.4	29.5	12	24	1.1	1.4	LIU Du	Hold	13.41
600754	Jin Jiang Development (A/B)	18.78	(2)	106	122	4,094	0.58	0.57	32.4	33.0	28	(2)	2.4	2.4	LIU Du	Buy	16.46
002033	Liljiang Tourism	14.22	8	42	41	748	0.46	0.39	30.9	36.5	0	(15)	1.1	1.8	LIU Du	Hold	11.60
600832	Shanghai Oriental Pearl	11.13	2	63	330	6,838	0.12	0.13	89.8	83.7	8	7	0.2	0.3	LIU Du	Sell	7.25
002024	Suning Appliances	15.92	9	33	549	31,427	0.57	0.66	28.1	24.1	18	16	0.7	1.6	LIU Du	Hold	14.25
600859	Wangfujing Dept Store	26.19	5	38	103	5,197	0.94	1.15	28.0	22.7	7	23	0.7	0.7	LIU Du	Buy	23.50
000759	Wuhan Zhongbai Group	9.71	5	3	126	5,159	0.35	0.43	28.0	22.8	19	23	1.0	1.0	ZHENG Yuan	Buy	10.90
Average			5	60	96	2,382	0.12	0.13	89.8	83.7	8	7	0.2	0.3			

China – A

RIC	Company	Price (3/7/09)	1M YTD chg. (%)	3M avg. daily T/O (Y m)	Free float mkt. cap. (Y m)	EPS (Y)	EPS 10E (Y)	P/E (X)	P/E 10E (X)	EPS gr. (%)	EPS gr. 10E (%)	Yield (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)	
Energy																	
601898	China Coal (A/B)	13.26	9	105	883	21,098	0.51	0.68	25.8	19.6	(1)	31	1.2	1.5	Lawrence LAU	Hold	12.32
601808	China Oilfield Service (A/B)	16.38	(7)	38	252	8,099	0.78	0.92	21.1	17.7	11	19	0.9	0.9	Lawrence LAU	Buy	19.52
600348	Guoyang New Energy	32.32	25	232	618	13,059	1.34	1.49	24.1	21.8	(11)	11	0.8	0.9	Grace TANG	Buy	31.90
600123	Lanhua Sci-Tech	39.46															

China – A

RIC	Company	Price (3/7/09)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt. cap. (¥ m)	EPS 09E (¥)	EPS 10E (¥)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (¥)
Media																	
600037	Beijing Gehua CATV	11.68	1	23	316	6,488	0.19	0.19	63.1	61.5	(40)	3	1.3	1.3	Allan NG	Sell	8.00
600825	Xinhua Media	17.73	1	39	81	4,525	0.45	0.46	39.8	38.8	7	2	0.8	1.0	Liu DU	Sell	13.91
Average			1	23	316	6,488	0.32	0.32	51.44	50.14	(17)	3	1.1	1.2			
Metals & Mining																	
000898	Angang New Steel (AHH)	14.12	22	103	410	16,243	0.19	0.65	75.9	21.8	(55)	249	0.7	2.3	Belle CHAN	Buy	14.70
600019	Baosteel	7.30	14	57	868	34,516	0.15	0.32	50.3	22.5	(61)	123	0.8	1.8	Belle CHAN	Buy	12.00
601600	CHALCO (AHH)	12.58	9	105	662	51,043	(0.05)	0.08	n.m.	149.8	n.a.	n.a.	0.0	0.0	Belle CHAN	Sell	8.50
600357	Chengde Xinxin Vanadium	8.56	(1)	87	226	4,869	0.75	0.84	11.5	10.2	28	13	4.7	4.7	XU Minle	Buy	8.95
601005	Tongling Iron & Steel (AHH)	5.30	2	54	73	2,913	0.11	0.32	46.9	16.6	(67)	182	0.8	2.1	Belle CHAN	Buy	6.40
000831	Shanxi Guanlu	8.10	6	103	220	3,491	0.01	0.10	810.0	81.0	0	900	0.0	0.1	LE Yukun	Hold	3.40
600362	Jiangxi Copper (AHH)	32.72	2	228	673	39,565	0.24	0.55	138.6	59.2	(71)	134	0.2	0.5	Belle CHAN	Sell	17.10
601958	Jiucheng Molybdenum	16.13	12	92	539	8,675	0.19	0.24	85.3	67.2	(83)	27	0.4	0.5	LE Yukun	Hold	13.20
600808	Maanshan Iron and Steel (AHH)	5.07	10	57	392	6,208	0.07	0.33	74.6	15.5	(35)	382	0.4	2.0	Belle CHAN	Buy	7.00
600282	Nanjing Steel	5.82	30	100	127	4,707	0.16	0.32	36.4	18.0	119	103	1.2	2.5	XU Minle	Hold	4.60
600219	Nanshan Aluminium	10.48	4	70	192	5,253	0.20	0.22	52.4	47.6	(57)	10	0.3	0.4	LE Yukun	Hold	4.40
000629	Panzhuhua Steel	8.20	(0)	(11)	336	15,842	0.05	0.04	167.3	195.2	n.a.	(14)	0.0	0.0	XU Minle	Hold	9.30
600547	Shandong Gold	63.55	16	162	1,243	9,954	2.38	2.68	26.7	23.7	33	13	1.7	2.0	LE Yukun	Buy	89.50
000709	Tangshan Iron & Steel	7.89	7	114	694	14,018	0.14	0.25	57.2	32.1	(69)	78	1.1	2.0	LE Yukun	Buy	8.50
000630	Tongling Nonferrous Metal	20.44	(3)	207	580	11,373	0.44	0.43	46.5	47.5	(46)	(2)	0.6	0.6	LE Yukun	Hold	5.50
000612	Wanfang Aluminium	13.22	2	79	190	3,807	0.07	0.23	191.6	56.7	(90)	238	0.1	0.5	LE Yukun	Sell	7.50
600005	Wuhan Steel	7.95	3	66	1,215	24,925	0.47	0.72	17.0	11.1	(29)	53	2.8	4.2	LE Yukun	Buy	9.10
600888	Xinjiang Jointworld	13.69	5	75	71	2,265	0.13	0.19	107.8	70.9	(56)	52	0.2	0.2	LE Yukun	Hold	10.50
000807	Yunnan Aluminium	8.72	10	94	190	4,504	0.01	0.13	670.8	68.7	(80)	877	0.1	1.2	LE Yukun	Sell	5.30
000960	Yunnan Tin	22.68	(5)	140	297	5,857	0.36	0.31	63.0	73.2	(59)	(14)	0.2	0.1	LE Yukun	Hold	7.30
601899	Zijin Mining	10.64	4	122	2,399	46,415	0.26	0.32	40.9	33.3	24	23	1.3	1.7	Belle CHAN	Buy	11.20
Average			8	97	468	13,904	0.30	0.44	138.54	53.41	(34)	171	0.8	1.4			
Pharmaceuticals																	
600085	Beijing Tongrentang	17.18	4	40	145	4,020	0.62	0.73	27.7	23.5	19	18	1.8	2.6	HE Changming	Hold	15.50
000423	Dong-E E-Jiao	17.88	5	32	202	7,214	0.65	0.75	27.4	23.7	19	16	1.5	2.1	HE Changming	Hold	15.64
600252	Guangxi Wuzhou Zhongheng Group	14.63	31	194	88	2,445	0.44	0.67	33.5	21.9	103	53	0.9	1.8	HE Changming	Buy	13.00
600332	Guangzhou Pharm. (AHH)	7.79	1	32	73	1,577	0.54	0.64	14.4	12.2	6	19	3.5	4.9	HE Changming	Hold	9.72
000963	Huadong Medicine	12.32	4	14	64	2,770	0.57	0.66	21.7	18.7	47	16	0.9	1.1	ZHANG Yin	Hold	13.30
002007	Hualan Biological	35.68	35	48	254	7,742	0.79	1.07	45.2	33.4	52	35	0.7	0.9	ZHANG Yin	Buy	40.00
600557	Kanion Pharmaceutical	14.71	8	3	80	2,896	0.72	0.90	20.4	16.3	33	25	1.5	2.4	HE Changming	Buy	21.60
002252	Shanghai RAAS	26.26	1	4	55	1,050	0.83	1.04	31.7	25.2	26	26	0.8	1.0	ZHANG Yin	Hold	29.00
600535	Tianjin Tasly Pharmaceuticals	16.26	11	31	94	7,935	0.66	0.80	24.6	20.3	26	21	2.4	3.0	HE Changming	Buy	19.80
600161	Tiantan Biological	24.24	25	67	248	5,764	0.38	0.49	64.0	49.4	39	30	0.2	0.4	ZHANG Yin	Buy	21.10
600529	Shandong Pharm. Glass	12.28	5	29	93	3,156	0.66	0.78	18.6	15.7	19	19	1.0	1.1	ZHANG Yin	Buy	14.50
002223	Yuyue Medical	22.33	(4)	40	48	872	0.57	0.77	39.4	29.1	42	35	0.8	1.1	ZHANG Yin	Buy	26.80
600351	Yabao Pharmaceuticals	11.03	3	77	156	1,743	0.41	0.50	27.0	22.0	(24)	23	1.5	2.3	HE Changming	Buy	12.30
Average			10	47	123	3,783	0.60	0.75	30.4	23.9	31	26	1.3	1.9			
Property																	
000043	CATIC Real Estate	16.46	45	237	38	2,283	0.29	0.45	57.2	36.6	123	56	0.7	1.1	ZHOU Lu	Hold	12.97
600675	China Enterprise	18.84	26	234	395	14,144	0.61	1.00	30.8	18.8	43	63	0.3	0.4	TIAN Shixin	Buy	18.40
000024	China Merchant Property (AHH)	37.35	20	185	309	34,630	0.91	1.02	41.2	36.8	27	12	0.3	0.4	TIAN Shixin	Hold	28.73
000002	China Vanke (AHH)	14.28	32	121	1,839	135,027	0.50	0.69	28.4	20.6	37	38	0.5	0.7	TIAN Shixin	Buy	12.50
600007	China World Trade Centre	12.34	29	73	88	2,486	0.22	0.31	56.1	39.8	(37)	41	0.9	1.2	ZHOU Lu	Hold	9.32
600067	Clychamp Dartong	15.68	14	291	131	6,256	0.43	0.54	36.6	28.9	51	27	0.1	0.2	TIAN Shixin	Hold	8.60
000402	Financial Street	14.81	33	95	558	35,641	0.56	0.58	26.6	25.5	33	4	1.5	1.6	ZHOU Lu	Buy	13.63
600383	Gemdale	18.41	25	268	671	21,933	0.67	0.78	27.7	23.7	33	17	0.2	0.2	TIAN Shixin	Buy	14.64
600325	Huafa Industrial Share	24.20	13	160	188	14,888	1.10	1.31	22.0	18.5	38	19	0.4	0.5	TIAN Shixin	Buy	20.22
600048	Poly Real Estate Group	30.51	20	175	667	32,169	1.20	1.45	25.4	21.1	32	20	0.3	0.4	TIAN Shixin	Buy	26.44
600639	Jinqiao Export Processing Zone (AHH)	16.20	5	111	151	13,673	0.34	0.38	47.6	42.6	13	12	0.9	0.9	ZHOU Lu	Hold	16.16
000069	Overseas Chinese Town	24.90	53	204	249	31,979	0.51	0.65	48.6	38.4	6	27	0.0	0.4	TIAN Shixin	Buy	20.80
000006	Shenzhen Zhenye Group	14.88	16	202	135	3,439	0.70	0.71	21.4	20.9	57	2	0.7	0.7	TIAN Shixin	Hold	11.13
600683	Silverlie Holding	12.75	4	172	73	2,852	0.29	0.70	43.5	18.2	142	139	0.0	0.0	TIAN Shixin	Hold	11.69
600895	Zhangjiang Hi-tech	16.47	10	65	226	25,507	0.44	0.58	37.4	28.4	29	32	0.8	1.1	ZHOU Lu	Hold	15.32
Average			23	173	381	25,127	0.58	0.74	36.7	27.9	42	34	0.5	0.6			
Technology																	
000063	ZTE (AHH)	28.81	2	38	312	38,692	1.29	1.52	22.3	19.0	7	18	0.9	1.1	Frank HE	Hold	38.70
Average			2	38	312	38,692	1.29	1.52	22.3	19.0	7	18	0.9	1.1			
Telecoms																	
600050	China Unicom (AHH)	6.82	4	36	1,679	56,380	0.15	0.12	45.5	57.3	(81)	(21)	0.5	0.5	Allan NG	Sell	4.50
Average			4	36	1,679	56,380	0.15	0.12	45.5	57.3	(81)	(21)	0.5	0.5			

China – A

RIC	Company	Price (3/7/09)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (¥ m)	Free float mkt. cap. (¥ m)	EPS 09E (¥)	EPS 10E (¥)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (¥)
Transport																	
601111	Air China Ltd (AHH)	6.98	9	70	327	11,442	0.02	0.02	349.0	349.0	n.a.	0	0.0	0.0	DU Jianping	Hold	5.13
600012	Anhui Expressway (AHH)	5.52	7	46	57	3,480	0.39	0.43	14.2	12.8	(3)	10	3.6	4.0	Liu Huiming	Hold	4.79
600115	China Eastern Airlines (AHH)	5.33	(0)	29	61	2,075	0.13	0.15	42.0	36.5	n.a.	15	0.0	0.0	DU Jianping	Hold	4.52
600125	China Railway Tielong	7.93	5	42	174	5,551	0.30	0.36	26.3	22.3	3	18	0.8	0.9	Patrick LI	Hold	7.55
600026	China Shipping (AHH)	13.47	(7)	65	340	7,338	0.71	0.77	19.0	17.4	(55)	9	1.0	1.1	Jimmy LAM	Sell	7.30
600029	China Southern Airlines (AHH)	5.28	(1)	66	344	7,968	0.24	0.23	21.9	23.4	n.a.	(6)	(0.5)	(0.4)	DU Jianping	Buy	7.25
000039	CIMC (AHH)																

Calendar of Events

Economic data (China)

	Description	Date
CPI	Jun 2009	17 Jul
Retail Sales	Jul 2009	12 Aug
VAIO	Jul 2009	12 Aug
FAI	Jul 2009	11 Aug

Economic data (Hong Kong)

Unemployment rate	April-June 2009	20 July
Composite CPI	June 2009	21 July
Trade balance	June 2009	27 July
Retail sales value	June 2009	3 Aug

Results announcements (China)

Harbin Air Conditioning (600202.SS)	2Q09	7/14/2009
Kanion Pharmaceutical (600557.SS)	2Q09	7/17/2009
Silvertie Holding (600683.SS)	2Q09	7/17/2009
SL Pharmaceutical (002038.SZ)	2Q09	7/17/2009
Tellhow Sci & tech (600590.SS)	2Q09	7/17/2009
Keda Industrial (600499.SS)	2Q09	7/20/2009
Aerospace Automatic Electromechanical (600151.SS)	2Q09	7/21/2009
Bank of Ningbo (002142.SZ)	2Q09	7/21/2009
Baolihua New Energy (000690.SZ)	2Q09	7/21/2009
Huayei Electric (600290.SS)	2Q09	7/21/2009
Rongxin Power Electronic (002123.SZ)	2Q09	7/21/2009
Xingfa Group (600141.SS)	2Q09	7/21/2009
Xinjiang Joinworld (600888.SS)	2Q09	7/21/2009
Yantai Wanhua (600309.SS)	2Q09	7/21/2009
Yunnan Tin (000960.SZ)	2Q09	7/21/2009
Goldwind Science & Technology (002202.SZ)	2Q09	7/22/2009
Sichuan Meifeng (000731.SZ)	2Q09	7/22/2009
Binjiang Real Estate Group (002244.SZ)	2Q09	7/23/2009
Baoguang Co. (600379.SS)	2Q09	7/24/2009
Chongqing Department Store (600729.SS)	2Q09	7/24/2009
Chutian Expressway (600035.SS)	2Q09	7/24/2009
Poly Real Estate Group (600048.SS)	2Q09	7/24/2009
Hong Yuan Securities (000562.SZ)	2Q09	7/24/2009
Shanghai Kehua (002022.SZ)	2Q09	7/24/2009
TBEA (600089.SS)	2Q09	7/24/2009
Zhejiang China Commodities City Group (600415.SS)	2Q09	7/24/2009
Sanyou Chemical Industries (600409.SS)	2Q09	7/27/2009
China Coal (A/H) (601898.SS)	1H09	7/28/2009
Jinxi Axle (600495.SS)	2Q09	7/28/2009
Liuzhou Chemical (600423.SS)	2Q09	7/28/2009
Shantui (000680.SZ)	2Q09	7/28/2009
Yunnan Aluminium (000807.SZ)	2Q09	7/28/2009

Zijin Mining (601899.SS)	1H09	7/28/2009
Gemdale (600383.SS)	2Q09	7/29/2009
Northeast Securities (000686.SZ)	2Q09	7/29/2009
Qinghai Salt Lake Potash (000792.SZ)	2Q09	7/29/2009
Yantai Coal B (900948.SS)	2Q09	7/29/2009
Changjiang Securities (000783.SZ)	2Q09	7/30/2009
Changlin (600710.SS)	2Q09	7/30/2009
Huarui Heavy Industry Steel Casting (002204.SZ)	2Q09	7/30/2009
Lijiang Tourism (002033.SZ)	2Q09	7/30/2009
Pinggao Electric (600312.SS)	2Q09	7/30/2009
Sinochem Int'l (600500.SS)	2Q09	7/30/2009
Tainwei Baobian (600550.SS)	2Q09	7/30/2009
Times New Material (600458.SS)	2Q09	7/30/2009
Zhangjiang Hi-tech (600895.SS)	2Q09	7/30/2009
Fujian Dongbai Group (600693.SS)	2Q09	7/31/2009
Guizhou Tyre (000589.SZ)	2Q09	7/31/2009
Hengrui Medicine (600276.SS)	2Q09	7/31/2009
Shenzhen Zhenye Group (000006.SZ)	2Q09	7/31/2009
Wangfujing Dept Store (600859.SS)	2Q09	7/31/2009
Wuhan Zhongbai Group (000759.SZ)	2Q09	7/31/2009
Yabao Pharmaceuticals (600351.SS)	2Q09	7/31/2009

Results announcements (Hong Kong)

Café de Coral (0341.HK)	FY09	7/8/2009
Fairwood (0052.HK)	FY09	7/9/2009
Public Financial Holdings (0626.HK)	1H09	7/9/2009
Lee & Man (2314.HK)	FY09	7/17/2009
China Gas (0384.HK)	FY09	7/23/2009
China Coal (A/H) (1898.HK)	1H09	7/28/2009
Sinotrans Shipping (R) (0368.HK)	1H09	7/28/2009
Zijin Mining (2899.HK)	1H09	7/28/2009
Clear Media (0100.HK)	1H09	7/30/2009
ASM Pacific (0522.HK)	1H09	7/31/2009
OOIL (0316.HK)	1H09	7/31/2009
Phoenix Satellite TV (2008.HK)	1Q09	7/31/2009

Major Published Research

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