

## Huaqiao in the Middle Kingdom

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### Key Market Indices

	Value	1M	YTD
HSI	20,319	(2.3)	41.2
HSCEI	11,761	(3.7)	49.0
HSCCI	3,966	(5.1)	20.5
MSCI HK	9,226	(6.4)	40.7
MSCI China	58	(6.8)	40.9
FTSE-Xinhua A50	10,562	(19.4)	61.4
Shanghai Comp	2,862	(17.6)	57.2
CSI 300 (SHSZ 300)	3,077	(18.7)	69.3

	P/E (x)		EPS (chg %)	
	09E	10E	09E	10E
HSI	16.9	15.2	(4.2)	10.7
HSCEI	15.8	13.5	13.7	17.2
HSCCI	14.7	12.9	(13.3)	13.5
MSCI HK	20.6	18.2	(15.0)	12.7
MSCI China	16.4	13.8	4.9	19.1
FTSE-Xinhua A50	21.5	18.9	9.6	13.5
SHSZ300	22.1	18.7	14.7	17.7
SHCOMP	23.1	19.2	16.9	20.0

Sources: Bloomberg, BOCI Research

**We are positive on A shares following their August drop as the A/H premium has hit historical lows. While clearly China needs to consume more, America's consumption at 70% of GDP also needs to come down. 1H09 results came in stronger than expected and forecasts are rising.**

#### ■ China-HK recommended stocks:

In – China Molybdenum, China Resources Enter.  
Out – Huadian, China Green.

#### ■ HK-HK recommended stocks:

In – BOCHK, Yue Yuen.  
Out – PCCW, MTRC.

#### ■ China-A recommended stocks:

In – Wuliangye, Suning Appliance.  
Out – Qinghai SL Potash, Wangfujing Dept. Store.

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## Huaqiao's 5<sup>th</sup> Anniversary Contest

OK, the Beijing Olympic Games ended a year ago, but we still have souvenirs left in the inventory. Last year, we gave away 10 sets of the commemorative Bank of China (Hong Kong) HK\$20 Olympic banknotes, and this year, we have 10 sets of the Bank of China (Macau) MOP\$20 Olympic banknotes. Readers who correctly answer the following 10 skill testing questions about China will have a chance to win one of these. All entries and submissions should be sent to shirley.cheung@bocigroup.com along with your name, organisation and contact details (email and mailing address). Submissions must be received before 1 Oct. 2009. Awards will be given to those with the most correct answers, and ties will be resolved through a random draw. The answers and winners will be in next month's *Huaqiao*. Good Luck!

- |   |   |
|---|---|
| 1. China's (PRC) National Day is:         | 6. China's largest lake:                        |
| a) 1 July                                 | a) Yangcheng (Jiangsu)                          |
| b) 4 July                                 | b) Tai (Jiangsu/Zhejiang)                       |
| c) 1 October                              | c) Poyang (Jiangxi)                             |
| d) 1 January                              | d) Qinghai (Qinghai)                            |
| 2. This year, the PRC is celebrating its: | 7. China's largest freshwater lake:             |
| a) 50 <sup>th</sup> anniversary           | a) Yangcheng (Jiangsu)                          |
| b) 60 <sup>th</sup> anniversary           | b) Tai (Jiangsu/Zhejiang)                       |
| c) 70 <sup>th</sup> anniversary           | c) Poyang (Jiangxi)                             |
| d) 80 <sup>th</sup> anniversary           | d) Qinghai (Qinghai)                            |
| 3. China's population is the world's:     | 8. China's most populous city:                  |
| a) Largest                                | a) Beijing                                      |
| b) 2 <sup>nd</sup> largest                | b) Shanghai                                     |
| c) 3 <sup>rd</sup> largest                | c) Guangzhou                                    |
| d) 4 <sup>th</sup> largest                | d) Shenzhen                                     |
| 4. China's longest river is:              | 9. No. provincial level divisions (ex. Taiwan): |
| a) Yangtze River                          | a) 30   |
| b) Yellow River                           | b) 31   |
| c) Pearl River                            | c) 32   |
| d) Mekong River                           | d) 33   |
| 5. The Gobi desert is the world's:        | 10. Least populous region (ex. Macau):          |
| a) Largest                                | a) Tibet  |
| b) 2 <sup>nd</sup> largest                | b) Qinghai                                      |
| c) 3 <sup>rd</sup> largest                | c) Gansu  |
| d) 4 <sup>th</sup> largest                | d) Ningxia                                      |

Front of MOP\$20 BOC Olympic Banknote\*



Back of MOP\$20 BOC Olympic Banknote\*



\* Staff of BOCI group companies are not eligible

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

## A-shares take a plunge

***"Shanghai leads a global selloff of shares, commodity issues are pounded in Asia" - 18 August 2009, Wall Street Journal***

The world keeps turning, day gives way to night, and over the long run, empires rise and then inevitably fall. I remember when I was doing my MBA, China was still a quaint growth story on the other side of the world. While instinctively one could sense the future potential of the emerging dragon (at least I certainly did, why else do you think I moved to Hong Kong in 1994?), China's impact on global capital markets was relatively small. Moreover, there was still much debate about whether China should continue to liberalise its economy or slow down its reforms. One of my university papers was actually on the subject of China's original four special economic zones (SEZ) in Shenzhen, Zhuhai, Shantou and Xiamen. I still remember Deng Xiaoping's famous statement in response to those who wanted to slow down the reforms and reign in the SEZs. "There are those who say we should not open our windows, because open windows let in flies and other insects. They want the windows to stay closed, so we all expire from lack of air. But we say, 'Open the windows, breathe the fresh air and at the same time fight the flies and insects.'" Today, while the SEZs still exist, the term SEZ is seldom used anymore (we just say Shenzhen) as pretty much all of China is one gigantic SEZ.

Over the past fifteen years in this business, one of the quaint habits that I have become accustomed to is the morning meeting. Almost all institutional brokerages hold these sales and research briefings and most are started with a brief recap of what had happened in the US market overnight (although technically this is incorrect as US markets close just a few hours before most investment banks hold their Hong Kong morning briefings). This information was actually quite important, because a significant move in New York either up or down inevitably meant there was a very high probability that Asian markets would open up or down in line with what happened a few hours earlier in the US. Very rarely would anyone recap European markets. For several decades, it was clear who was in the driver's seat when it came to influencing global capital markets.

In those early days, while Hong Kong was a booming regional financial centre, its role in the world of global finance was still relatively limited as a city of seven million, and no matter how wealthy, could hardly dictate world events. HSBC dominated the local exchange, accounting for nearly half of the market capitalisation. Then China came along, and after the first H-share listing of Tsingtao Brewery in 1993, the rules of the game began to change rapidly. Hong Kong became China's window to the world of international financial markets and its role quickly evolved.

By the time the Asian Financial crisis hit in mid-1997, this change in the balance of power in global capital markets was laid bare for all to see. When Thailand's economy collapsed, it barely registered in the mainstream news and markets around the world shrugged it off as unimportant. Then Malaysia, Indonesia and Korea got sucked into the crisis, but still there was nary a ripple in markets. Hong Kong's market continued to rise, buoyed by the euphoria of a brave new era following the 1 July 1997 handover of sovereignty back to China. Events finally caught up with the newly formed Special Administrative Region (SAR) on 27 October, and the market plunged. This time, the world took notice and headlines around the world read "Hong Kong market decline triggers global equities rout".

Prior to this date, other than emerging market specialists, almost nobody in international finance could tell you that the Hang Seng Index was the main benchmark for the local bourse. After October 1997, financial news reports started including the Hang Seng Index as well as the Nikkei when reporting on Asian markets. I remember returning to Calgary that December and taking a good friend of mine, a farmer in Saskatchewan, out to dinner. I paid for the meal using my Hang Seng Bank Visa Gold (this was back in the days before they started issuing "premium black double diamond titanium cards" and a gold card was still somewhat rare). I remember him asking me if Hang Seng Bank was a big bank and I replied, "Well, you know the Hang Seng Index?" The expression of sudden understanding on his face required no verbal reply.

Now, I notice that headlines like the one at the beginning of this missive are increasingly common. China is a major player on the world stage and often cited as the reason why commodity or equity prices make sudden large moves. I have also noticed that events in the US, while important, have increasingly less impact on local markets. Over the past several months, after big moves up or down in New York overnight, the follow through into Hong Kong trading has not happened as I have been conditioned to expect. More often than not, the reverse sometimes happens, as events in Shanghai are often cited as the trigger for movements not only in Asia, but in Europe and the US as well.

To a certain extent given the rising importance and influence of China, this is understandable. However, since China's stock markets and capital account are still mostly closed to foreign investment, it is still somewhat surprising that moves in a closed domestic market would impact on equities overseas. In January 2008, I did a study of the correlation between movements in New York, Hong Kong and domestic China. I decided to revisit this analysis and update some of the findings to see if anything had changed.

**Correlation between Daily Movements of Hong Kong, Shanghai & New York (S&P 500)**

	HK & US	HK & A share	A share & US	A/H shares	Shanghai A-B	Shenzhen A-B
1997	0.01	0.02	0.06	(0.02)	0.63	0.50
1998	0.18	(0.12)	0.28	0.27	0.24	0.53
1999	0.90	0.58	0.38	0.86	0.93	0.90
2000	0.60	(0.03)	(0.05)	0.16	0.86	0.86
2001	0.94	0.68	0.64	0.35	0.29	0.38
2002	0.86	0.20	0.07	0.47	0.85	0.88
2003	0.88	(0.64)	(0.45)	(0.34)	0.56	(0.74)
2004	0.76	(0.19)	(0.15)	0.01	0.97	0.95
2005	0.77	(0.27)	(0.26)	0.66	0.83	0.68
2006	0.90	0.87	0.74	0.90	0.91	0.92
2007	0.47	0.86	0.54	0.97	0.95	0.93
2008	0.97	0.82	0.76	0.85	0.98	0.97
8M09	0.91	0.89	0.71	0.93	0.99	0.98

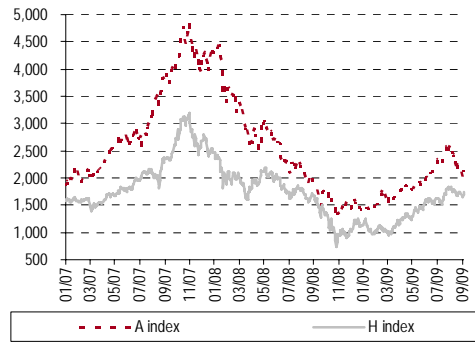
Sources: Bloomberg, BOCI Research

In my original study, I noted that the correlation between market moves in Hong Kong and the US were very strong until 2007. At the same time, the correlation between Hong Kong and the A-share market was very weak until 2006, a condition that applied even for dual-listed A and H shares. In other words, until 2007, the American market probably was the major driver of movements in the Hong Kong market (I know correlation does not imply causality, but trust me, I think it is safe to make this assertion). Then, in 2007, ten years after the handover of sovereignty of Hong Kong, this abruptly changed, and the SAR became much more correlated with the domestic China A-share market. However, since the correlation between Hong Kong and America weakened and the correlation between A-shares and the USA also remained low; it is probably safe to say that it is Hong Kong and China that are coming closer as a bilateral link, rather than China's domestic markets being integrated into the global capital markets.

Interestingly, since 2007, the peak of the stock bubble, the correlation between Hong Kong and the US has increased again, while that between Hong Kong and China remained high. The correlation between the domestic A shares and the US remains relatively weak, although more stable than previously. This is hard to interpret, but I suspect it means that Hong Kong is, not surprisingly, heavily affected by events in both the US and China. In other words, while China remains relatively insulated from market moves in the rest of the world, Hong Kong's market gets influenced by major swings in both the States and China.

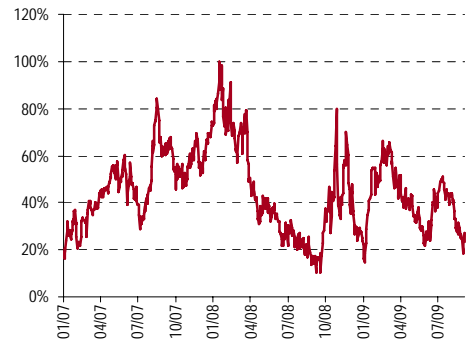
Another way of looking at this cross-border relationship is through the A/H share premium on dual listed stocks. Hang Seng Index Services has made my job a little easier, as it now publishes a daily A/H premium index based upon a free-float market cap (both A and H) multiplied by the A-share price and converted to US dollars divided by the same multiplied by the H-share price. The index currently has 41 constituents (44 in the HSCEI) out of the total number of dual-listed A/H shares which, by our count, stands at 58. The difference is that the index gets rid of all the small and illiquid or non-traded (suspended) stocks, leaving the blue chips.

Hang Seng A/H Index (adjusted for FX)



Source: Bloomberg

Hang Seng A/H Premium



Source: Bloomberg

One can see that the average free-float market cap weighted A/H premium has declined to a relatively low level of about 20%. The index was only lower for a brief time in September 2008 during the global financial crisis following the collapse of Lehman Brothers. Looking at individual stocks (see table below), we can make a few generalisations. First, the larger and more liquid the stock, the lower the A share premium is, as the insanely large premiums are mostly concentrated in small and illiquid stocks that are not in the index. Financials, which dominate both A and H share indices on a market capitalisation weighting, have little or no premium and in some cases, H shares trade at a premium to their A-share counterparts. Offsetting this somewhat is the large premium that the oil and gas sector trades at in the A shares, which I expect is due to the fact that domestic investors want to invest in upstream energy and resource companies (as a hedge against inflation and rising commodity prices) but unlike overseas investors, cannot buy directly into multinational oil companies or Australian mining companies, and thus are forced to pay a premium. Conversely, international investors are much more positive on the government infrastructure stimulus, and thus have bid up China Railway Group and China Railway Construction, both of which are less popular with domestic fund managers.

A/H Dual-listed Shares Premium and Reported Earnings

H-share code	A-share code	Company	H-share (HK\$)	A-share (Rmb)	A/H prem. (%)	Mkt. cap. (HK\$ m)	Wgt. A/H prem. (%)	1H09 Profit (Rmb m)	H-share A-share	A/H diff. (%)
1108	600876	Luoyang Glass	1.92	5.15	204	1,941	0.03	(86)	(87)	(1.1)
0921	000921	Hisense Kelon Electric	1.93	5.94	249	4,476	0.08	149	156	(4.1)
0553	600775	Nanjing Panda Electronics	2.02	8.39	371	4,421	0.12	(50)	(50)	0.0
1033	600871	Sinopec Yizheng Chemical	1.93	6.86	303	22,943	0.51	310	308	0.6
0719	000756	Shandong Xinhua Pharmaceutical	2.61	6.74	193	2,742	0.04	39	40	(1.9)
0187	600860	Beiren Printing	2.12	6.73	260	2,671	0.05	(36)	(36)	(0.2)
0588	601588	Beijing North Star	3.02	5.71	115	19,372	0.16	787	497	58.2
0042	000585	Northeast Electric	2.05	4.04	124	3,350	0.03	(10)	(10)	0.0
0338	600688	Sinopec Shanghai Petrochemical*	3.34	10.95	272	68,300	1.35	1,002	987	1.5
0670	600115	China Eastern Airlines	2.38	5.54	164	36,935	0.44	985	1,174	(16.1)
1055	600029	China Southern Airlines	2.49	5.30	142	39,389	0.40	25	38	(34.2)
1071	600027	Huadian Power International	2.64	5.15	121	30,604	0.27	545	546	(0.3)
0350	000666	Jingwei Textile Machinery	2.04	5.87	227	3,187	0.05	(99)	(99)	0.0
0358	600362	Jiangxi Copper Company*	17.84	36.60	133	92,678	0.89	1,271	1,202	5.7
0874	600332	Guangzhou Pharmaceutical	4.24	7.80	109	6,164	0.05	119	117	1.9
1065	600874	Tianjin Capital Environment	2.07	5.98	228	8,082	0.13	108	108	0.0
2600	601600	Aluminum Corp of China*	8.95	13.84	75	185,774	1.02	(3,522)	(3,522)	0.0
0300	600806	Jiaoda Kunji High-Tech	6.37	11.75	109	4,880	0.04	116	116	0.0
0998	601998	China CITIC Bank*	4.9	5.52	28	227,599	0.46	7,052	7,047	0.1
0525	601333	Guangshen Railway*	3.41	4.46	48	33,489	0.12	595	591	0.6
0753	601111	Air China Limited*	4.7	8.16	97	93,361	0.66	2,878	2,926	(1.6)
0386	600028	China Petroleum & Chemical*	6.85	11.89	97	1,058,431	7.45	33,246	33,190	0.2
0548	600548	Shenzhen Expressway	3.91	5.32	54	11,576	0.05	313	313	0.0
1171	600188	Yanzhou Coal Mining*	11.42	16.71	66	78,497	0.38	2,026	1,904	6.4
0902	600011	Huaneng Power International*	5.69	7.56	51	94,601	0.35	1,870	1,959	(4.5)
2628	601628	China Life Insurance*	34.45	28.29	(7)	924,888	(0.46)	18,226	13,920	30.9
0995	600012	Anhui Expressway	4.62	5.24	29	9,209	0.02	366	371	(1.3)
0323	600808	Maanshan Iron and Steel*	5.22	4.65	1	40,538	0.00	(795)	(795)	0.0
1072	600875	Dongfang Electric Machinery	44.2	44.60	15	43,551	0.05	715	687	4.1
0177	600377	Jiangsu Expressway*	6.35	5.82	4	32,962	0.01	985	965	2.1
2318	601318	Ping An Insurance*	62.6	51.15	(7)	438,011	(0.23)	5,222	4,347	20.1
2338	000338	Weichai Power	35	43.28	40	38,059	0.11	1,222	1,222	0.0
1138	600026	China Shipping Development*	10.7	12.65	34	44,137	0.11	614	614	0.0
1398	601398	ICBC*	5.68	4.85	(3)	1,853,066	(0.42)	66,424	66,313	0.2
0763	000063	ZTE	38.25	36.30	8	74,584	0.04	783	783	0.0
0168	600600	Tsingtao Brewery*	28.45	29.63	18	40,599	0.05	640	640	0.0
0317	600685	Guangzhou Shipyard	16.78	27.02	83	12,983	0.08	242	242	0.0
0347	000898	Angang Steel*	16.02	12.56	(11)	105,041	(0.08)	(1,547)	(1,563)	(1.0)
0914	600585	Anhui Conch Cement*	52.5	44.00	(5)	89,316	(0.03)	1,274	1,297	(1.8)
3968	600036	China Merchants Bank*	17.74	15.46	(1)	336,121	(0.03)	8,262	8,262	0.0
1919	601919	China COSCO Holdings*	10.38	13.37	46	142,643	0.48	(4,594)	(4,617)	(0.5)
0991	601991	Datang International Power*	4.45	9.76	149	108,507	1.17	722	652	10.7
3328	601328	Bank of Communications*	9.56	8.88	5	481,805	0.19	15,555	15,579	(0.2)
1053	601005	Chongqing Iron & Steel	3.18	5.64	101	9,360	0.07	32	32	1.5
0857	601857	PetroChina*	8.89	13.41	71	2,651,761	13.70	50,501	50,326	0.3
3988	601988	Bank of China*	4.02	3.96	12	1,104,723	0.95	41,123	41,005	0.3
0939	601939	China Construction Bank*	6.15	5.76	6	1,440,669	0.66	55,806	55,806	0.0
1088	601088	China Shenhua Energy*	32.9	31.72	9	705,450	0.48	16,920	15,976	5.9
2883	601808	China Oilfield Services*	7.18	14.50	129	59,736	0.56	1,028	1,028	0.0
1898	601898	China Coal Energy Co.*	10.36	12.22	34	169,464	0.42	4,348	3,531	23.1
0390	601390	China Railway Group*	7.04	6.29	1	151,630	0.02	3,087	3,087	0.0
1186	601186	China Railway Construction	11.88	9.38	(10)	133,897	(0.10)	2,221	2,221	0.0
2866	601866	China Shipping Container*	3.2	5.13	82	58,182	0.35	(3,418)	(3,418)	0.0
2899	601899	Zijin Mining*	7.12	9.16	46	138,042	0.46	1,933	1,933	0.0
1766	601766	China South Locomotive	4.61	4.71	16	61,799	0.07	626	626	0.0
1812	000488	Shandong Chenming Paper	5.6	7.93	61	12,210	0.05	171	157	8.6
2727	601727	Shanghai Electric Group*	3.85	9.29	174	111,969	1.41	1,370	1,410	(2.8)
0107	601107	Sichuan Expressway	3.36	7.79	163	22,128	0.26	414	414	0.0
Total						13,782,504	35.5	340,110	332,469	2.3

Note: Bold denotes a constituent of the Hang Seng A/H Index.

\* Denotes a HSCEI constituent stock

Sources: WIND, Bloomberg, BOCI Research

I would also hazard a guess that this signifies that if A shares are to fall further, it means that H shares will also have to decline. Moreover, it is possible that A shares rally while H shares are flat, or if H shares rally A shares will probably do so as well. Thus, the balance of risk is, in my opinion, that A shares are close to a bottom. Wait one second, says the observant Huaqiao reader, did you not turn positive on stocks in mid-June after saying that things were looking toppish in May?

The answer is yes, or as my children might say – my bad. But I hedged myself quite clearly when I wrote, “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... 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.” My view on this is unchanged, and I would recommend taking new positions if the markets fall any more from current levels. On the other hand, I would also say it is probably too late to cut exposure if you have not already done so, unless markets rally strongly in September and give you another chance to sell.

To be honest, I thought that markets would stay buoyant until September or October before correcting. Proves how much I know. The A shares decided to pre-empt this by falling heavily in August, and to a degree helped pull down the H shares as well, but the magnitude of the fall in Hong Kong was much smaller. I have said it before and I will say it again, I do not think I am very good at timing short-term market moves, despite being generally lucky at doing so over the past five years. Where I believe my strength lies is sighting long-term trends well before they happen but, as some institutional investors have pointed out to me on numerous occasions, this also means I am sometimes far too early in my calls.

For example, a year ago in the September 2008 monthly (written before Lehman Brothers collapsed but after the US posted a 2Q08 GDP growth of 3.3% and everyone thought that the worst was over); I wrote, “In the absence of an economic recovery or a deflationary stagnation, that leaves the third scenario or what I like to call the ‘Armageddon base-case scenario’ as the most likely outcome. In this case,

the global economy enters a major recession and the US continues to try to keep things afloat (as it has so far) by printing money, bailing out financial institutions, and giving out tax breaks the government cannot afford...While some think this scenario to be a little too alarmist, I think this is exactly what is likely to play out over the next 12-18 months. Just as one eventually has to grow up and come to terms with the fact that there is no Santa Claus or Easter Bunny, investors have to accept that the world economy is not going to be a warm and comfortable place in the short term.”

As for long-term strategic views, Bill Gross of PIMCO pointed out five points in his September article:

1. Global policy rates will remain low for extended periods of time.
2. The extent and duration of quantitative easing, term financing and fiscal stimulation efforts are keys to future investment returns across a multitude of asset categories, both domestically and globally.
3. Investors should continue to anticipate and, if necessary, shake hands with government policies, utilising leverage and/or guarantees to their benefit.
4. Asia and Asian-connected economies (Australia, Brazil) will dominate future global growth.
5. The dollar is vulnerable on a long-term basis.

Readers of Huaqiao will probably realise that I agree on all of these points (I wonder if there is an opening for a China strategist at PIMCO... on second thought, they probably do not want another guy saying the same things they are). In fact, points two and three are doubly important for investing in China where government policy has an even bigger role to play in the economy and market. Point four could be re-worded as being bullish on China and commodities. And everyone knows what I think of the US dollar (if you need a reminder, go back and look at the April cover of Huaqiao).

My best guess is to stay invested and add positions on the dips. Only cut positions if and when markets have a strong rally from current levels but get ready to add after markets correct. While China may pull off a counter-cyclical bubble reflation to offset a stagnant US economy recovery; do not kid yourself about recovery – it is still just a liquidity-driven bubble. And while dangerous, investors need to play the ups and downs of this bubble and thus, an active trading strategy is likely to be more effective than the buy and hold strategy of the past.

## Spend more, save less

***“A rebalanced global economy requires America to consume less and save more. That means the world’s three big surplus economies – China, Germany and Japan – will have to save less and spend more.” – The Economist, 1 August 2009***

This basic premise has been driving most economists’ thinking about the nature of and solution for the current global depression. Essentially, the idea is that America needs to spend less and save more (while importing less and exporting more), while the rest of the world (especially China) needs to spend more and save less (while importing more and exporting less) to balance the world economy.

On this point, I am reluctantly forced to agree with perma-bear Stephen Roach who writes in the *Financial Times*, “While there is no denying the demand for dollar assets by foreign creditors, it is absurd to blame overseas lenders for reckless behaviour by Americans that a US central bank should have contained. Asia’s surplus savers had nothing to do with America’s irresponsible penchant for leveraging a housing bubble and using the proceeds to fund consumption. Mr. Bernanke’s saving glut argument was at the core of a deep-seated US denial that failed to look in the mirror and pinned blame on others.”

In other words, it takes two to tango, and while it is easy to say that Americans should spend less and Chinese spend more, reality is more complicated. The American side of the equation is somewhat simpler as Americans do not really have a choice but to de-lever their over-gearred personal balance sheets in the face of rising unemployment. This is already reflected in the personal savings rate that has passed 7% of GDP and appears to be heading back to the longer-term average of around 10% before the 1980s credit-fuelled consumer binge began. Of course, this does not bode well for an economy where 70% of GDP is consumption. On the other hand, the government has stepped in to fill part of the hole by spending (and printing) money on a scale that should have Thomas Jefferson turning in his grave.

The tale of the US-China imbalance bears more than a passing resemblance to the old child’s fable of the grasshopper and the ant. I think most readers are familiar with the story: An enterprising ant works all summer long storing food and preparing his underground nest while the grasshopper plays and enjoys himself. Winter comes around, and while the ant has a nice cosy home with plenty of food, the grasshopper is cold and starving out in the snow. The moral of the story for children is clear; you should work hard and save for a rainy day. In Bernanke’s version of this story, I think the grasshopper blames the ant for his poverty and feels the ant should lend him some of his food to tide him over the winter.

In fact, one could excuse the Chinese if they were to adopt the habits of the grasshopper as it is not in the culture to read bedtime stories to their children. But somehow, this moral has been lost on western-trained economists and central bankers. Maybe their parents did not read this story to them when they were kids, opting for Adam Smith’s “Wealth of Nations” instead. Incidentally, I think that bedtime stories are one western habit that the Chinese should adopt, but currently there is a paucity of good content, as one Chinese writer at the Hong Kong bookfair this year noted. I highly recommend “The Gruffalo” although its rhyming text may be difficult to translate into Chinese. But I digress.

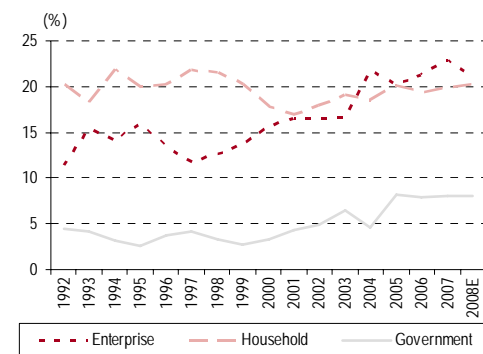
To this day, if you read the headlines of newspapers and economists’ reports, I do not think anyone has ever stopped to question this basic assertion about consumption. Does an economy based on 70% consumption make sense or not to begin with, or is there a more balanced level that makes more sense from a long-term sustainability point of view? America’s consumption-led economy has long and deep roots. In 1914, Henry Ford shocked the nation by introducing a US\$5 per day minimum wage for his factory workers when the average wage in the auto industry at the time was US\$2.34 for a nine hour shift.

If historical accounts are to be believed, Ford’s basic premise was that people who work in his car plants should also be making a wage that was sufficient to buy the products that they were manufacturing. In a strange way, one might conclude that by pushing up wages, Ford was at least partly responsible for unleashing the mass consumption market and for helping create the working middle-class that America is so proud of and famous for. But at the time, the *Wall Street Journal* called Ford’s scheme “an economic crime.”

While the American consumer can cut down on his spending and save more to pay down debt, the other side of the equation is more difficult to solve. How exactly is the US supposed to balance its trade books? What exactly is America going to export in massively larger quantities to close the trade deficit, or is trade to be balanced simply by reducing imports (which would be bad for everyone). The early signs of this are not encouraging. The US government’s pathetic attempt to save the domestic auto industry, the so-called “cash for clunkers” programme in August where the government paid citizens US\$4,500 to trade in their old cars for new, more fuel-efficient ones is a good example. Although aimed at supporting Detroit, Toyota’s August sales rose 6.4%, Honda 9.9% and Hyundai 47% versus an overall 1% increase in the market. Even those who opted for local marques bought Ford instead of government bailout beneficiaries GM and Chrysler.

The Chinese side of the equation is even more difficult to balance. China could import more, but its role as workshop of the world and export king is not an accident nor due to a closed economy or “rigged currency”, as some overseas politicians would have us believe. China exports a lot, and others buy its goods because they are cheap (and generally of acceptable quality). It is therefore reasonable to assume that other than some high-end luxury or high-tech items, domestic Chinese consumers (who are much poorer than their western counterparts) will also choose to purchase local products rather than buy expensive imports. Moreover, the ability of the Chinese to rapidly ramp up conspicuous consumption is somewhat exaggerated. As the chart below suggests, the savings rate for households in China has remained relatively stable over the past decade. The increase in China’s savings rate has almost entirely been due to government and corporates. Thus, we have the Henry Ford dilemma; if China is to increase its consumption dramatically, wages have to rise rapidly. If wages rise too rapidly (especially if not accompanied by productivity gains), China’s biggest comparative advantage collapses while inflation undoubtedly surges.

Chinese Savings Rate Breakdown



Sources: PBOC, NBS, BOCI Research

While I agree with the basic assertion that China needs to consume more and save less; structurally, it is a difficult thing to achieve. At the same time, as the chart above suggests, America should stop trying to tell the world that consumption at 70% of GDP is the right model. As one can clearly see, most developed countries have about 50-60% of GDP on consumption – not 70%. Intuitively, this makes sense, although I am sure economists will tell me that it is much more complex than that. Think of it this way. If you make 50% and spend 50%, then everything is in balance. If you make 30% and spend 70%, you’ve got to borrow the difference from somewhere – maybe from government debt and trade deficits...

## First Half Earnings Results – Green Bamboo Shoots?

***“It’s premature to award the 21<sup>st</sup> century to the Chinese as opposed to the United States, but if the last six months have been any example, China is sort of lookin’ like Muhammad Ali standing over Sonny Liston in 1964 yelling, ‘Get up, you big ugly bear!’... Its equity market, while volatile and lightly regulated, has almost doubled in twelve months, making ours look like that ugly bear instead of a raging bull” – Bill Gross, Managing Director PIMCO, 9 September 2009***

In early August, official reports had it that the profits for the 136 largest SOEs in China declined 26% YoY in 1H09. This seemed to make sense and tracked the 25% YoY decline we saw for all listed A shares in 1Q09. With A share interim reporting season now behind us, we can see that earnings in 2Q09 were much stronger than the preliminary guesses would have us believe with aggregate earnings only down 1% YoY but continue to recover with a 39% QoQ increase.

A-share 1H09 Results Summary by Industry

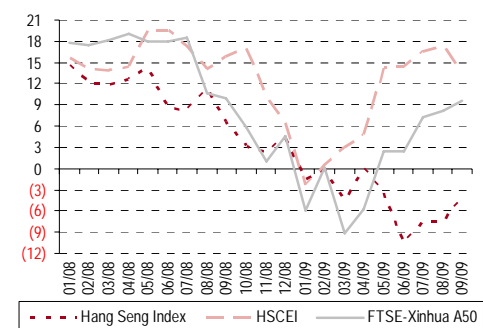
By quarter	Net profit (Rmb m)			YoY %				QoQ %	
	2Q08	1Q09	2Q09	2Q08	3Q08	4Q08	1Q09	2Q09	2Q09
Agriculture, forest, pasturing and fishery	410	319	492	(6.7)	(524.5)	22.5	(41.7)	20.0	54.1
Mining	48,592	46,707	69,478	(33.8)	22.2	(0.8)	(6.9)	43.0	48.8
Food & beverage	3,618	4,730	4,633	70.8	(9.7)	(110.4)	18.1	28.1	(2.1)
Textile, clothing, leather & furs	2,390	1,715	1,452	80.3	(32.6)	(174.7)	38.2	(39.2)	(15.3)
Timber processing & furniture production	120	24	85	(19.6)	(50.3)	(124.2)	(59.6)	(28.8)	258.7
Papermaking & printing	1,765	194	848	64.4	(4.7)	(130.4)	(84.1)	(52.0)	336.4
Petroleum, chemicals & plastics	6,927	1,736	4,485	27.0	(64.2)	(346.6)	(75.4)	(35.3)	158.4
Electronics	495	(1,047)	(408)	83.0	(54.9)	(300.1)	(181.3)	(182.5)	(61.0)
Metal & non-metal	31,259	(3,247)	2,023	29.9	(6.0)	(305.9)	(115.6)	(93.5)	N.M
Machinery, equipment & instruments	14,126	7,874	16,390	19.1	(12.6)	(66.0)	(33.2)	16.0	108.2
Pharmaceutical & biotechnology	3,277	4,080	4,072	17.1	(0.7)	(50.3)	63.7	24.3	(0.2)
Other manufacturing	496	125	703	(15.6)	(26.1)	(67.1)	(63.9)	41.8	460.8
Power, gas & water utilities	268	3,235	6,177	(96.7)	(122.3)	(142.9)	38.2	2206.6	90.9
Construction	3,104	3,814	6,609	0.9	(210.0)	(79.3)	85.3	112.9	73.3
Transportation & storage	18,723	3,116	6,577	52.8	(33.9)	(207.4)	(83.3)	(64.9)	111.1
Information technology	3,771	2,500	4,414	105.7	2.4	208.9	(0.3)	17.1	76.6
Wholesale & retail	5,103	4,215	3,690	52.0	12.5	(82.0)	(1.1)	(27.7)	(12.5)
Financials	129,553	118,863	135,071	13.1	(6.0)	(51.4)	(10.2)	4.3	13.6
Property	5,778	3,299	8,991	22.3	(15.8)	(16.0)	(17.1)	55.6	172.5
Social services	2,464	1,286	2,174	22.5	(26.7)	(37.7)	17.6	(11.8)	69.0
Media & culture	247	205	316	13.9	(15.3)	(22.7)	9.2	28.1	54.2
Conglomerates	1,381	833	1,817	(28.7)	6.3	(190.4)	(11.1)	31.5	118.1
<b>Total</b>	<b>284,589</b>	<b>204,576</b>	<b>280,089</b>	<b>3.5</b>	<b>(6.5)</b>	<b>(84.3)</b>	<b>(24.5)</b>	<b>(1.0)</b>	<b>38.8</b>

Sources: Wind database, Company accounts, BOCI Research estimates

In fact, the strong rebound in 2Q09 earnings have meant that the cumulative 1H09 earnings for A shares were only down 13% YoY. Given that the comparison base of 2H08 earnings was very weak (particularly 4Q08) following the onset of the global financial crisis, even if earnings were to remain flat QoQ from now to the end of the year, 2009 profit growth in China will likely be positive.

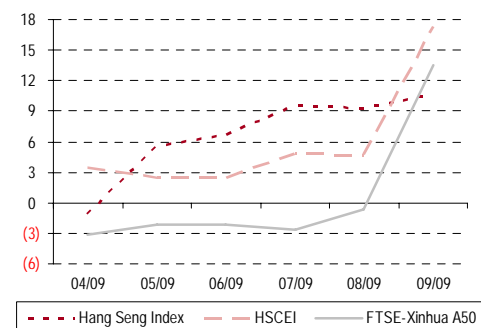
And that is exactly what we have seen, with 2009 earnings forecasts from my BOCI Research team having been ratcheted up since earnings hit a bottom in March. In fact, the expectations for 2009 earnings growth for H-shares is near the levels they were at before the Lehman Brothers collapse last year. The slower earnings growth for A shares is primarily attributed to one major swing company, China Unicom, which made a huge exceptional gain in 2H08 from the disposal of its CDMA network (which will not be repeated this year), causing the sharp slowing in earnings growth. Earnings estimates for the Hang Seng Index remain in the red given the continued losses in North America (i.e. Household) for HSBC and the volatility from Hutchison earnings where huge "exceptional gains" every year are no longer exceptional, but fairly common.

**2009 BOCI Earnings Growth Estimates**



Source: BOCI Research

**2010 BOCI Earnings Growth Estimates**



Source: BOCI Research

And just as I suspected would happen, my BOCI analysts have started to substantially (but stealthily) raise their 2010 earnings forecasts following the release of the 1H09 interim results. Even after the increase in earnings estimates, mostly driven by upgrades in the financial sector, BOCI's forecast is still slightly lower than market consensus. I suspect that given current momentum, earnings upgrades will continue, but at a much lower pace for the remainder of this year.

**A-share Universe Historical Profitability & Margins**

(Rmb m)	1Q07	1H07	9M07	2007	1Q08	1H08	9M08	2008	1Q09	2Q09
Sales	1,931,093	4,327,964	5,659,632	9,465,396	2,616,160	5,622,495	8,560,368	11,268,883	2,307,927	5,181,169
Sales ex-financial	1,628,481	3,602,152	4,616,814	7,970,643	2,150,841	4,689,837	7,211,482	9,528,790	1,837,648	4,243,218
Gross profit ex-financial	324,215	707,382	794,965	1,497,431	359,628	747,597	1,122,974	1,730,196	375,035	883,517
Operating profit	272,862	663,614	815,330	1,321,058	344,104	685,494	805,378	964,527	270,341	640,956
Pre-tax profit	277,009	673,048	828,432	1,370,584	360,091	737,248	1,044,678	1,069,791	278,467	658,746
Net profit	199,112	491,988	604,184	1,017,816	285,236	584,967	779,594	873,703	213,806	513,809
Attributable net profit	186,173	461,437	567,102	951,780	268,829	551,730	735,299	816,678	202,995	484,665

(%)	1Q07	1H07	9M07	2007	1Q08	1H08	9M08	2008	1Q09	2Q09
Gross margin	19.9	19.6	17.2	18.8	16.7	15.9	15.6	18.2	20.4	20.8
Operating margin	14.1	15.3	14.4	14.0	13.2	12.2	9.4	8.6	11.7	12.4
Pre-tax margin	14.3	15.6	14.6	14.5	13.8	13.1	12.2	9.5	12.1	12.7
Net margin	10.3	11.4	10.7	10.8	10.9	10.4	9.1	7.8	9.3	9.9
Attributable net margin	9.6	10.7	10.0	10.1	10.3	9.8	8.6	7.2	8.8	9.4
ROE (weighted avg)	20.5	18.6	16.2	15.9	17.1	17.4	15.4	13.5	15.9	17.9

Source: Wind, BOCI Research estimates

Following the recent market correction and increase in earnings estimates, H shares are now trading at P/Es of about 16x 2009E and 13x 2010E while A-shares are now down to about 22x 2009E and 19x 2010E. In the case of H shares, I believe that fundamental value is starting to reappear, and my index target level of 10,000 would suggest a P/E of about 10x and thus would be a very cheap entry point. Even at current levels, H shares are not expensive. A shares are now re-entering the atmosphere after their stratospheric rocket ride earlier this year. At current levels and on a fundamental basis, A shares are at best, fairly priced. However, as I stated earlier, the A/H valuation gap is now at historic low levels which means that it is unlikely that A shares will fall further unless H shares decline as well. By logical deduction, that means I must be fairly positive on A shares at current levels too.

**Estimates for Chinese Equities Earnings Growth & Valuations**

Index	1 year		P/E (x)			EPS growth (%)								
	level	low	BOCI estimates			Consensus								
			08	09E	10E	08	09E	10E	08	09E	10E			
HSI	20,318.6	10,676.3	16.2	16.9	15.2	16.4	17.1	14.4	(25.9)	(4.2)	10.7	(28.5)	(4.0)	18.8
HSCEI	11,760.6	4,792.4	17.9	15.8	13.5	18.4	15.5	12.7	(12.5)	13.7	17.2	(17.0)	18.9	22.4
HSCCI	3,966.2	2,172.6	12.7	14.7	12.9	13.2	14.6	13.0	11.5	(13.3)	13.5	3.4	(9.4)	12.4
MSCI HK	9,225.7	5,184.3	17.5	20.6	18.2	14.8	20.5	17.3	(41.7)	(15.0)	12.7	(36.8)	(27.7)	18.6
MSCI China	57.6	26.0	17.2	16.4	13.8	17.9	16.1	13.5	(8.1)	4.9	19.1	(11.8)	11.2	19.4
FTSE-Xinhua A50	10,562.0	5,734.2	23.5	21.5	18.9	23.8	20.4	17.1	(20.3)	9.6	13.5	(13.9)	16.3	19.2
SHCOMP	2,861.6	1,664.9	25.3	22.1	18.7	25.8	21.8	17.9	(19.2)	14.7	17.7	(15.0)	18.7	21.8
CSI 300	3,077.1	1,606.7	27.0	23.1	19.2	27.9	22.4	18.4	(22.0)	16.9	20.0	(22.3)	24.3	21.7

Sources: WIND, Bloomberg, BOCI Research

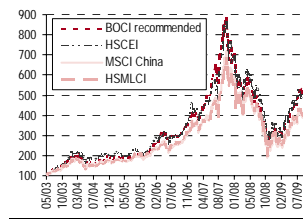
## China – HK Strategy

### Performance Comparison

	% Change	Since
	1M	YTD
		incept*
BOCI recommended	0	60
MSCI China	(6)	41
HSMLCI	(3)	42
HSCEI	(3)	49

\* Inception May 2003  
Sources: Bloomberg, BOCI Research

### Relative Performance



Source: BOCI Research

### BOCI China-HK Recommended Stocks

	Stock code	Last price daily (HK\$)	3M avg. T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E (x)			Yield (%)		Change (%)			Date rec.	Wgt (%)
					FY08	FY09E	FY10E	FY09E	FY10E	1M	YTD	Since rec.		
China Molybdenum	3993.HK	6.33	113	7,006	16.6	39.3	21.7	0.8	1.5	(11)	84	0	04-Sep-09	5
China Resources Ent.	0291.HK	19.56	129	21,862	19.9	20.7	18.4	2.0	2.2	1	52	0	04-Sep-09	5
China Resources Gas	1193.HK	7.10	23	2,510	14.3	28.6	24.6	0.9	1.3	11	154	9	31-Jul-09	4
ZTE	0763.HK	36.95	93	10,967	35.2	25.6	22.0	0.8	0.9	7	143	9	31-Jul-09	4
Poly (Hong Kong)	0119.HK	6.90	134	3,693	57.0	27.4	10.9	0.3	0.7	(1)	293	28	03-Jul-09	4
Golden Eagle	3308.HK	10.82	40	5,493	28.0	30.8	16.8	3.2	1.0	7	103	18	03-Jul-09	4
Guangzhou Pharm.	0874.HK	4.18	13	919	7.2	6.8	5.8	7.3	10.3	(2)	59	23	05-Jun-09	7
Weichai Power	2338.HK	33.90	49	6,777	12.9	10.5	9.0	0.5	0.6	(1)	138	32	08-May-09	5
Tencent	0700.HK	122.30	438	105,491	71.2	40.1	29.6	0.5	0.7	10	155	106	03-Apr-09	5
Tsingtao Brewery	0168.HK	28.50	42	18,665	46.5	29.5	23.5	1.7	2.2	3	76	58	03-Apr-09	7
Bank of China	3988.HK	3.95	1,413	300,298	13.9	11.2	10.5	4.6	4.9	2	90	81	06-Feb-09	4
China Everbright Int'l	0257.HK	2.95	25	4,076	27.8	20.5	16.2	1.0	1.3	(0)	110	115	09-Jan-09	6
Huabao	0336.HK	8.03	37	10,900	29.0	22.4	19.6	1.7	1.8	(1)	58	76	09-Jan-09	5
Want Want	0151.HK	4.21	59	26,519	27.2	27.2	18.1	1.8	3.7	(11)	31	37	05-Dec-08	3
Ajsen (China)	0538.HK	5.28	8	2,707	25.3	19.6	15.1	1.5	2.0	(0)	47	77	07-Nov-08	4
Hengan International	1044.HK	44.25	103	20,864	38.2	25.6	22.4	2.5	2.9	(4)	78	69	05-Sep-08	6
China Mobile	0941.HK	77.55	2,434	404,369	12.2	12.2	12.1	3.6	3.7	(5)	(1)	(32)	29-May-08	4
Wumart Stores	8277.HK	12.20	20	8,216	33.3	29.9	24.9	1.7	2.0	8	122	105	07-Mar-08	8
CNOOC	0883.HK	10.42	1,059	134,845	9.3	13.9	9.7	3.4	3.7	0	45	(12)	01-Feb-08	3
Cash (incl. dividends)														7
<b>Total</b>														<b>100</b>
Stocks removed or reduced from the BOCI China-HK recommended list														
Huadian Power	1071.HK	2.58	48	7,612	(5.3)	10.1	7.0	2.5	3.6	(16)	41	6	05-Jun-09	7
China Green	0904.HK	8.05	12	3,288	16.5	16.0	13.1	0.9	2.0	(1)	30	(4)	07-Mar-08	4

Stocks in bold are new additions to the recommended list.  
Sources: Bloomberg, BOCI Research estimates

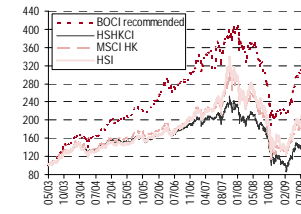
## Hong Kong Strategy

### Performance Comparison

	% Change	Since
	1M	YTD
		incept*
BOCI recommended	2	54
MSCI HK	(7)	41
HSKCI	(1)	42
HSI	(1)	41

\* 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	FY09E	FY10E	1M	YTD	Since rec.		
BOCHK	2388.HK	16.20	317	58,578	50.6	12.9	12.2	3.6	3.8	(2)	90	0	04-Sep-09	5
Yue Yuen	0551.HK	21.95	45	13,879	11.9	13.4	12.3	3.0	2.8	4	44	0	04-Sep-09	5
Pou Sheng	3813.HK	1.30	13	2,458	8.8	41.9	14.0	0.0	0.0	0	58	0	31-Jul-09	3
Sun Hung Kai Property	0016.HK	108.90	680	161,947	24.6	23.7	23.1	2.3	2.4	(8)	72	14	3-Jul-09	7
Link REIT	0823.HK	17.22	129	34,204	23.2	14.9	18.6	4.9	5.4	(2)	35	0	3-Jul-09	6
Hysan	0014.HK	18.60	38	11,360	12.1	14.4	13.7	2.1	2.2	(12)	51	0	5-Jun-09	5
Li & Fung	0494.HK	27.80	218	33,201	40.9	28.6	21.2	2.8	3.8	22	102	29	8-May-09	4
SCMP	0583.HK	1.22	1	476	11.0	58.1	23.9	4.9	5.7	(6)	(53)	18	3-Apr-09	4
Ports	0589.HK	18.28	32	6,244	21.3	19.3	16.0	4.7	3.8	(9)	102	106	6-Mar-09	5
Comba	2342.HK	6.34	20	2,325	23.7	15.2	12.9	1.8	2.1	15	398	203	6-Feb-09	13
Galaxy	0027.HK	2.50	31	2,474	(0.9)	17.6	83.3	0.0	0.0	6	152	74	9-Jan-09	5
Café de Coral	0341.HK	16.56	10	4,463	20.1	17.4	15.4	4.0	4.6	1	5	18	7-Nov-08	5
TVB	0511.HK	33.85	18	10,082	14.1	16.6	12.7	4.3	5.3	(0)	34	27	7-Nov-08	5
V-tech	0303.HK	64.25	29	9,483	9.4	14.2	12.1	6.4	6.6	16	95	40	26-Sep-08	8
Hang Seng Bank	0011.HK	111.30	347	80,645	15.1	17.2	15.5	5.7	5.9	(12)	10	(30)	1-Aug-08	4
Standard Chartered Bank	2888.HK	174.70	144	269,002	13.0	13.1	13.0	3.2	3.3	(5)	90	(7)	9-Mar-07	6
HK & China Gas	0003.HK	18.32	110	65,945	28.4	24.5	22.5	2.5	2.7	6	57	84	23-May-03	5
Cash (incl. dividends)														7
<b>Total</b>														<b>100</b>
Stocks removed or reduced from the BOCI HK-HK recommended list														
PCCW	0008.HK	2.03	32	7,127	8.4	7.4	9.3	2.5	3.0	(4)	(14)	(8)	5-Jun-09	5
MTR Corporation	0066.HK	27.40	116	35,884	19.1	25.4	22.2	1.7	1.7	(2)	52	(14)	4-Jan-08	5

Note: Stocks in bold are new additions to the recommended list.  
Sources: Bloomberg, BOCI Research

## China – A Strategy

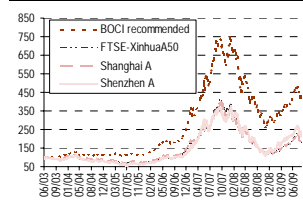
### Performance Comparison

	% Change	Since	
	1M	YTD	Incept. *
BOCI recommended	(8)	51	337
Shanghai A	(16)	57	88
Shenzhen A	(13)	75	129
FTSE-XinhuaA50	(19)	61	87

\* 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.							
Wuliangye Yibin	000858.SZ	23.38	1,130	88,750	49.0	29.3	23.5	0.2	0.5	(1)	82	0	04-Sep-09	4
Suning Appliance	002024.SZ	14.53	790	30,421	29.8	24.4	19.6	0.8	1.7	(6)	29	0	04-Sep-09	4
Fuyao Glass	600660.SS	10.23	268	9,446	83.2	23.6	16.0	0.0	2.1	(3)	169	(3)	31-Jul-09	3
Jinduicheng Molybdenum	601958.SS	18.29	695	9,836	19.6	82.8	44.9	0.4	0.8	(18)	121	(18)	31-Jul-09	3
Shenhua Energy	601088.SS	31.24	1,564	55,923	24.4	20.9	18.7	1.7	1.9	(19)	80	(7)	3-Jul-09	5
Poly Real Estate	600048.SS	23.89	1,145	25,189	26.2	19.9	16.5	0.4	0.5	(13)	114	(22)	3-Jul-09	5
Dongfang Electric	600875.SS	43.20	365	19,051	216.0	23.1	18.7	0.0	0.1	(1)	51	1	5-Jun-09	5
China Vanke	000002.SZ	11.17	2,563	105,620	31.1	21.5	15.1	0.4	0.5	(16)	73	4	5-Jun-09	5
Yanjing Brewery	000729.SZ	14.37	161	6,955	37.8	25.7	20.8	1.5	1.9	(8)	14	4	8-May-09	6
FAW Car	000800.SZ	17.25	324	13,199	25.8	21.4	17.8	2.0	1.9	(8)	147	9	8-May-09	7
Bank of China	601988.SS	3.94	631	25,603	15.8	12.7	11.9	4.1	4.3	(16)	33	20	6-Feb-09	2
ZTE - A	000063.SZ	35.66	353	37,357	38.5	28.0	24.1	0.7	0.9	4	75	71	9-Jan-09	4
China Animal	600195.SS	20.49	139	4,155	48.8	27.3	23.8	2.1	2.4	2	81	90	5-Dec-08	6
Yantai Changyu Wine	000869.SZ	54.40	68	4,518	32.0	26.5	21.7	2.6	3.2	(1)	18	42	7-Nov-08	4
China Life	601628.SS	27.50	1,071	41,250	77.2	34.7	29.1	1.6	2.0	(16)	50	5	1-Aug-08	3
Yabao Pharmaceutical	600351.SS	13.74	174	3,604	50.9	32.7	24.2	1.2	2.1	8	121	93	29-May-08	5
Shandong Gold Mining	600547.SS	55.47	1,396	9,676	62.0	44.0	36.4	1.1	1.3	(9)	145	31	2-Nov-07	6
Pingdingshan Tian'an Coal	601666.SS	28.24	645	12,447	11.4	20.8	15.7	2.2	2.9	(23)	196	2	7-Sep-07	8
Kweichow Moutai	600519.SS	155.37	470	70,386	38.6	29.9	24.2	1.6	1.9	4	50	966	20-Jun-03	9
Cash (incl. dividends)														6
<b>Total</b>														<b>100</b>
Stocks removed or reduced from the BOCI China-A recommended list														
Qinghai Salt Lake Potash	000792.SS	56.81	362	21,793	32.0	22.4	16.4	2.9	4.4	(8)	(3)	(32)	7-Apr-08	4
Wangfujing Dept. Store	600859.SS	28.48	92	5,652	32.4	26.9	22.8	0.7	0.7	5	54	(36)	7-Dec-07	2

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

- Mainland stocks experienced large fluctuations last week. The Shanghai Composite Index slid 6.7% on 31 August to 2,667.75, but jumped 4.8% to 2,845.02 on 3 September. The index fell 21.8% in August, compared with 4.1% in Hong Kong's Hang Seng Index, a 3% rise in the S&P500 Index and an 8.4% gain in the FTSE100 Index in the period. The Chinese market was dominated by sentiment, in which the slowing bank lending could serve to stall the economic recovery both domestically and globally.
- We reminded investors in late-July (see our report *China Economy Update – Monetary Policy Facing a Dilemma* published on 28 July) that the People's Bank of China (PBOC) had already started to set the quota for major banks for the rest of the year. Although the quota is the most effective instrument for domestic loan control, the subsequent regulation for capital-adequacy ratio (CAR) from the China Bank Regulatory Commission (CBRC) signals that stricter tightening is possible in 2010. According to the CBRC, the state commercial banks are required to increase their core capital by reducing the holding of priority shares of the other state commercial banks. Such a requirement would effectively rein in the lending capacity of the big banks in 2010. While the CBRC admitted that this regulation would be enforced step-by-step over a period of several years, the policy suggested that the authority had been quite cautious about the risk of banks following the sky-high amount of incremental loans in 1H09 and had now set the path for the withdrawal of the aggressive monetary policy through more professional and market-oriented instruments.
- It should be no coincidence that the US Treasury Secretary Tim Geithner set out eight principles for a regulatory reform in the G20 meeting of finance ministers and central bank governors in London during 6-7 September. One of those principles could force the banks to raise far more equity capital by issuing new shares. According to Geithner, financial institutions are required to maintain reserves and capital buffers in proportion to their risk, so that they can absorb losses at their own expense rather than the taxpayer's. We notice that Geithner concentrated on the regulatory framework and placed a greater emphasis on the higher-quality forms of capital that best enable financial groups to absorb losses. Consistent with this principle, common equity should constitute a large majority of a bank's tier-1 capital during robust economic times.

- On 28 June, CBRC chairman Liu Mingkang published an article in the *Financial Times* called *Basic Rules Helped China Sidestep Bank Crisis*. In the article, Mr Liu revealed that the CBRC is developing a regulation that would require firewalls to be established between commercial banks and their controlling shareholders, and between commercial banks and their non-banking subsidiaries, in order to prevent risk contagion". Based on our understanding, China is, in fact, still on the frontier of global banking reform.
- On the other hand, we note that China is more conservative in publicly announcing the "withdrawal of the stimulating package"; although the US, UK, France and Germany called for work to start "on exit strategies to be implemented in a co-ordinated manner as soon as the crisis is over". The finance ministers of China, Russia, India and Brazil jointly announced that the earliest time for the withdrawal of their stimulus plans would be 2H10. The divergence of the developing and developed countries on the stimulus package is noteworthy, and may represent their different political agendas.
- We notice that the authority is starting to prevent the market from further slumping in face of the country's upcoming 60th anniversary. The market saw the strongest session in six months on 3 September, after an official from the China Security Regulatory Commission (CSRC) stated that China would try to maintain a "stable and healthy" market. One of the supporting measures includes elevating the quota ceiling for Qualified Foreign Institutional Investors (QFIIs), announced by the State Administration of Foreign Exchange (SAFE) on 4 September. We have anticipated some other support measures to be released before the 1 October National Day, although we continue to expect a relative weak market because of the coming global bank reform and accompanying monetary tightening policies going forward.

**China Monthly Economic Indicators (2007-09)**

	2008	2009E	2010E	Jul08	Aug	Sep	Oct	Nov	Dec	Jan09	Feb	Mar	Apr	May	Jun	Jul
<b>Real economy (YoY %)</b>																
GDP*	9.0	8.1	7.5	-	-	9.0	-	-	6.8	-	-	6.1	-	-	7.9	-
VAIO (real)	13.0	8	7.8	14.7	12.8	11.4	8.2	5.4	5.7	-	3.8	8.3	7.3	8.9	10.7	10.8
-Light industry	12.3	9.3	8.5	12.2	11.7	11.2	10.3	10.1	8.1	-	6.5	8.5	8.2	9.7	10.2	9.2
-Heavy industry	13.2	7.6	7.5	15.7	13.2	11.5	7.3	3.4	4.7	-	2.7	8.3	6.9	8.6	10.9	11.3
Industrial sales ratio (%)	97.8	96.5	96.5	98.1	97.8	97.6	97.4	97.0	98.7	-	97.2	96.9	97.8	97.3	97.3	97.9
<b>FAI* (YoY %)</b>																
- Property	26.1	24.4	15	27.3	27.4	27.6	27.2	26.8	26.1	-	26.5	28.6	30.5	32.9	33.6	32.9
Retail sales*	20.9	15	10	30.9	29.1	26.5	24.6	22.7	20.9	-	1	4.1	4.9	6.8	9.9	11.6
	21.6	13	12.5	23.3	23.2	23.2	22.0	20.8	19.0	-	15.2	14.7	14.8	15.2	15	15.2
<b>External sector</b>																
Exports (US\$ bn)	1,429	1,240	1,265.0	136.7	134.9	136.4	128.3	115.0	111.2	90.5	64.9	90.3	91.9	88.8	95.5	105.4
Export growth (YoY %)	17.2	(14.2)	2	26.9	21.1	21.5	19.2	(2.2)	(2.8)	(17.5)	(25.7)	(17.1)	(22.5)	(26.4)	(21.3)	(23)
Imports (US\$ bn)	1,133	993.7	1,023.5	111.4	106.2	107.1	93.1	74.9	72.2	51.3	60	71.7	78.8	75.4	87.2	94.8
Import growth (YoY %)	18.5	(12.0)	3	33.7	23.1	21.3	15.6	(17.9)	(21.3)	(43.1)	(24.1)	(25.2)	(23)	(25.2)	(13.2)	(14.9)
Trade balance (US\$ bn)	295.5	246	241	25.3	28.7	29.3	35.2	40.1	39.0	39.2	4.9	18.6	13.3	13.4	8.3	10.6
<b>FDI* (US\$ bn)</b>																
	92.4	60.0	50	8.3	7.0	6.7	6.7	5.3	6.0	7.5	5.8	8.4	5.9	6.4	8.1	5.4
<b>Money supply (YoY %)</b>																
M0	12.7	10.6	12.6	12.3	10.9	9.3	10.6	9.0	12.7	12.0	8.3	10.9	10.9	11.2	11.5	11.6
M1	9.1	33.1	11.5	14.0	11.5	9.4	8.9	6.8	9.1	6.7	10.9	17.0	17.0	18.7	24.8	26.4
M2	17.8	31.9	17.5	16.4	16.0	15.3	15.0	14.8	17.8	18.8	20.5	25.5	25.5	25.7	28.5	28.4
Deposit rate, 12M (%)	2.25	2.25	2.25	4.14	4.14	4.14	3.60	2.52	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Lending rate, 12M (%)	5.31	5.31	5.31	7.47	7.47	7.20	6.66	5.58	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31
FX reserves* (US\$ bn)	1,946	2,506	3065	1,845	1,884	1,906	1,880	1,885	1,946	1,913	1,912	1,954	2,009	2,090	2,132	-
<b>Inflation (YoY %)</b>																
National CPI	5.9	(0.6)	2.6	6.3	4.9	4.6	4.0	2.4	1.2	1	(1.6)	(1.2)	(1.5)	(1.4)	(1.7)	(1.8)

\*Periodical; no single-month data from the NBS

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

**Value Added Industrial Output (VAIO)**

YoY %	2008						2009					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May	Jun	Jul
VAIO	14.7	12.8	11.4	8.2	5.4	5.7	3.8	8.3	7.3	8.9	10.7	10.8
Heavy industry	15.7	13.2	11.5	7.3	3.4	4.7	2.7	8.3	6.9	8.6	10.9	11.3
Light Industry	12.2	11.7	11.2	10.3	10.1	8.1	6.5	8.5	8.2	9.7	10.2	9.2

Source: NBS

China's valued-added industrial output (VAIO) rose 10.8% YoY in July, up from the increases of 10.7% in June and 8.9% in May, according to the National Bureau of Statistics (NBS). The delivery value for exports dropped 14.7% in July, after declining 14.6% in June and 15% in May.

The rebound in the VAIO was mainly due to the better performance of the heavy industries in July. The VAIO in heavy industries grew 11.3%, while the output in light industries rose 9.2% in July, compared with the spikes of 10.9% and 10.2% in June. Output of smelting and pressing of ferrous metals climbed 10.1%, and that of transport equipment jumped 20.4%, and the VAIO of non-metal mineral products picked up 14% in July, up from the corresponding growth of 5.8%, 17.1% and 13.9% in June. However, some light industries and export-dependent heavy industries showed reduced VAIO growth in July. The VAIO of textile industry grew 8.6%, and that of electric machinery and equipment swelled 11%, and the output of communications and electronic equipment rose 5.3% in July, down from the rises of 9.3%, 12% and 6.5%, respectively, in June. Meanwhile, the VAIO in electricity and heating power increased 5.3% in July, 1.7ppts lower than the 7% growth in June.

The rebound in VAIO growth in July was a bit lower than consensus expectation, probably attributed to the consecutive export decline and increased input material costs. Amid the better sales performance of residential units and automobiles year-to-date, we believe the industrial sector will maintain steady growth in the third quarter.

#### Fixed Asset Investments (FAI)

	2008				2009											
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb	Mar	Apr	May	Jun	Jul		
YTD %																
Total FAI	-	26.3			27.0			25.5	-	28.8	-	-	33.5	-		
Urban FAI	25.6	26.8	27.3	27.4	27.6	27.2	26.8	26.1	26.5	28.6	30.5	32.9	33.6	32.9		
Urban FAI/total FAI (%)	-	85.4			85.9			86	-	83.8	-	-	85.5	-		
- Primary industry	66.1	69.5	61.9	63.5	62.8	61.8	57.4	54.5	100.3	85.0	82	79.7	68.9	62.5		
- Secondary industry	25.6	26.6	27.9	28.8	30.2	30	29.5	28	24.8	26.8	27.8	29.1	29	27.8		
- Tertiary industry	25.0	26.2	26.0	25.5	24.8	24.3	24.1	24.1	26.9	29.1	31.6	34.9	36.6	36.5		
- Property	31.9	33.5	30.9	29.1	26.5	24.6	22.7	20.9	1.0	4.1	4.9	6.8	9.9	11.6		

Source: NBS

NBS data shows that China's urban fixed-asset investments (FAI) grew 32.9% in 7M09, slightly lower than the 33.6% increase in 1H09. In July alone, urban FAI growth decelerated to 26% from 35.3% in June and 38.7% in May. FAI in central government-approved projects jumped 25.3%, and that in local government-approved projects soared 33.7% in 7M09, down from the corresponding increases of 28.6% and 34.1% in 1H09. With the commencement of an increasing number of government-supported projects, urban FAI in these projects has begun to show slower growth rates.

On the back of the government's stimulus measures, urban FAI in infrastructure and social welfare have maintained high growth rates since the end of last year. As project utilisation rates trend higher, however, the investment growth in infrastructure projects may slacken, a trend that began to appear in July. Urban FAI in railway transport, electricity and heating power surged 126.9% and 22.7%, respectively, in 7M09, down sharply from the spikes of 183.1% and 31.5% in 1H09. Meanwhile, as China's exports saw consecutive declines since end-2008, urban FAI in the manufacturing sector has started to mitigate since June. During 7M09, urban FAI in the secondary industry grew 27.8% YoY, 1.2ppts lower than the 29% rise in the first half. Urban FAI in mining, smelting and pressing of ferrous metals and that in non-ferrous metals rose 9.2% and 20.1% in 7M09, compared with the growth rates of 10.8% and 21.8% in 1H09. For the property sector, FAI went up 11.6% in 7M09 from 9.9% in 1H09. In the month of July, property investments jumped 19.6%, the highest level in the past several months.

We believe domestic investments will gradually slow due to the influence of comparable bases and the fine-tuning of China's macro-policy. As the project utilisation rates trend higher, investment growth may slacken. We expect urban FAI to increase about 24.4% in the whole of 2009.

#### Retail Sales

YoY %	2008						2009					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May	Jun	Jul
Retail sales	23.3	23.2	23.2	22	20.8	19.0	15.2	14.7	14.8	15.2	15	15.2
Urban	24.0	23.9	23.9	22.1	20.3	19.0	14.4	13.7	13.9	15	15.1	15.1
Rural	21.8	21.8	21.8	21.9	21.8	18.9	17.0	16.8	16.7	15.6	15	15.4

Source: NBS

China's retail sales grew 15.2% in July, 0.2ppts higher than the 15% rise in June, according to the NBS. Retail sales in rural areas swelled 15.1%, while those in the county and under-county levels rose 15.4% in July, versus the increases of 15.1% and 15% in June.

The pick-up in July retail sales was mainly due to the consecutive rebound in residential property, autos and other related durable consumption. In July, retail sales of grain and edible oil climbed 11.9%, and that of meat, poultry and eggs rose 6.6% and the sales of clothing and daily used goods grew 16.3% and 19.6%, compared with the corresponding increases of 12.5%, 13%, 10.6% and 22.4% in June. Meanwhile, sales growth of automobile and petroleum and related products came in at 32% and 1.1%, respectively, in July, after rising 33.1% and 1.5% in June. Amid the strong rebound in residential sales, retail sales of furniture soared 42.5%, while that of household electric and video appliance grew 8%, and sales of construction and decoration materials rose 25.8% in July, compared with the spikes of 42.4%, 7% and 23.9%, respectively, in June.

The steady retail sales growth in recent months was mainly boosted by the strong performance of basic goods consumption and an obvious pick-up in durable goods consumption related to autos and residential property, on which retail sales could maintain a steady growth trend in the near term.

### Foreign Trade

YoY %	2008					2009								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Exports	17.6	26.9	21.1	21.5	19.2	(2.2)	(2.8)	(17.5)	(25.7)	(17.1)	(22.6)	(26.4)	(21.3)	(23)
Imports	31	33.7	23.1	21.3	15.6	(17.9)	(21.3)	(43.1)	(24.1)	(25.1)	(23)	(25.2)	(13.2)	(14.9)
Trade balance (US\$ bn)	21.4	25.3	28.7	28.7	35.2	40.1	39	39.1	4.9	18.6	13.3	13.4	8.3	10.6

Source: GAC

China's exports dropped 23% YoY in July after decreasing 21.4% YoY in June, according to official statistics. Imports fell 14.9% YoY, down from the decrease of 13.2% YoY in July. Meanwhile, the trade surplus declined 58% YoY to US\$10.6bn in July, compared to US\$8.3bn in June and US\$13.4bn in May.

Breaking down sectors, exports of capital goods showed more significant declines than those of consumer goods in recent months. In July, exports of textiles dropped 13.5% YoY, and those of garments and footwear declined about 11.8% YoY and 9.6% YoY, compared to the decreases of 13.1% YoY, 8.5% YoY and 9.6% YoY in June, respectively. Exports of automatic data processing machines and units dropped 11.1% YoY in July, after decreasing 8.3% YoY in June. Meanwhile, exports of mechanical & electrical products, and high-tech products decreased 19.1% YoY and 11.9% YoY in July, versus the corresponding decreases of 17.8% YoY and 13.3% YoY in June. The improvement of exports in most capital goods might reflect the primary stabilisation in private investment and durable consumption in the US and EU. However, due to the competition advantage of international prices compared to the domestic prices, exports of steel products saw still significant decline of 79.6% YoY in July, after falling 75.4% YoY in June.

Although the global demand for commodities sharply declined, China's imports sustained strong growth in recent months. In July, China's import quantities of soybean and iron ore rose 25.4% YoY and 46.6% YoY, compared to the increases of 31.6% YoY and 46.3% YoY in June. For crude oil, import quantity jumped 42.3% YoY in July, after rising 14% YoY in June, while that of primary plastics grew 27.3% YoY, down from the increase of 43.5% YoY in June. The pick-up of commodity imports was mainly due to the substitution effect of imports to domestic production amid the competitive advantage of international prices compared to domestic prices. It also reflected the stronger demand domestically compared to overseas.

With the improvement of the US economy since the second quarter and the decline in the comparison base going forward, China's exports may see less significant decline in future. However, as overseas demand can hardly rebound to the normal level, the exports might remain weak in the third quarter. Meanwhile, the imports are likely to see faster and more significant improvement than exports in future amid the stronger domestic demand compared to that from overseas. Actually, the import volume started to show positive growth in June and July and it was the price factor which was responsible for the decline of imports in recent two months. Due to the different product structure, the price factor contributed more to the decline of imports than to that of exports. As the comparison base of prices will sharply decrease after 3Q09, imports may see more significant improvements than exports.

Looking ahead, with the improvement in the US economy since 2Q09 and the lower comparative base, China's exports may see a less significant decline in the future. However, due to depressed overseas demand, they can hardly recover to previous peak levels, and we anticipate they will remain weak in the third quarter. Imports, however, are likely to see faster and more significant improvement than exports going forward amid the stronger domestic demand. Also, the price factor contributed more to the decline in imports than it did to the drop in exports. As the comparative price base will decrease sharply after 3Q09, imports may see a more significant improvement than exports.

### Foreign Direct Investment (FDI)

YoY %	2008					2009								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Actual FDI	44.9	65.3	39.4	26.8	(0.86)	(36.5)	(5.7)	(32.7)	(15.8)	(9.5)	(22.5)	(17.8)	(15.6)	(35.7)
US\$ bn	9.6	8.3	7.0	6.7	6.7	5.3	6.0	7.5	5.8	8.5	5.9	6.4	8.1	5.4

Source: MOC

According to the Ministry of Commerce (MoC), China's actual foreign direct investment (FDI) fell 35.7% in July, compared with the decreases of 15.6% in June and 17.8% in May. Utilised FDI amounted to US\$5.4bn in July from US\$8.1bn in June and US\$6.4bn in May.

Due to the consecutive de-leveraging process of foreign enterprises and the shrinkage of domestic exports, the FDI has also maintained a weak trend since 4Q08. While the mainland government has implemented some measures to attract foreign capital inflows, the FAI may still see decreases in the near future. The consecutive FAI decline also indicates that China's exports are likely to see a large decline in 3Q09.

**Consumer Price Index**

YoY %	2008					2009							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CPI	6.3	4.9	4.6	4	2.4	1.2	1.0	(1.6)	(1.2)	(1.5)	(1.4)	(1.7)	(1.8)
- Food	14.4	10.3	9.7	8.5	5.9	4.2	4.2	(1.9)	(0.7)	(1.3)	(0.6)	(1.1)	(1.2)
- Clothing	(1.4)	(1.1)	(1.2)	(1.3)	(1.7)	(2.2)	(2.7)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.4)
- Trans. & comm.	(0.3)	(0.2)	(0.2)	0.0	(0.7)	(1.4)	(2.5)	(3.0)	(2.5)	(2.2)	(2.3)	(2.4)	(2.7)
- Residences	7.7	7.1	6.5	4.6	1.1	(1.4)	(2.3)	(2.9)	(3.5)	(4)	(4.8)	(5.7)	(5.8)
- Medical segment	3.1	2.9	2.6	2.4	2.0	1.7	1.6	1.3	1.0	0.9	0.9	0.9	0.7

Source: NBS

China's Consumer Price Index (CPI) dropped 1.8% in July, after decreasing 1.7% in June and 1.4% in May, according to the NBS. From a month-on-month perspective, the CPI showed a zero growth in July after a 0.5% drop in June.

The CPI decline was close to our expectation, which was still mainly attributed to the base effect. As southern China recently entered into the traditional flood season, the decline in food price started to ease in July. Food prices edged down about 0.2% MoM in July, compared with the 1.3% MoM decline in June. Meanwhile, non-food prices, especially service items, started to show positive month-on-month growth in July. The price of services edged up 0.5% MoM in July, compared with a 0.1% dip in June. From a year-on-year perspective, the price of food, non-food and service items dropped about 1.2%, 2.1% and 1.4% YoY, respectively, in July, compared with the corresponding decreases of 1.1%, 1.9% and 1.3% in June. Specifically, the price of medicine and personal care edged up 0.7% in July after increasing 0.9% in June, while the prices of clothing, transportation and communication, articles and services for recreation, education and culture, along with residential items, declined about 2.4%, 2.7%, 0.7% and 5.8%, respectively, compared with the declines of 2.3%, 2.4%, 0.7%, and 5.7% in June.

As southern China has entered the flood season and the price of meat, especially pork, has bottomed out recently, we expect the food prices to start to show positive month-on-month growth in August. The consecutive rise in grain prices year-to-date will also boost food price hikes in the future. At the same time, the price of services began its rise in July on a monthly basis, and is likely to maintain a rising trend going forward. Thus, we believe the CPI will turn to positive month-on-month growth in August. However, due to the base effect, the index is likely to maintain year-on-year declines in August and September, while it may turn to a positive growth trend in October.

**Inflation/Deflation**

YoY %	2008					2009								
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
EFPI	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)	(7.8)
PPI	11.9	13.5	15.4	15.3	14	11	4.7	(0.16)	(5.3)	(7.1)	(8.9)	(9.6)	(10.4)	(11.2)
CPI	7.7	7.1	6.3	4.9	4.6	4	2.4	1.2	1	(1.6)	(1.2)	(1.5)	(1.4)	(1.7)
Crude oil	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)	(48.1)

Source: NBS

According to the NBS, the Ex-factory Price Index (EFPI) and the Purchasing Price Index (PPI) for materials, fuels and power declined 8.2% and 11.7% in July, or 1ppts and 0.5ppts lower than the decreases of 7.8% and 11.2%, respectively, in June.

The obvious monthly rises in the EFPI and PPI in July was mainly due to the jump in steel prices and the rebound in the prices of some processed manufacturing goods, such as chemical products. However, due to the climbing base effect, both indices showed more significant year-on-year declines in July, when the price of producer goods dropped 10.1%, while that of consumer goods dipped 2.3%, versus decreases of 9.6% and 2.2% in June. In particular, the price of mining and quarrying dropped 23.8%, and that of raw materials fell 12.1%. The price of manufacturing producer goods declined 7.4% in July, after decreasing 23.5%, 11% and 7.2%, respectively, in June.

We expect most commodity prices to show consecutive month-on-month growth in the third quarter, and yet the EFPI is likely to show a year-on-year decline before November amid the "base effect". Owing to a considerable drop in the prices of steel, non-ferrous metals and energy in August, we expect the EFPI to have decreased more than 8% in August.

**Monetary Performance**

YoY %	2008					2009								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
M0	12.3	12.3	10.9	9.3	10.6	9.0	12.7	12.0	8.3	10.9	11.3	11.2	11.5	11.6
M1	14.2	14.0	11.5	9.4	8.9	6.8	9.1	6.7	10.9	17.0	17.5	18.7	24.8	26.4
M2	17.4	16.4	16.0	15.3	15.0	14.8	17.8	18.8	20.5	25.5	26.0	25.7	28.5	28.4
Loan/deposit	65.2	65.4	65.1	65.2	65.1	63.9	65.1	66.4	66.4	66.9	66.7	66.3	66.6	66.8
M1/M2, %	34.9	34.7	35.0	34.4	34.7	34.4	35.0	33.3	32.8	33.3	33.0	33.2	34.0	34.2

Source: PBOC

Incremental lending came in at about Rmb356bn in July, while renminbi loans jumped 33.9% in July, down from the incremental amount of Rmb1.53trn and a 34.4% rise in June. Renminbi deposits rose 28.5% in July, 0.5ppts lower than the 29% increase in June. The lending-to-deposit ratio was slightly up from 66.6% in June to 66.8% in July. Due to the high incremental lending in recent months, the growth rates of demand deposit and M1 supply accelerated to 30% and 26.4%, respectively, in July, from 28% and 24.8% in June. Meanwhile, the M2 supply rose 28.4% in July, slightly down from 28.5% in June.

PBOC statistics show that incremental renminbi lending totalled about Rmb356bn in July, remarkably lower than the previous market expectation. The breakdown shows that the loans to households and short-term loans and bill-financing loans to enterprises showed the most notable declines. Incremental lending to households reached Rmb236.5bn in July, down from Rmb303.6bn in June, among which long-term incremental loans came in at about 188.7bn, lower than Rmb208.9bn recorded in June. The decrease of incremental household lending, especially long-term loans, was in line with the drop in residential sales in July. Meanwhile, incremental lending to non-financial corporations and others amounted to Rmb119.3bn in the same month, lower than Rmb1.23trn in June and Rmb332.8bn in the same month last year. Specifically, the new bill-discounting loans turned to negative Rmb198.2bn in July, as a huge amount of bills issued by the banks in 4Q08 and 1Q09 have gradually matured after June. Meanwhile, amid the fine-tuning of policy stance by the PBOC, some short-term loans issued in the earlier months (but exceeding the real demand) may also mature, but there are less new loans to replace them. Therefore, the short-term loans also showed a decline of Rmb58.1bn in July. The incremental long- and medium-term loans totalled Rmb350.9bn in July, compared with Rmb774.2bn in June. Although detailed information was unavailable as yet, most of the long-term loans should have gone to the government-supported projects, in our view.

Renminbi deposits grew 28.5% in July, down from 29% in June. Meanwhile, total incremental deposit reached about Rmb399.3bn in July, down from Rmb2trn in June and Rmb1.3trn in May. We note that both the saving deposit and enterprise deposits showed month-on-month declines in July. Specifically, savings deposits fell Rmb19.2bn MoM and the enterprise deposit dropped Rmb45bn in July compared with the previous month. The decline in savings deposit was probably due to the booming stock market and restart of IPOs, while the drop in enterprise deposit was mainly attributed to reduced time deposits. Incremental fiscal deposits amounted to Rmb373.6bn in July, accounting for about 93.6% of total incremental renminbi deposits that month.

## Policy Highlights

- **Premier vows to continue current economic policy.** During his tour of Zhejiang province in August, Premier Wen Jiabao stated that the economy was still in a crucial stage of recovery that many uncertainties still existed. He stressed the importance of adhering to the current set of macro-policies and implementing all aspects of the stimulus package. Wen gave a detailed explanation on the meaning of the current macro-policy and stimulus plan. The policy and plan include five aspects: i) increase the fiscal expenditure mainly on projects related to livelihoods, infrastructure and environmental protection, while fuel the consumption growth to make the economic growth model more balanced and sustainable; ii) carry out the relatively loose monetary policy to maintain market liquidity and provide more lending support to the agriculture segment and small- and medium enterprises (SMEs); iii) implement the industrial renewal plan to accelerate the structural adjustment and optimisation in industry; iv) advocate technological innovation and upgrades; and v) improve the benefit level of social insurance and increase the employment rate. The Premier said that the most important target of the policy and stimulus plan was to turn back the economic downturn, while the key was to accelerate an economic model transition.
- **PBOC reaffirms 17% M2 growth target for 2009.** The PBOC published *Annual Report 2008* on 25 August, emphasising the continuity of the moderate increase in monetary credit. The PBOC also reaffirmed the 17% YoY growth target for total annual M2 supply. In its annual report, the PBOC pointed out that currency and prices would always be in conflict, but the overall price levels would gradually stabilise in the second half, and the risk of another sharp economic decline in the near term had diminished markedly. The central bank said that it needed to ensure that monetary credit could increase moderately and steadily through appropriate macro-control policy and flexibly utilising various monetary policies and instruments. Financial institutions should avoid focusing too much on short-term profits, thus affecting stable and healthy operations in the long run. They should also continue actively issuing loans in a balanced and reasonable manner. The PBOC also said that research policies and measures would be launched in order to cope with the unusual changes in the international balance of payments and to strengthen the management of the balance of cross-border capital flows, so as to effectively control the operation risks of foreign-exchange reserves.

- **NDRC presents government's working plan for 2H09.** The governor of the NDRC, Zhang Ping, presented on 25 August a working report on China's economic and social development to the National People's Congress (NPC). Zhang said that the domestic economy had shown signs of recovery since the government launched its stimulus measures, but the country was still faced with many difficulties and challenges. Overseas demand was still in decline, and some enterprises were facing tough operating environments, while agricultural development and rural income improvement had been under acute pressure. Energy conservation and environmental protection work were behind schedule, he said. Zhang also pointed out that the labour force, especially new graduates and rural migrant workers, still faced difficult times ahead. The economic recovery was mainly been driven by fiscal and monetary expansion and was lacking in endogenous growth. Meanwhile, small and medium enterprises (SMEs) still faced difficulties in securing loans. Zhang also commented that property prices in some cities had risen too fast in recent months, and that the government would pay particular attention to this problem. According to his report, the government plans to focus on eight key areas, including boosting domestic demand (especially consumption), stabilising exports, supporting agricultural development, promoting structural adjustments, accelerating technological innovation, advancing energy-saving initiatives, fostering economic reform and increasing fiscal expenditure in terms of livelihood projects.
- **State Council plans to promote development of northeastern China.** The State Council held an executive meeting on 17 August and passed a motion for the strategic development of the country's northeastern region. Council members said that the northeast had made a great progress in economic and social welfare development, but more work needed to be done in face of the global economic slowdown. Resolutions required northeast China to promote economic restructuring, technological innovation, agricultural modernisation, infrastructure construction, environmental protection and social welfare development. We believe the plan might help boost infrastructure and social development in the northeast over the long term, but short-term impacts will be quite limited.
- **China calls for more policy assistance to SMEs.** The State Council held an executive meeting on 19 August to call for more policy assistance and financial support to small- and medium enterprises (SMEs). The SMEs were of great importance to maintaining economic growth and social stability, and the

- government would step up its efforts in improving the policy and law system so as to create a more open and fair competition environment for SMEs, the attendees said. According to official statements, measures will be taken to help SMEs tackle financing difficulties and to foster the establishment of the Growth Enterprise Market (GEM), the country's first Nasdaq-style market, which should help small companies raise fund in a more efficient manner. The central government will also increase funding to support SMEs, especially in sectors such as technological innovation, industrial structure adjustment and employment. The government will select some SMEs to participate in the country's subsidised purchasing programme of home appliances, agricultural machinery and automobiles in rural areas, including the automobile and home-appliance replacement programme.
- **The Cabinet said to boost economic development in western regions.** The Office of the Leading Group for Western Region Development of the State Council held a meeting on 20 August and called for more efforts to boost the economic growth in the western regions. Premier Wen Jiabao chaired the meeting, and the group members discussed and passed a guideline on maintaining stable and fast economic growth in the western regions amid the global economic downturn. According to the following press release, the government will adhere to its policy of developing the western regions as the policy has proved effective in boosting economic and social progress there in the 10 years since its launch. More funding will be channeled into the area for infrastructure construction, including railways, roads, airports and water conservation projects. The government will stress environmental protection and enhance its efforts to upgrade the domestic industrial structure and boost the industries that enjoy advantages in the western regions. The government will also accelerate the development of social causes to improve people's livelihoods. It will work to increase job opportunities, improve citizens' living conditions and upgrade education and medical services.
  - **Premier endorses rural old-age insurance programme.** The central government held a conference on 18 August to discuss the rural old-age insurance system. At the meeting, Premier Wen Jiabao stated that the system was not only important for fostering social equality and a balance between rural and urban areas, but also crucial in optimising social security and stimulating consumption amid the global economic downturn. According to the announcements after the meeting, the pilot rural pension programme entails two accounts for beneficiaries. One is called a "basal account", whose

minimum fund will be provided by the government. The other is a personal account, which will be funded by individuals. The central government will be responsible for 100% of the minimum fiscal fund in the basal account in central and western China, while it will provide for 50% of the fund in the east. The premier called on all levels of the government to promote the programme, with the goal of covering 10% of the total number of counties nationwide before the end of the year. The programme will extend to all areas before 2020, according to the premier.

- **NDRC raises gasoline and diesel prices.** The NDRC announced on 1 September at its website that the ex-factory price of gasoline would be raised by Rmb300/tonne (up 4.6%) and that of diesel by Rmb300/tonne (up 5.2%). The prices increased to Rmb6,810/tonne and Rmb6,070/tonne, respectively. The price adjustments are mainly due to the strong run in international oil prices in recent weeks and to the price-change requirements under the current oil-pricing system. According to our rough estimates, the weighting of petroleum in the Consumer Price Index (CPI) is about 2% and around 3% in the Ex-factory Price Index (EFPI). The effect of the price increases on the indices should be quite limited.
- **China orders environmental evaluation on new projects from October.** The State Council published on 21 August a regulation on the enforcement of environmental evaluation on new projects. According to the regulation, environmental evaluation is required before the planning of development projects is approved. Under the regulation, environmental evaluation of city-level projects will be conducted by local environmental authorities, while provincial projects must be evaluated by the environmental authorities under the State Council. The regulation covers all developmental activities, from land use and the development of rivers or oceans, to projects related to industry, agriculture, animal husbandry, forestry, energy, water conservation, transportation, urban construction, tourism and exploration of natural resources. This regulation mainly aims at preventing pollution and ecological degradation.

## Hong Kong Economy

- Hong Kong's Composite CPI slid 1.5% YoY in July 2009, down from -0.9% YoY in June 2009. To breakdown the numbers, the tail-raising factor contributed -1.17% and the year-to-day price level contributed -0.37% for 7M09. The year-on-year comparison showed a greater decrease in the price level, but month-on-month numbers started to turn positive. Among sub-indices, we note that the housing index and clothing and footwear index showed positive growth year-on-year. We should see the inflation indicator back to positive territory in September or October.
- In July 2009, Hong Kong's total exports in value terms decreased 19.9% YoY and imports decreased 17.8%, against the decreases of 5.4% and 7.9% in June 2009. Domestic exports declined 41.3%, down further compared to the previous month's -38.7%. Re-exports declined 19.2%, reversing the rebound trend from June's -4.2%. Sorted by area, we note that other than to North America, which was relatively stable, exports to all other areas slid rapidly. After surveying companies, we found that the order quantities recovered considerably and are now almost at normal levels, but prices are still low. In addition, factories have not received long-term orders since the Christmas season. Hence, we may continue to see more negative trade growth in 4Q09.
- The seasonally adjusted unemployment rate stayed flat at 5.4% in May-July 2009 after seasonal adjustments. The actual number of unemployed persons increased from 203,000 to 213,800.

### Major Economic Indicators

YoY %	2008			2009												
	2008	2009E	2010E	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
GDP	2.5	(2.0)	1.0	-	-	1.5	-	-	(2.6)	-	-	(7.8)	-	-	(3.8)	-
Total exports	5.4	(18.5)	5.0	11.1	1.9	3.6	9.4	(5.3)	(11.4)	(21.8)	(23.0)	(21.1)	(18.2)	(14.5)	(5.4)	(19.9)
- Domestic exports	(16.8)	(40.0)	6.0	(16.3)	(17.1)	(20.0)	(23.1)	(31.5)	(39.0)	(50.6)	(39.6)	(41.1)	(40.2)	(37.4)	(38.7)	(41.3)
- Re-exports	6.0	(18.0)	5.0	12.4	2.7	4.6	10.9	(4.1)	(10.3)	(20.7)	(22.4)	(20.5)	(17.5)	(13.7)	(4.2)	(19.2)
Imports	5.1	(18.0)	6.0	15.4	1.5	3.9	11.3	(7.9)	(16.2)	(27.1)	(17.5)	(22.7)	(17.0)	(19.2)	(7.9)	(17.8)
Trade balance (HK\$ bn)	(202.0)	(185.0)	(218.0)	(19.5)	(12.9)	(16.0)	(14.3)	(8.2)	(11.8)	7.2	(23.2)	(18.2)	(16.4)	(11.0)	(16.5)	(21.7)
Retail sales value	10.3	(1.0)	3.0	13.6	10.3	7.1	0.4	1.3	1.1	7.4	(12.7)	(7.7)	(4.3)	(6.2)	(4.7)	(5.5)
Unemployment rate (%)	4.1	5.0	4.8	3.2	3.2	3.4	3.5	3.8	4.1	4.6	5.0	5.2	5.3	5.3	5.4	5.4
Composite CPI	2.1	1.0	1.5	6.3	4.6	3.0	1.8	3.1	2.1	3.1	0.8	1.2	0.6	0.1	(0.9)	(1.5)
Fiscal deficit/surplus (year-to-date HK\$ bn)	30.9	(95.0)	(80.0)	(24.2)	(36.2)	(48.6)	(37.3)	(9.3)	30.9	49.8	43.2	1.4	(1.8)	(12.2)	(24.2)	(35.2)
Tourist arrivals	4.8	(5.0)	6.0	10.4	(2.9)	3.5	(1.4)	(1.1)	(0.2)	11.0	(8.1)	1.7	0.8	(13.4)	(15.0)	(12.2)
M2	2.7	12.0	8.0	8.1	5.6	1.8	(6.1)	(3.6)	2.7	3.2	1.5	4.2	4.4	7.3	9.8	-
Monetary base	58.3	120.0	30.0	9.2	9.2	15.1	19.6	32.5	58.3	59.9	59.5	73.4	89.7	112.7	116.1	137.7
3-month HIBOR (period average, %)	1.43	0.50	1.50	2.19	2.17	2.64	3.72	2.17	1.43	0.82	0.73	0.78	0.76	0.44	0.23	0.16
HSBC prime lending rate (%)	5.00	4.75	5.00	5.25	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Property price (domestic)	(11.1)	(8.0)	(3.0)	21.5	18.2	15.8	5.3	(7.4)	(11.1)	(13.1)	(14.1)	(13.7)	(9.3)	(8.6)	(5.3)	-

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

- **Meeting of Exchange Fund Advisory Currency Board Sub-Committee:** The meeting took place on 24 July and the minutes were made public on 6 August. Numerous issues were discussed with regard to currency board operations and capital flow. First, it was noted that the Hong Kong dollar exchange rate against the US dollar had tended to stay on the strong side. The convertibility undertaking of 7.75 during the review period was triggered repeatedly. The inflow of funds partly reflected the equity-related demand and increased IPO activity. As the monetary base expanded from HK\$570.72bn to HK\$718.65bn, the backing ratio (the ratio of the exchange fund assets to the monetary base) had declined from 108.16% to 106.14%. The sub-committee noted the possibility that the lower trigger level of 105% might be reached for the first time, resulting in a transfer of assets from the investment portfolio to the exchange fund portfolio to restore the backing ratio to 107.5%. Second, the sub-committee also highlighted a special analysis of the potential risks to monetary stability of continued capital inflows and the possible reversal of such inflows, along with policy measures to address them. Third, the sub-committee promoted a paper discussing conceptual issues relating to the definition of capital flows and proposing a framework for organising data to enable judgements to be formed regarding the nature and scale of fund flows in Hong Kong, meant to clarify the definition and measurement of such flows, as they are so crucial to monetary and financial stability. Fourth, the sub-committee discussed a report analysing the contribution of various sectors to labour-productivity growth in Hong Kong in recent years. The study found that overall gains were driven by strong growth in the financial services sector. Although growth in labour productivity had recently slowed because of the global financial crisis, the study concluded that the potential for financial systems in Asia, and in particular the mainland, to expand, meant that Hong Kong had good prospects for further productivity growth.

- **12th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference:** On 19 August 2009, the Chief Executive Donald Tsang, and the Governor of Guangdong Province, Huang Huahua, co-chaired the conference in Hong Kong. The two sides reviewed the progress of the major co-operative initiatives over the past year and discussed future directions. Both sides agreed that concrete results had been attained in a number of key areas, including the implementation of the *Plan for the Reform and Development of the Pearl River Delta (draft)*, major cross-boundary infrastructural projects and boundary control points, environmental protection, commerce and trade, finance, medical technology, education, tourism and town planning. After the meeting, Hong Kong and Guangdong officials signed eight co-operative agreements, including the: *Letter of Intent in for Cooperation in Modern Service Industries in Qianhai*, *Education Co-operation Agreement*, *Cooperative Agreement for Implementing CEPA and Guangdong Pilot Measures*, *Cooperative Ventures for Joint Research and Development of Pharmaceutical Products (Vaccines)*, *Environmental Cooperative Agreement*, *Cooperative Arrangement for Advancing the Hong Kong-Shenzhen Western Express Railway Line*, *Cooperative Agreement for the Expert Group on Hong Kong/Guangdong Financial Collaboration*, and *2009-10 Intellectual Property Agreement*.

## AUTOMOTIVE

Top pick: SAIC Motor

HK listed – Overweight

A shares – Overweight

- Domestic passenger car sales in July reached 832,596 units, up 71% YoY. As a result, domestic passenger car sales increased 31% in 7M09. In particular, sales of mini-vans surged 60% in the period.
- We believe China's automotive industry will continue to race ahead thanks to the government's stimulus measures and domestic economic recovery. We now expect domestic passenger car sales to grow 35% in 2009.
- July sales of heavy-duty truck (including chassis) and semi-tractor jumped 43% and 68%, respectively. However, large-bus sales dropped 5% in the same month.
- China's 19 key automobile manufacturing groups collectively registered a 1% decrease in total profit to Rmb42.1bn in 1H09.

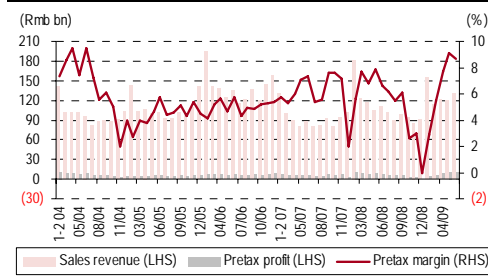
**Dongfeng Motor Group (0489.HK/HK\$8.20) – BUY**

Owing to the rapid growth in China's passenger car market, Dongfeng Motor Group's (DMG) net profit grew 5% YoY to Rmb2.6bn in 1H09. Meanwhile, its gross margin widened to 17.9% from 17.3% in 1H08, mainly due to the reduction of unit cost of raw materials and improvement in product mix. The passenger vehicle (PV) business remained DMG's key earnings contributor. Earnings contribution from PVs accounted for more than 100% of its total operating profit in the first half. The group's total PV sales went up 23% to 450,998 units in 1H09, against the concurrent 26% rise in total PV sales nationwide. Overall, DMG's PV sales revenue and operating profit in 1H09 rose 23% and 34%, respectively. However, sales revenue and operating profit of its commercial vehicles declined 34% and 89%, respectively, in the period.

**Weichai Power (2338.HK/HK\$33.90; 000338.SZ/Rmb42.46) – BUY (H&A)**

Weichai Power announced that its H-share net profit for 1H09 declined 26% YoY to Rmb1.2bn. This translates into a net profit of Rmb861m in 2Q09, up 138% QoQ. Meanwhile, its gross margin increased to 21.2% in 2Q09, up from 19.3% in 1Q09 and 15.1% in 4Q08, mainly due to reduced raw material costs and a sales volume increase. The company sold about 148,000 engines in 1H09, down 27%, compared with a 31% decline in 1Q09. Looking ahead, we forecast about 85,000 diesel engines will be sold in 3Q09, up 31%. We have also revised up our full-year engines sales forecast from 300,000 units to 318,000 units.

### Operating Performance of Auto Industry



Sources: China Automotive Industry Newsletter

### Key Statistics

YoY %	07	08	09E	Feb09	Mar	Apr	May	Jun	Jul
Trucks	19	6	14	42	2	9	17	13	43
Heavy	44	12	5	7	(8)	(3)	(12)	(7)	68
Semi-tractors	92	9	(20)	(73)	(71)	(57)	(40)	(13)	117
Medium	17	(13)	10	42	2	11	18	(14)	24
Light	16	5	8	43	(2)	5	13	14	32
Mini	8	19	60	75	30	39	78	58	82
Buses	21	(3)	6	(12)	(4)	(5)	(18)	(5)	(5)
Large	27	10	5	(4)	(5)	(20)	(15)	(36)	17
Medium	14	1	2	(38)	(5)	(6)	(14)	3	39
Light	23	(6)	8	(4)	(4)	(3)	(20)	0	16
Passenger cars									
Sedans	22	7	35	24	10	37	47	48	71
MPVs	23	7	34	20	6	33	42	48	67
SUVs	18	(13)	6	(5)	(11)	(4)	(1)	4	20
Mini-vans	50	25	21	12	(7)	23	26	18	61
Total	8	8	56	52	40	71	84	75	103

Sources: China Automotive Industry Newsletter, BOCI Research estimates

## CHEMICALS

Top pick: Cangzhou Dahua

HK listed – Overweight ↑

A shares – Overweight ↑

- Over the next few months, some chemical products such as toluene diisocyanate (TDI) and polyurethane (PU) will enter the mid-season of sales. Considering the global economic recovery and improving domestic export business, we upgrade the chemicals industry from *Neutral* to **Overweight**.

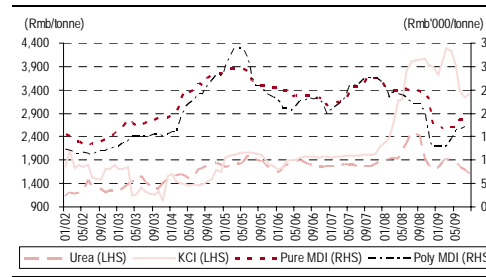
**Hualu Hengsheng (600426.SS/Rmb16.86) – BUY**

Hualu Hengsheng announced a placement plan of not more than 140m shares, priced at no less than Rmb16.73/share. The company plans to raise up to Rmb25bn, which will be used for the construction of a new 600,000-tonne acetic acid plant, the total investment for which will amount to Rmb4.42bn. If the average price in 2010 exceeds Rmb3,000/tonne, combined with an additional 250,000 tonnes of acetic anhydride production, the company's 2010 EPS may well reach about Rmb1.20. Taking into account the dilution effect resulting from the placement, we anticipate the company's 2010 EPS at Rmb0.94. The stock trades at 18.4x 2010E P/E. Considering the company's advanced coal chemical technology and superior management, we believe the stock valuation is not demanding.

**Sinochem International (600500.SS/Rmb11.04) – HOLD**

Net profit of Sinochem International fell 42.2% YoY in 1H09, while revenue also posted a 37.8% decline. Due to the improved macro-environment and the company's business scale expansion, we anticipate its net profit will trend up in the second half and increase 24% during 2010. Nevertheless, its current share price is demanding. Our target price stands at Rmb11.88.

### Product Prices



Sources: China Petroleum & Chemical Industry Association

### Key Statistics

% YoY	07	08	09E	Feb09	Mar	Apr	May	Jun	Jul
Output									
Urea	11.5	3.7	8.0	5.0	13.0	7.1	20.9	9.0	15.0
Potash	10.6	3.4	15.0	5.7	19.8	6.8	29.4	20.6	18.5
PVC	20.0	(5.3)	(2.1)	(7.2)	(6.5)	(9.2)	2.2	2.6	3.7
Nitric Acid	13.1	(6.0)	(2.8)	(17.0)	17.2	13.5	1.4	(7.6)	(2.7)
Price									
Urea	0.1	13.8	(5.2)	7.2	3.8	(2.6)	(1.1)	(5.4)	(4.0)
KCl	5.4	71.6	3.5	7.5	7.5	(1.6)	(6.6)	(6.1)	(3.8)
Nitric Acid	1.8	23.8	(15.1)	14.0	5.3	4.2	(3.6)	1.7	3.2
Pure MDI	5.5	(3.0)	(8.2)	(5.7)	3.6	0.0	0.0	9.4	0.0
Poly MDI	14.3	(14.7)	(25.0)	0.0	0.0	11.5	13.8	0.0	3.0
PVC	6.0	1.1	(10.8)	4.5	3.0	1.4	(2.0)	3.5	(1.0)

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

## CONSUMER – Beer, Wine & Liquor

Top pick: *Yibin Wuliangye*

HK listed – Neutral  
A shares – Overweight

- Beer output grew around 6.6% YoY to 25.7m kl in 7M09.
- Revenue and profit of the beer industry rose 9.6% and 10.8%, respectively, in 5M09.
- Liquor production volume increased about 21.5% to 3.7m kl in 7M09.
- Revenue and profit of the liquor industry climbed 22.0% and 9.2% in 5M09.
- Wine output rose about 8.2% to 0.46m kl in 7M09.
- Revenue and profit of the wine sector went up 7.0% and 1.1% in 5M09.

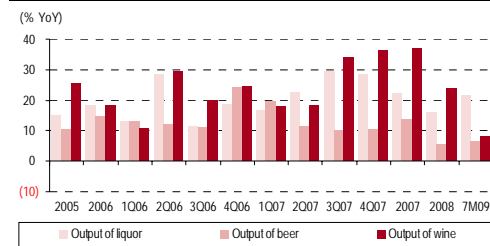
### *Yibin Wuliangye (000858.SZ/Rmb23.38) – BUY*

Wuliangye posted earnings growth in 1H09 on higher revenue and a wider gross margin. About 46,000 tonnes of Wuliangye liquor were sold in the period, up 4.5% YoY. Due to its price hike in 2H08, the gross margin for high-priced liquor expanded 9.7ppts to 83.2% in 1H09, driving up the gross margin for its wine-related business by 8ppts to 67%. This year's price hike for high-end liquor may be postponed to the peak season of 4Q09, when sales are very likely to surge. Wuliangye has recently raised its wholesale and retail prices by Rmb40/bottle. Under its sales strategy of maintaining price and supply control, it may raise its prices by Rmb40/bottle. We are concerned about the firm's external growth and sales improvement at its new sales company going forward. Assuming a price hike of Rmb40/bottle in 4Q09, Rmb0.08/share from its liquor asset purchase from the group and Rmb0.02/share from fewer related transactions after the establishment of the new sales company, we have derived our 2009-11 EPS estimates of Rmb0.80, Rmb1.00 and Rmb1.16, respectively.

### *Tsingtao Brewery (0168.HK/HK\$28.50; 600600.SS/Rmb28.84) – BUY (H&A)*

In line with consensus estimates, Tsingtao Brewery's net profit and revenue soared 67.9% and 15.1% YoY in 1H09 (EPS: Rmb0.49). The company posted increases of 74.9% in its net profit and 22.5% in 2Q09 revenue, which accelerated on a quarterly basis. Key drivers for its interim results included a wider gross margin and lower effective tax rate. It has started to benefit from the reduced production costs since 2Q09 and is well-positioned to step up its investments for market-share gain. We expect high sales growth in 3Q09 due to a low base in 3Q08.

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

Source: China Light Industry Association

## CONSUMER – Dairy & Others

Top pick: *Tingyi*

HK listed – Overweight  
A shares – Neutral

- Liquid milk product output grew -0.6% YoY to about 9.2m tonnes in 7M09.
- Dairy product output edged up 0.3% to about 10.8m tonnes in the period.
- Industry sales revenue increased 4.9% to Rmb60.1bn in 5M09.
- Industry profit went up 17.6% to Rmb3.6bn during the period.

### *China Green (0904.HK/HK\$8.05) – BUY*

China Green's FY09 earnings dipped 3% YoY, slightly below our expectation. The major disappointment came from the lower-than-expected gross margin. We remain positive on its growth prospects, and expect it to post a 21% earnings CAGR for FY09-10. We have revised up our target price to HK\$9.20, on 15x target P/E for its core earnings (earnings before gain on biological assets).

### *Tingyi Holding (0322.HK/HK\$14.06) – BUY*

Tingyi's 1H09 earnings rose 41% YoY to US\$179m, in line with our forecast. Thanks to the lower palm-oil costs, the instant-noodle segment contributed the most to the company's earnings growth. The "one more bottle" campaign has yet to boost the bottom-line growth, but helped Tingyi break through the 50% market-share milestone. It is the most efficient branded food and beverage (F&B) stock in the sector.

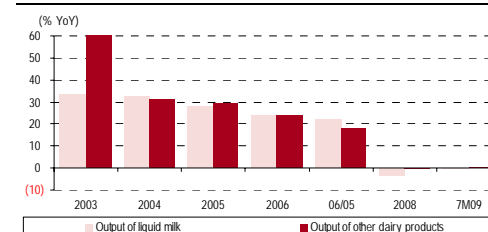
### *Huabao International (0336.HK/HK\$8.03) – BUY*

Huabao has acquired a 100% stake in a tobacco flavour supplier from Zhejiang Tobacco Corp, thus becoming an increasingly important supplier in the segment. We believe the acquisition will give an immediate boost to Huabao's FY10-12 earnings by 1-2%. We have changed our valuation methodology from PEG to DCF so as to better reflect the company's strong cash-generating ability. Our current target price is HK\$9.70.

### *China Agri-Industries (0606.HK/HK\$5.59) – HOLD*

China Agri-Industries has issued a profit warning for its 1H09 net profit to drop about 40%. The fall in product prices has exceeded those of raw materials, resulting in a gross margin contraction for the oilseed processing and brewing material businesses. Compared with the records seen in 1H08, there should have been no sales volume decline in 1H09 if the price issue was stripped out.

#### 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	5M
<b>Outputs</b>								
Liquid milk	25	16	(4)	7	25	9	(4)	3.2
Other dairy products	15	23	(1)	16	29	13	(1)	3.3
<b>Industry</b>								
Total assets	11	15	19	14	15	15	19	17
Total sales	21	22	18	22	23	29	18	4.9
Gross margin (%)	23	22	20	23	22	21	21	25

Sources: China Statistical Yearbook, BOCI Research

## CONSUMER – Retail

Top picks: **Suning (A); Lianhua (H)**

HK listed – Neutral

A shares – Overweight ↑

- China's largest chain retailers recorded robust revenue growth in July, the low season of the year. Retail sales from the top 50 retail enterprises grew 12.36% YoY for 7M09, faster than the 11.4% in 1H09 but the growth rate was 9.6ppts lower than that for 7M08.
- The growth rates of the sales of apparel, gold and jewellery, and household appliances in July were 1.9ppts, 2.3ppts and 6.2ppts higher than those in 1H09.

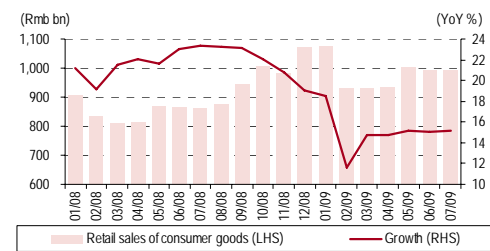
### Suning Appliance (002024.SZ/Rmb14.53) – BUY

The company posted a 14.89% YoY rise in attributable net profit to Rmb1.265bn. Operating revenue grew 5.46% to Rmb27.334bn, of which revenue from its core operation climbed 6.16% to Rmb26.692bn. Operating profit and gross profit saw increases of 12.92% and 13.86% to Rmb1.702bn and Rmb1.713bn. We raise our same-store sales assumptions for Suning on China's property market rebound and recovery in the macro-economy and consumer confidence. We lift our 2009-11 same-store sales growth estimates to -0.7%, 5% and 7%, respectively. We raise our attributable EPS forecasts by 5%, 12% and 16% for 2009-11. Suning's stock valuation is lower than its historical average. Based on 24x 2010E P/E, our target price stands at Rmb17.48.

### Lianhua Supermarket (0980.HK/HK\$16.08) – BUY

Lianhua Supermarket reported in its interim results that net profit grew 10% to Rmb250m, largely in line of our expectation. The core operation was disappointing, with operating profit down 6.8% YoY to Rmb206m, mainly because of a decline in same-stores sales, aggressive outlet closures, and a higher SG&A-to-revenue ratio. Profit from Shanghai Carhua, a joint venture with Carrefour, dipped 3.7% to Rmb62m, mainly due to new store openings amid a sluggish economy. We project Lianhua's EPS CAGR at about 20% during 2009-11. The stock trades at about 14.4x 2010 P/E. We raised our target P/E from 16x to 18x, a 26% discount to Wumart's target P/E of 24.5x. As such, our target price now stands at HK\$19.40.

### Retail Sales of Consumer Goods



Source: CEIC

### Key Statistics

Wholesale and retail trades by category of main commodities					
YoY %	2008	1Q09	May09	Jun09	Jul09
Grain and oil	22.7	9.6	15.6	11.2	13.3
Meet, poultry and eggs	22.3	9.6	13.3	10.6	6.6
Clothing, shoes, hats & textiles	25.9	15.6	22.1	18.0	19.1
Sports & recreation articles	17.9	8.4	6.9	7.9	10.3
Household & video appliances	14.2	1.4	12.0	5.1	8.0
Furniture	22.6	n.a.	33.3	na	42.5
Cosmetics	22.1	14.8	21.7	17.2	20.3
Gold, silver & jewellery	38.6	11.8	28.7	15.4	na
Communications appliances	1.4	(7.5)	(7.8)	(7.0)	1.3
Automobiles	25.3	11.1	12.0	18.1	32.0

Source: NBS

## CONSUMER SERVICES – Gaming

Top pick: **Galaxy Entertainment**

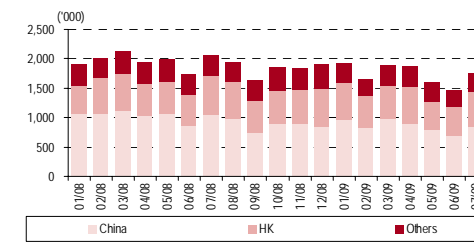
HK listed – Neutral

- Gross gaming revenue rose 15% YoY in August to a record monthly high of MOP11.2bn, according to the Macau Daily News. Revenue for 7M09 was still down about 7.3%. The record-high revenue in August was possibly due to the relaxation of visitor entries from Guangdong Province, aggressive casino promotions and receding impact of the Type-A H1N1 flu. Gross gaming revenue in July rose 3% to MOP9,570m, which marked the first year-on-year rise in monthly figures.
- Macau's visitor arrivals in July fell 14.8% to 1.76m. Total visitor arrivals in 7M09 dropped 11.9%, among which those from the mainland declined 17.5%, arrivals from Hong Kong dipped 2.3%, and those from other areas slid 10.7%.
- The Macau government announced in August that regulations for a junket commission cap level will take effect from September. The market generally expected the commission cap to be 1.25% of the VIP rolling chips, as agreed by the six gaming licence-holders in July.

### Melco International (0027.HK/HK\$2.50) – SELL

Melco International's associate Melco Crown reported its July operational statistics: VIP rolling turnover at the City of Dreams totalled US\$2.65bn, up 36% MoM. Mass-market turnover drop increased 33% to US\$132m, still behind the company's target of US\$200m each month. Based on 353 mass-market tables in operation, average net win per table was US\$2,000-2,200 compared with the industry average of US\$3,000. At Altira, monthly rolling turnover recovered to HK\$25bn from HK\$21bn in June and HK\$23bn in 1Q09.

### Macau Visitor Arrivals



Source: CEIC

### Key Statistics

Gross revenue from games of fortune						
MOP m	2Q08	3Q08	4Q08	2008	1Q09	2Q09
VIP baccarat	20,100	17,255	15,616	73,772	16,828	16,287
YoY %	52	26	(8)	32	(19)	(19)
Slot machines	1,395	1,426	1,478	5,653	1,533	1,533
YoY %	69	63	30	57	13	10
Others	7,390	7,306	6,984	29,348	7,658	7,588
YoY %	33	26	5	24	(0)	3
<b>Total</b>	<b>28,885</b>	<b>25,987</b>	<b>24,078</b>	<b>108,773</b>	<b>26,019</b>	<b>25,408</b>
YoY %	48	28	(3)	31	(13)	(12)

Source: CEIC

**ENERGY**

**Top pick: PetroChina**

**HK listed – Overweight  
A shares – Overweight**

- Oil price fluctuated within a relatively narrow range in August. The spot price of ICE Brent traded between US\$70-75/bbl for almost the entire month before closing at US\$73/bbl.
- The prices of Asian benchmark oils weakened significantly relative to those of global benchmarks in August. The price of Minas (the benchmark for Daqing oil) weakened from a US\$4.8/bbl premium to that of ICE Brent to a US\$1.3/bbl discount. The price of Duri (the benchmark for Shengli oil) also weakened from a US\$0.1/bbl premium to that of ICE Brent to a US\$7.2/bbl discount.
- In August, the median settlement price of Datong high-grade coal at Qinhuangdao edged up 0.8% MoM to Rmb603/tonne and that of Shanxi high-grade coal also rose 1.8% to Rmb575/tonne. The coal inventory at Qinhuangdao fell 13% to 5.1m tonnes by the end of August. The spot price of thermal coal at Newcastle, Australia, dropped 4.8% to US\$72.5/tonne.
- On 2 September, NDRC raised the ex-factory prices of gasoline, diesel and jet fuel by Rmb300/tonne each to Rmb6,810/tonne, Rmb6,070/tonne and Rmb5,070/tonne respectively.

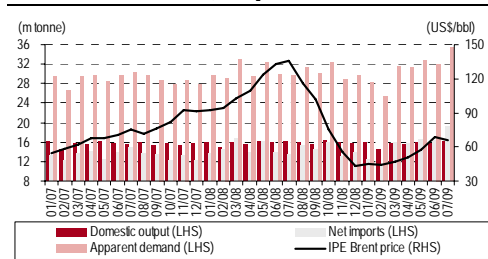
**COSL (2883.HK/HK\$7.14; 601808.SS/Rmb14.45) – BUY (H) / HOLD ↓ (A)**

COSL's interim earnings fell 33% YoY on an impairment loss of Rmb820m against the former Awilco assets. The impairment loss mainly arose from the delayed delivery of three semi-submersible rigs ordered by Awilco and deterioration in the operating environment. We have reduced our 2009-11 earnings forecasts by 15%, 5% and 24%, respectively. We have also downgraded its A shares from **BUY** to **HOLD**. Our target prices are HK\$7.49 for its H shares and Rmb14.37 for the A shares.

**Sinopec (0386.HK/HK\$6.82; 600028.SS/Rmb11.78) – BUY (H&A) ↑**

Sinopec's interim earnings jumped 3.3x YoY to Rmb33.2bn on a sharp turnaround in its refining segment from the huge loss last year. We have raised our 2009-11 earnings forecasts by 23-38% on the better-than-expected performance of its downstream segments. We have upgraded its A shares from **HOLD** to **BUY**. Our target prices stand at HK\$8.51 for its H shares and Rmb15.80 for the A shares.

**Crude Production, Import & Demand**



Sources: NBS, China Petrochemical & Chemical Industry Association, Bloomberg

**Key Statistics**

	08	09E	10E	Feb09	Mar	Apr	May	Jun	Jul
<b>YoY % Output</b>									
Crude oil	1.8	(1.4)	2.7	(3.8)	(1.1)	1.2	(0.9)	(1.6)	(0.2)
Natural gas	18.8	9.9	9.0	4.0	0.7	11.0	(8.0)	(12.4)	14.0
Refining throughput	4.1	1.5	3.0	(5.7)	1.7	7.5	12.3	7.8	9.3
Coal	7.5	4.9	7.9	38.3	27.1	(22.6)	(1.3)	24.2	(6.2)
<b>Imports</b>									
Crude oil	9.6	5.1	6.4	(17.9)	(5.6)	13.6	5.5	14.0	42.4
<b>Price</b>									
IPE Brent (US\$/bbl)	98.5	62.7	77.6	44.0	47.3	51.2	57.5	69.0	65.6

Sources: NBS, China Petrochemical & Chemical Industry Association, Bloomberg, BOCI Research estimates

**FINANCIALS (China)**

**Top pick: ICBC**

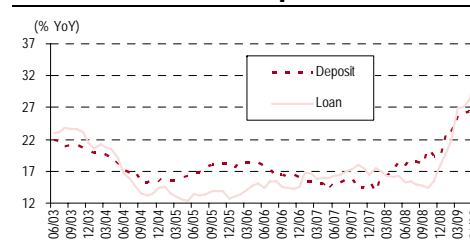
**HK listed – Neutral  
A shares – Neutral**

- China's listed banks announced their results in August, with aggregate net profit down 3% YoY to Rmb223bn. 2Q09 net profit grew 2.67% YoY and 6.78% QoQ. Total net incremental loans in 2Q09 amounted to Rmb1.77trn, among which discounted bills accounted for less. The change in the loan mix also led to a NIM of 2.12% in 2Q09, higher than our previous estimation of 2.08%. We also note that fee income in 2Q09 came in better than our expectation due to higher consultancy and bank card fees. Looking ahead, we estimate that all listed banks will post decent growth in 3Q09 due to a slight NIM recovery, steady fee income growth and lower provisions. We reiterate our NEUTRAL rating for the China banking sector.

**ICBC (1398.HK/HK\$5.63; 601398.SS/Rmb4.80) – BUY**

Industrial and Commercial Bank of China (ICBC) posted net profit of Rmb66.4bn for 1H09, up 2.9% YoY, mainly due to lower provision expenses. However, its net profit in 2Q09 amounted to Rmb31.3bn, down 11% QoQ and lower than our estimate due to rising expenses. We believe that NIM will recover in 2H09 on the back of loan mix changes, a rise in demand deposits and an increase in the interbank rate. ICBC also recorded a 15% YoY growth in fee income in 1H09 on the back of its strong investment bank business. We still expect total fee income to maintain high growth, driven by the wealth management business. Looking forward, we estimate that ICBC will post a decent growth in 3Q09 on the back of NIM recover and lower provision. Our rating for the H and A shares is **BUY** in view of its strong capital base and decent growth due to fee income.

**Growths of Loans & Deposits**



Sources: NBS

**Key Statistics**

	08	09E	Feb09	Mar	Apr	May	Jun	Jul
New incremental loans (Rmb bn)	4,910	9,500	1,071	1,893	592	665	1,530	356
Deposit (% YoY)	20.0	28.0	23.0	25.7	26.2	26.7	29.0	28.5
Lending (% YoY)	19.0	31.0	24.2	29.8	29.7	30.6	34.4	33.9
7-day inter-bank lending rate (%)	1.2	1.0	0.9	0.8	0.9	0.9	0.9	1.3
Excess deposit reserve ratio (%)	5.1	1.4	n.a	2.3	n.a	n.a	n.a	n.a
NPLs (%)	2.5	1.7	n.a	2.0	n.a	n.a	1.8	n.a

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

## FINANCIALS (Hong Kong)

Top pick: **BOCHK**

HK listed – Neutral

- In July, new residential mortgage loans drawn down reached HK\$26bn, the highest amount since the property market plunge in 1997. Total outstanding mortgage loan meanwhile grew 1.9% MoM to HK\$613bn.
- According to mReferral, market shares for new home mortgages in July 2009 stood at 23.9% for BOCHK, 19.6% for HSBC, 15.3% for Hang Seng Bank, 13.9% for Standard Chartered, 4.4% for DBS, 3.4% for BoCom, 3.2% for CCB Asia, 2.5% for BEA, 2.3% for Wing Hang Bank and 2.1% for ICBC Asia.

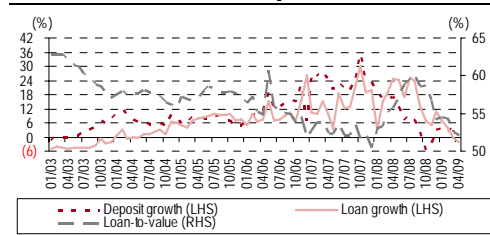
### BOCHK (2388.HK/HK\$16.20) – BUY

BOCHK reported a strong set of 1H09 results as its net profit amounted to HK\$6.69bn, beating both our expectation and Bloomberg consensus. Its core operating performance came in strong with fee income remaining robust, insurance operation showing improved profitability and asset quality better than expected. Impairments in securities were also lowered due to the improved market. Although we expect to see more impairments coming from the Lehman Brothers mini-bond repurchase plan in 2H09, we still believe BOCHK has what it takes to deliver strong growth in core earnings, so we revise up our forecasts accordingly.

### ICBA Asia (0349.HK/HK\$16.16) – BUY

ICBC's 1H09 net profit grew 1.5% YoY to HK\$930.1m, better than consensus and our expectation. Despite the still weak interest and fee income, the bank managed to benefit from trading income and various gains. Looking ahead, we see significant growth potential (organic and inorganic) when economic conditions normalise.

#### Growths 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

Top pick: **China Life Insurance**

HK listed – Neutral

A shares – Neutral

- Total accumulative premium income of China's insurance sector amounted to Rmb679bn in 7M09, up 6.6% YoY. Non-life insurers posted 19.1% accumulative premium growth to Rmb176bn, while life-insurance companies recorded 2.9% premium growth to Rmb503bn. In July, Ping An Insurance maintained its high growth of 35.9% in total premium, while China Life's premium income continued to slow down, with a further 8.4% decrease in its premium in the same month. We expect China Life to post a positive growth trend in 9M09. Our **Neutral** rating on the insurance sector remains intact.

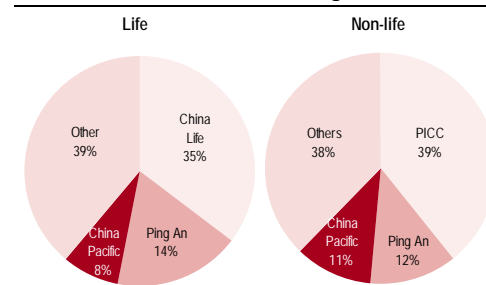
### China Ping An (2318.HK/HK\$61.00, 601318.SS/Rmb49.19) – HOLD (H); BUY (A)

Ping An posted a 45% net profit decline in 1H09 due to a product margin squeeze, rising administrative expenses and tax provisions. However, it reported strong growth of 37% in its new business value on the back of rapid premium income expansion. Our target prices stand at HK\$65.00 for its H shares and Rmb59.00 for the A shares.

### China Life (2628.HK/HK\$33.80; 601628.SS/Rmb27.50) – HOLD (H); NR (A)

China Life registered net profit of Rmb18,226m in 1H09, representing a 15.08% rise and 5% higher than our forecast. Its growth was mainly driven by the surge in investment income from the bullish capital markets during the period. We assign an appraisal value of Rmb32.00/share as of end-2009 with a new business multiple of 28x. Our target price of HK\$36.32 is against 1x the appraisal value for the H shares. We recommend investors buy when its share price slumps below the A-share market correction.

#### Market Share Breakdown – June 2009



Sources: CIRC

#### Insurance Premium Growth

(Rmb bn)	07	08	Feb09	Mar	Apr	May	Jun	Jul
Non-life insurance premiums	199	234	17	25	26	23	30	25
Life insurance premiums	494	745	81	90	60	59	73	55
<b>Total insurance premiums</b>	<b>693</b>	<b>978</b>	<b>98</b>	<b>115</b>	<b>86</b>	<b>81</b>	<b>103</b>	<b>80</b>
<b>Growth rate (%)</b>								
Non-life insurance premiums	28	17	24	13	20	19	22	39
Life insurance premiums	22	48	18	2	0	(5)	(5)	(3)
<b>Total insurance premiums</b>	<b>23</b>	<b>39</b>	<b>19</b>	<b>4</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>7</b>

Sources: Bloomberg, Company data, BOCI Research estimates

**MEDIA**

**Top pick: TVB**

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

- The mainland government has directed all political newspapers to segregate their editorial functions from other commercial undertakings (such as circulation and advertising), but general newspapers are allowed to be corporatised. All reforms are expected to be completed by end-2011, but private capital is still banned.

**TVB (0511.HK/HK\$33.85) – BUY**

While we cut our full-year profit forecast following the worse-than-expected interims, we remain confident of the company's long-term prospects and our target price stands at HK\$36.00.

**Sichuan Xinhua Winshare (0811.HK/HK\$2.90) – BUY**

We trimmed our full-year profit estimate in view of its flat interim results. We see the company acquiring a publisher by the end of this year or early next year.

**Clear Media (0100.HK/HK\$3.32) – BUY**

We have lowered our full-year forecast and our current target price is HK\$4.50.

**Shanghai Xinhua Media (600825.SS/Rmb10.31) – SELL**

We cut our full-year profit forecast by 37% and our current target price is Rmb8.73.

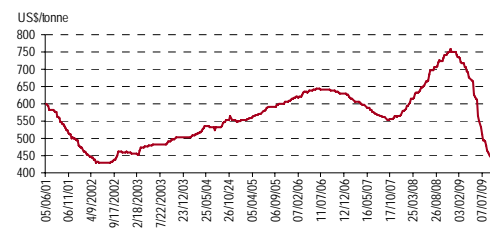
**i-Cable Communications (1097.HK/HK\$0.90) – SELL**

Although the interim results were in line, the company would just be barely profitable this year.

**SCMP Group (0583.HK/HK\$1.22) – SELL**

SCMP Group warned of a loss for 1H09 due to a significant revenue decline.

**Newsprint Prices**



Sources: Bloomberg

**Key Statistics**

	(% YoY)	07	08	09E	Apr09	May	Jun	Jul	Aug
Newsprint (US\$/mi)		502	550	594	566	570	578	590	591
Ad spend (HK\$m)		14,312	16,423	19,250	1,410	n.a.	n.a.	n.a.	n.a.
Circulation* (k)		1,024	1,013	998	n.a.	n.a.	n.a.	n.a.	n.a.
Readership* (k)		3,966	3,407	3,380	n.a.	n.a.	n.a.	n.a.	n.a.
i-Cable TV ARPI		230	232	226	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: Jiangxi Copper**

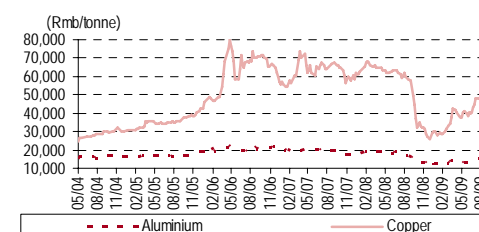
**HK listed – Neutral  
A shares – Outperform**

- The recent liquidity tightening in the mainland has led to weak metal prices and the de-stocking of metals has commenced since mid-August.
- Steel prices saw continued corrections with a steeper price decline for long products than flat ones. Rebar slid 11.3% MoM to around Rmb3,737/tonne, while wire rod dropped 12.4% to Rmb3,680/tonne. Hot-rolled sheets fell 7.3% to Rmb3,864/tonne.
- Non-ferrous metals had a good run in the Shanghai Futures Exchange, with copper up 12.8% MoM, nickel up 16.9% and molybdenum up 12.5%. We prefer non-ferrous metal stocks to steel plays on the belief that the global demand recovery and tighter supply will drive non-ferrous prices ahead. Further steel-price correction in the mainland will dampen the share-price performance in the near term.
- On the assumption of sustained domestic demand recovery, metal prices should rebound in November after the de-stocking is over.

**Jiangxi Copper (0358.HK/HK\$17.48; 600362.SS/Rmb35.41) – BUY**

In line with our expectation, Jiangxi Copper reported a 59% YoY drop in 1H09 net profit to Rmb1,271m, or 33% of our full-year forecast of Rmb3,856m. However, its interim results were higher than consensus estimates as the first half already accounted for 72% of the full-year forecast of Rmb1,764m. Copper sales represented 55.1% of its operating profit in 1H09, while gold and silver together accounted for 36.8% and sulphuric acid 1.9%. We believe copper prices will remain high given the tight global supply, exacerbated by a time lag in the start-up of production facilities. Our target prices are HK\$26.29 for its H shares and Rmb54.69 for the A shares.

**3-month Futures Aluminium and Copper**



Sources: LME

**Key Statistics**

	(% YoY)	07	08	09E	Apr09	May	Jun	Jul	Aug
Quick speed wire rod		(5.0)	15.0	(19.9)	(35.4)	(40.1)	(38.1)	(32.6)	(21.6)
Ord. Plate -40mm		(12.0)	17.0	(27.7)	(44.6)	(47.6)	(46.7)	(43.1)	(35.8)
Hot-rolled sheet		(10.0)	10.0	(22.7)	(38.1)	(40.9)	(39.3)	(35.1)	(28.3)
Cold-rolled sheet		(19.0)	5.0	(21.7)	(36.5)	(38.3)	(38.3)	(31.5)	(21.5)
Galvanised steel		(13.0)	1.0	(17.2)	(36.0)	(38.0)	(36.8)	(34.5)	(25.6)
Aluminium		21.0	(5.0)	(35.6)	(24.9)	(30.4)	(26.0)	(25.6)	(15.7)
Copper		77.0	0.0	(52.1)	(39.8)	(40.6)	(35.8)	(33.9)	(20.5)

Sources: Bloomberg, Company data, BOCI Research estimates

## PHARMACEUTICALS

Top pick: *Tianjin Tasly*

**HK listed – Overweight**  
**A shares – Overweight**

- On 18 August, the State Council mapped out and initiated the tasks for setting up the country's essential drug system.
- According to our statistics, revenue and net profit of all pharmaceutical listcos increased 7.0% and 36.6%, respectively, in 1H09.

### Work on essential drug system officially kicks off

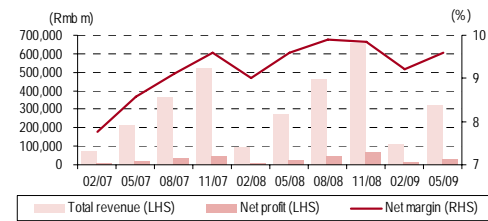
The State Council issued the documents *Comment on the Implementation of the National Essential Drug System, Management of the National Essential Drug List (Provisional) and National Essential Drug List (for Primary Healthcare Institutions) [2009]*. The national essential drug system enforces effective management over such areas as the compilation of an essential drug list, production and supply, procurement, rational drug usage, pricing administration, reimbursement, quality control, supervision and evaluation.

In our view, the inclusion of exclusive drugs in the drug list is positive for related listcos. Those listcos with many drugs included in the list will also benefit from the policy. The guidance for the pricing of essential drugs has yet to be released.

### Pharmaceutical sector keeps growing

Our statistics show that the attributable revenue and net profit of pharmaceutical listcos rose 7.0% and 36.6% in 1H09. Although the rate of revenue growth was lower than the 9.36% in 1H08, net profit growth came in higher than last year's 0.34% due to wider margins and a lower income-tax ratio. We estimate that the growth rates will be higher in the second half due to the launch of various auxiliary policies for China's medical reform.

#### 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 Yinjian	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: *Poly HK (H), Poly Real Estate (A)*

**HK listed – Overweight ↑**  
**A shares – Overweight**

- The average selling price of commodity houses in 70 mainland cities rose 1.0% YoY in July, 0.8ppt higher than that in June, according to the NDRC. Cities such as Ningbo, Yinchuan and Jinzhou led the way for price hikes, up 6.4%, 5.4%, and 5.2%, respectively.

### China Vanke (000002.SZ/Rmb11.17; 200002.SZ/HK\$9.85) – BUY (A); BUY (B)

China Vanke posted net profit of Rmb2.52bn in 1H09, up 22.5% YoY. By end-1H09, the company had already locked in 100% of our estimated revenue for 2009 and 5% for 2010.

### Overseas Chinese Town Holdings (000069.SZ/Rmb18.85) – BUY

Net profit of Overseas Chinese Town Holdings rose 4.14% YoY in 1H09 to Rmb450m while revenue surged 67.27% to Rmb1.305bn. Revenue from property sales leapt 304%. However, revenue from tourism and hotels saw a slight drop due to the financial crisis.

### China Merchants Property (000024.SZ/Rmb25.36; 200024.SZ/HK\$16.54) – HOLD (A); BUY (B)

China Merchants Property (CMP) delivered 123% YoY growth in net profit and a 99% gain in revenue during 1H09, which met market expectations. About 620,000sqm of area was sold in 1H09 for Rmb7.2bn, or 72% of its full-year sales target.

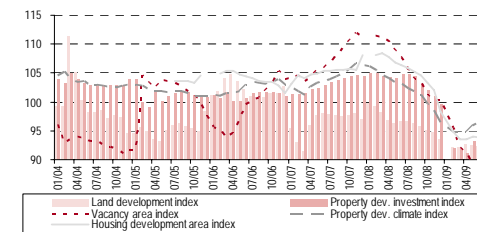
### China Overseas Land & Investment (0688.HK/HK\$16.98) – HOLD

COLI's 1H09 net profit grew 32% YoY to HK\$3.04bn, at the upper end of market consensus. Contribution from property grew 10.5% on the back of a 99% increase in booked area, although ASP dropped 26%. Unbooked contract sales amounted to HK\$29.5bn at end July.

### Sino-Ocean Land (3377.HK/HK\$8.05) – BUY

Sino-Ocean Land's 1H09 net profit rose 23.6% YoY to Rmb670m, exactly 50% of our full-year estimate for 2009. Total contract sales amounted to Rmb7bn, representing more than double over the same period last year and 88% of the company's full-year sales target.

#### Property Indices



Sources: Soufun.com

#### Key Statistics

(YoY %)	06	07	08	J-F09	Mar	Apr	May	Jun	Jul
Property investment	23	30	21	1	7	6	12	18	20
Residential property investment	26	32	23	1	6	4	7	15	13
Commodity housing starts (area)	17	21	3	(15)	(18)	(14)	(18)	12	1
Commodity housing completion area	9	10	1	29	23	30	6	21	36
Commodity housing sales area	38	26	(19)	(0)	16	39	51	51	68
Commodity housing sales amount	55	44	(19)	11	36	64	76	77	100
Average selling prices	13	15	(0)	12	14	15	16	16	17

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

**PROPERTY (Hong Kong)**

**Top pick: SHKP**

**Developers – Neutral**

- The number of sale and purchase agreements in Aug decreased 5.7% MoM to 13,245 but jumped 106.9% on a year-on-year basis. The total consideration of sales and purchase agreements in August decreased 0.8% MoM to HK\$53.2bn, but it also surged 195% year-on-year.
- We reaffirm our **Neutral** rating for Hong Kong developers and believe the sector may remain volatile in the near term.

**MTR Corp (0066.HK/HK\$27.40) – HOLD**

1H09 results came in better than expected, and the stock is currently fairly valued with an only 9% upside from our target price of HK\$30.70.

**Cheung Kong (0001.HK/HK\$93.10) – HOLD**

1H09 results in line, we upgrade our 2009E EPS by 52% after factoring in its HK\$3.9bn revaluation surplus and HK\$4.5bn pre-tax earnings from Hutchison Whampoa Ltd (HWL) following the sale of a 51.3% stake of Partner Communication. The stock is fairly valued at a 19% discount to its forward NAV.

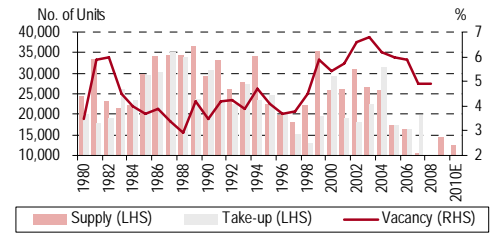
**Henderson Land (0012.HK/HK\$48.30) – HOLD**

Underlying profit dropped 38% YoY to HK\$3.5bn, 7% below our expectation. We reaffirm our HOLD rating, and our target price stands at HK\$51.40.

**Kerry Properties (0683.HK/HK\$37.00) – HOLD**

1H09 earnings came in 11% below expectations. Our current target price is HK\$38.70.

**Private Residential Property Completions & Sales**



Sources: Housing Department, Centaline

**Key Statistics**

	07	08	09E	Feb09	Mar	Apr	May	Jun	Jul
CCI	1	25	(8)	(20)	(20)	(15)	(11)	(8)	-
CCL Index	3	24	(15)	(20)	(17)	(12)	(9)	(7)	(4)
Trans. No.	(20)	47	(22)	(65)	(27)	2	29	33	57
Trans. Val	(20)	67	(21)	(69)	(35)	20	30	1	64
Primary trans	(19)	40	(48)	(48)	(66)	276	604	51	263
Unsold stock	12	(58)	7	43	33	42	37	26	31

Sources: Centaline, Midland, BOCI Research estimates

**SMALL/MID-CAP**

**Top pick: China Dongxiang**

**HK listed – Overweight**

- Anta Sports announced its plan to acquire an 85% stake of Fila brand in China from Belle International for Rmb332m. Belle recognised a net loss of around Rmb40m in 2008 from the Fila brand. We believe this acquisition represents a big challenge for the management's execution ability.

**Ports Design (0589.HK/HK\$18.28) – BUY**

Ports Design posted a net profit increase of 12.6% YoY to Rmb206m in 1H09, thank to 5.5% top-line growth and a 1.7ppt improvement in net margin. Excluding one-off items related to foreign exchange, core profit rose 19.4% to Rmb208m, accounting for about 44% of our full-year forecasts. Retail sales grew 10.2%, while the OEM and ODM segments posted a double-digit year-on-year decline in the first half. Same-store sales grew 13% in the first half. We think this will improve in second half due to the weak comparison basis last year. Given the strong pricing power of the company, we anticipate the margins for its principal brand Ports will continue to improve. We expect its high inventory level to decline gradually, considering the company will increase the number of factory outlets going forward. Based on 19x 2010E P/E, the historical average P/E, our target price stands at HK\$21.60.

**Li Ning (2331.HK/HK\$22.35) – BUY**

Li Ning reported a rise in 1H09 net profit of 41.6% YoY to Rmb473m, thanks to 32.4% growth in revenue and a 0.8ppt improvement in net margin. The 1H09 earnings accounted for 55% and 54% of our forecast and full-year consensus, respectively. We see badminton products, under both LI-NING and Kason brands, as another key growth driver for the company going forward. The management indicated more spot orders starting from 3Q09 and expects the trend to continue in 1H10. Order value received on trade fairs for 1Q09 increased 11.6%, consisting of 3.3% and 8.7% ASP increases and 1.9% and 7.7% volume increases for footwear and apparel products, respectively. We expect more spot orders to occur, considering the gradually improving macro-economic situation. Pegging 21.5x 2010E P/E, the historical average, our current target price is HK\$25.00.

**Ports Design – Profit & Loss**

Year ended 31 Dec	2007	2008	2009E	2010E	2011E
Revenue (HK\$)	1,355	1,489	1,722	2,110	2,641
Change (%)	28	10	16	23	25
Net profit (Rmb)	397	422	473	568	671
Fully diluted EPS (Rmb)	0.729	0.758	0.836	1.005	1.187
Change (%)	55.1	4.1	10.3	20.1	18.1
Core EPS (Rmb)	0.622	0.712	0.836	1.005	1.187
Change (%)	59.4	14.6	17.4	20.1	18.1
Fully diluted P/E (x)	22.0	21.1	19.2	16.0	13.5
Core P/E (x)	25.8	22.5	19.2	16.0	13.5
CFPS (Rmb)	0.55	0.92	0.94	1.33	1.37
P/CF (x)	29.3	17.4	17.1	12.0	11.7
EV/EBITDA (x)	21.3	18.0	14.9	11.8	9.5
DPS (Rmb)	0.937	0.210	0.759	0.607	0.717
Yield (%)	5.8	1.3	4.7	3.8	4.5

Sources: Company data, BOCI Research estimates

**Li Ning – Profit & Loss**

Year ended 31 Dec	2007	2008	2009E	2010E	2011E
Revenue (HK\$)	4,349	6,690	8,578	10,544	12,947
Change (%)	37	54	28	23	23
Net profit (Rmb)	474	721	907	1,085	1,345
Fully diluted EPS (Rmb)	0.451	0.687	0.858	1.026	1.272
Change (%)	78.3	52.2	25.0	19.5	24.0
Core EPS (Rmb)	0.451	0.687	0.858	1.026	1.272
Change (%)	78.3	52.2	25.0	19.5	24.0
Fully diluted P/E (x)	42.2	27.7	22.2	18.5	15.0
Core P/E (x)	42.2	27.7	22.2	18.5	15.0
CFPS (Rmb)	0.36	0.81	1.16	1.13	1.29
P/CF (x)	52.3	23.4	16.4	16.9	14.8
EV/EBITDA (x)	28.2	18.9	13.3	10.6	8.6
DPS (Rmb)	0.232	0.498	0.437	0.522	0.647
Yield (%)	1.2	2.6	2.3	2.7	3.4

Source: Company data, BOCI Research estimates

**TECHNOLOGY**

**Top pick: Comba Telecom**

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

- Global LCD Monitor panel shipments increased 26% YoY to 17.9m in July, and LCD TV shipments also posted 69% YoY growth to 13.5m, according to Display Search.
- North America semiconductor equipment bookings in July rose 62% MoM to US\$570m and billings increased 22% MoM to US\$538m. The book-to-bill ratio thus further increased from 0.80 in June to 1.06 in July.

**Comba Telecom (2342.HK/HK\$6.34) – BUY**

Comba Telecom reported much better than expected 1H09 results, as it posted a 223% YoY surge in earnings, which was mainly due to the 112% growth in revenue and the 5% decline in SG&A over turnover ratio. We expect Comba's growth driver to shift from antennas to wireless coverage in 2H09. Its back-end loaded nature offers secular growth going forward.

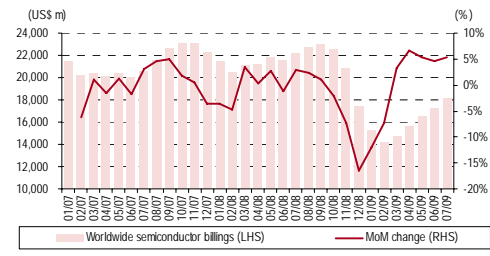
**Tencent (0700.HK/HK\$122.30) – BUY**

Tencent reported solid quarterly results, with net profit up 85% YoY. Non-game IVS defied the weaker seasonality factor and posted 8% QoQ growth. We believe that user stickiness to the instant messenger platform has been enhanced, and its online games in the pipeline out-number those in operation. We also believe Tencent is likely to create another platform for wireless terminals.

**BYD (1211.HK/HK\$54.20) – BUY**

BYD's auto business is benefiting from economies of scale, as evidenced by the significant operating margin expansion from 9.5% in 1H08 to 14.4% in 1H09. We also see its handset business bottoming out in 2H09. The orders gains from domestic customers will help the company achieve a gradual recovery ahead.

**Worldwide Semiconductor Billings**



Sources: SIA

**Key Statistics**

Semiconductor sales revenue		07	08	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
America (US\$ bn)		44.0	39.0	10.2	10.4	9.9	9.0	7.6	8.3
Europe (US\$ bn)		39.1	39.6	10.2	10.2	10.3	9.1	6.6	6.5
Japan (US\$ bn)		45.5	49.3	12.3	12.5	12.6	12.0	8.5	8.3
Asia Pacific (US\$ bn)		123.5	127.4	30.4	31.5	35.1	30.6	21.5	26.3
<b>Total</b>		<b>252.1</b>	<b>255.3</b>	<b>63.1</b>	<b>64.6</b>	<b>67.9</b>	<b>60.8</b>	<b>44.2</b>	<b>49.4</b>

Capacity & utilisation rate		3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Foundry capacity (wafer start per weekx1000)		307	313	298	308	290	294	296	288
Foundry utilisation rate (%)		94	94	94	93	86	53	50	83
Total IC capacity (wafer start per weekx1000)		2,093	2,118	2,152	2,198	2,223	2,187	1,995	1,921
Total IC utilisation rate (%)		90	90	91	89	87	68	57	78

Sources: SIA, SICAS

**TELECOMS**

**Top pick: China Mobile**

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

- The State Administration of Radio, Film and Television has issued a "Notice regarding issues on Regulating Audio/Video Programmes on the Internet", which requires any service that provides audio/video programmes on a TV set through a set-top box or Internet connection to obtain a licence from SARFT.

**China Mobile (0941.HK/HK\$77.55) – BUY**

China Mobile in its interim results that net income grew 1.4% YoY to Rmb55.3bn, at the low end of market forecasts. Our current target price is HK\$102.00.

**China Telecom (0728.HK/HK\$4.05) – HOLD**

We have raised our current year profit forecast by 6% to Rmb13.1bn following the better than expected interim results. Our target price stands at HK\$4.20.

**China Unicom (0762.HK/HK\$10.74; 600050.SS/Rmb6.43) – SELL**

The 42% YoY decline in interim profit to Rmb6.33bn was more severe than we thought, and the iPhone agreement has been fully priced in. We raised our target prices for both the A shares and the red chip company but reaffirmed our SELL rating for both given the uncertainties brought about by intensifying competition.

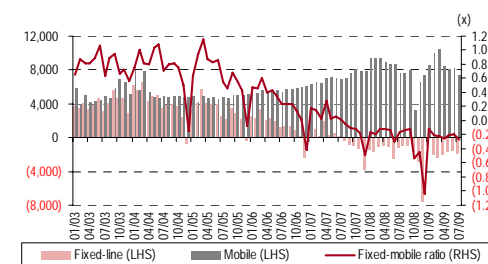
**Hutchison Telecom International (2332.HK/HK\$1.66) – SELL**

Interim results were in line and the sale of Israeli subsidiary was priced at market, hardly exciting. The remaining operations in Southeast Asia are all start-ups with several years of losses ahead, making the stock a very high-risk game. Using the DCF method, our target price is HK\$2.20, equivalent to the Partner sale price.

**PCCW (0008.HK/HK\$2.03) – SELL**

PCCW reported a modest 5% YoY net profit growth to HK\$687m (EPS: HK\$0.101) for 1H09, but we are concerned about the weakening underlying revenues.

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



Sources: MII

**Key Statistics**

(m subscribers)	2008	2009E	2010E	Mar09	Apr	May	Jun	Jul
National mobile sub.	641.2	763.0	857.5	670.3	678.8	686.9	695.2	702.7
net adds	93.9	121.8	94.5	10.6	8.5	8.1	8.3	7.5
CM total subscribers	457.2	532.0	584.3	477.2	483.0	488.1	493.1	497.7
net adds in period	87.9	74.7	52.3	6.5	5.8	5.1	5.0	4.6
CU-G total sub.	133.4	146.9	167.3	137.7	138.8	139.5	140.4	141.1
net adds in period	14.2	13.6	20.4	1.8	1.1	0.7	0.9	0.7
CU-C total sub.	27.9	55.6	77.4	32.8	34.7	36.9	39.3	41.7
net adds in period	(13.5)	27.7	21.8	2.2	1.9	2.2	2.4	2.5
National broadband sub.	83.4	103.9	117.0	88.1	89.8	91.6	93.5	95.4
net adds in period	17.0	20.5	13.1	1.7	1.7	1.8	1.9	1.9
CT broadband sub.	44.3	52.0	59.0	46.8	47.5	48.2	49.1	49.9
net adds in period	8.6	7.8	7.0	0.9	0.7	0.8	0.8	0.8
CN broadband sub.	25.4	38.1	41.8	32.6	33.2	33.9	34.9	35.7
net adds in period	5.6	12.7	3.7	0.9	0.5	0.8	1.0	0.8
National fixed-line sub.	340.8	311.2	281.6	335	333	332	330	328
net adds	(24.6)	(29.6)	(29.6)	(2.4)	(2.1)	(1.7)	(1.6)	(2.0)

Sources: MII, Company data, BOCI Research estimates

## TRANSPORT – Aviation

Top picks: **Baiyun Airport, Air China**

**Airports – Overweight**  
**Airlines – Neutral**

- Domestic air traffic demand in the July peak season met our expectation. Domestic passenger volume increased 23.6% YoY, up 18.5% MoM. Domestic cargo volume posted mild growth while the international passenger and cargo demand decline kept narrowing.
- The NDRC announced on 1 September that the ex-factory price of jet fuel would be increased by Rmb300 to Rmb5,070 per tonne, equal to a 6.3% increase, effective 2 September. The jet fuel price for airlines reached around Rmb5,500/tonne after the price hike. We estimate the raised jet fuel price will increase the costs of the airlines industry by Rmb1.7bn in 2H09. We also anticipate the domestic jet fuel surcharge will be restored accordingly, but no details have been announced as yet.
- We reaffirm our **OVERWEIGHT** rating for airport sector. As for the airlines sector, we reiterate our NEUTRAL rating for both the H and A shares.

**Air China (0753.HK/HK\$4.54; 601111.SS/Rmb7.98) – BUY (H&A)**

Air China's revenue passenger kilometres (RPK) in June rose 13.8% YoY to 6,372m, while its passenger load factor (PLF) rose to 78.2%.

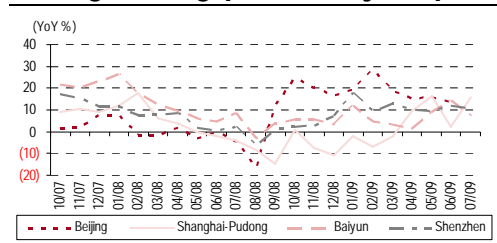
**Shenzhen Airport (000089.SZ/Rmb7.03) – HOLD**

Passenger throughput climbed 10.7% YoY in June, while aircraft movements increased 7.5% respectively. Cargo throughput edged up 1.0%.

**Baiyun Airport (600004.SS/Rmb8.92) – BUY**

Guangzhou Baiyun Airport posted stable growth in 1H09 despite the negative impact of the financial crisis and the H1N1 pandemic. Its attributable net profit edged up 1.47% to Rmb2.54bn, revenue rose 2.54% YoY to Rmb1.55bn and EPS came in at Rmb0.221. We maintain our earnings forecasts and our target price of Rmb12.32 is based on 23x 2010E P/E.

### Passenger Throughput YoY% - Major Airports



Sources: NBS, BOCI Research estimates

### Key Statistics

	07	08	Dec08	Jan09	Feb	Mar	Apr	May	Jun	Jul
<b>RPK YoY %</b>										
Air China	14	(2)	2	10	10	6	5	5	7	14
CEA	12	(6)	(4)	7	7	3	9	9	11	18
CSA	15	2	4	11	11	3	5	2	7	13
<b>PLF YoY %</b>										
Air China	77	75	74	77	77	74	76	71	73	78
CEA	70	71	68	70	72	70	73	69	70	72
CSA	73	74	72	75	78	76	76	72	73	75

Sources: Bloomberg, Company data, BOCI Research estimates

## TRANSPORT – Land

Top pick: **Ganyue Expressway**

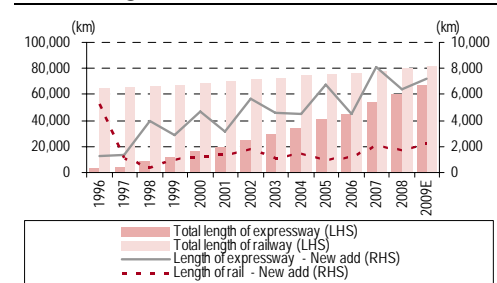
**HK listed – Neutral**  
**A listed – Neutral**

- Passenger transport volume for July reached 4.58m, representing a growth of 2.9% YoY. The passenger turnover volume got to 71.2bn, with an increasing of 26.3% YoY. In terms of daily turnover, it increased by 0.48bn kilometres MoM. Of all the bureaus over the country, the growth rate of Lanzhou, Jinan, and Beijing Bureaus was the fastest.

**Shenzhen Expressway (0548.HK/HK\$3.92; 600548.SS/Rmb5.27) – BUY**

Under CAS, net profit of Shenzhen Expressway climbed 12.5% to Rmb313.4m (diluted EPS: Rmb0.144), while gross revenue increased 12.4% to Rmb555.9m, generally in line with our expectations. Nanguang Expressway will be linked with the Shenzhen - Hong Kong Western Corridor and the Shenzhen western port area after the completion of Nanping (Phase II) in the future. We believe the connection of road networks will create synergies that will lead to better traffic flow and toll revenue. Traffic flow and volume on Qinglian road grew dramatically, primarily because the road surface work for the reconstruction into an expressway of the Fengtouleng - Lianzhou section and Fengbu - Jingkou section was completed in December 2008. During the reporting period, the sealing work was still in progress. From 1 July 2009, this completed section started to collect toll fees according to the expressway standard. We have an optimistic view of the underlined project and believe it will experience quite rapid growth over the next two years. The company plans to acquire the remaining 45% share of Jihe East Expressway for Rmb1.09bn, but the transaction has not been completed to date. If it can be before the end of the year, we estimate that it will be able to boost EPS by more than 5% in 2010. We raise our 2009 - 11 EPS forecasts for its H to Rmb0.294, Rmb0.346 and Rmb0.366, respectively. For the A shares, we anticipate EPS of Rmb0.253, Rmb0.298 and Rmb0.326. Based on 20x 2010E P/E, our target price for the A shares stands at Rmb7.00, and based on 12x 2010E P/E, that for the H shares is HK\$4.60. Our rating for both is **BUY**.

### Total Lengths of Railways & Expressways



Sources: MOC, CEIC

### Key Statistics

	08	09E	10E	Feb09	Mar	Apr	May	Jun
<b>Railway</b>								
Passenger carried (person, bn)	1,456	1,718	1,924	136	118	125	129	115
Passenger turnover (person-km, bn)	773	897	987	78	65	66	63	55
Freight carried (tonne, bn)	3,301	3,641	3,932	234	265	260	278	274
Freight turnover (tonne-km, bn)	2,512	2,592	2,800	173	211	204	207	202
FAI (Rmb bn)	402	480	720	0	20	42	37	49
<b>Road</b>								
Passenger carried (person, bn)	20.5	22.1	23.9	1.9	1.9	2.2	2.3	n.a
Passenger turnover (person-km, bn)	1,151	1,264	1,339	113	110	100	111	n.a
Freight carried (tonne, bn)	18.2	18.7	19.2	1.4	1.5	1.6	1.7	n.a
Freight turnover (tonne-km, bn)	1,135	1,317	1,357	103	118	264	293	n.a
FAI (Rmb bn)	733	913	1,095	0	59	72	88	130

Sources: CEIC, MOC, BOCI Research estimates

## TRANSPORT – Marine

Top pick: **COSCO Pacific**

HK listed – **Overweight** ↑

A shares – **Neutral** ↑

- The Baltic Dry Index (BDI) was down 27.7% MoM in August from 3,350 points to 2,421 points. The year-to-date average closing of the index was 2,342.1.
- The rate for very large crude carriers (VLCC) closed at WS25 in August, down 7.4% MoM from WS27. The year-to-date average closing was WS29.6.

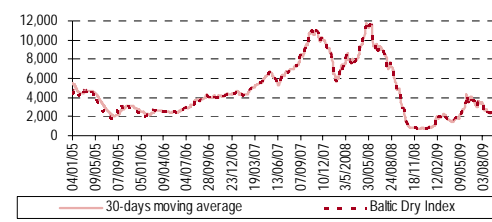
### COSCO Pacific (1199.HK/HK\$12.00) – BUY

We upgraded COSCO Pacific (CP) to BUY with a new target price of HK\$15.00 on the solid performance of its container leasing division amid the tough market environment in 1H09 and the positive impact from the market recovery on its terminal division. Taking into account our more positive assumptions for CP's leasing and terminal divisions, our updated forecast for China International Marine Containers, as well as the exceptional gains from the Rmb2bn sale of 49% interest in COSCO Logistics, we raise profit forecasts for CP by 47.2% to US\$276.8m for 2009 and 25.7% to US\$256.6m for 2010.

### China Shipping Development (1138.HK/HK\$10.40; 600026/Rmb12.55) – BUY (H); HOLD (A)

CSD's 1H09 net profit plunged 80.7% YoY to Rmb613.6m as turnover dropped 54.8% to Rmb4.1bn. The 1H09 net profit includes a Rmb26.5m gain from the disposal of five old vessels and Rmb32.5m subsidy income. Total shipment volume dropped 10.6% to 101.6bn tonne nautical miles (bn tnm). Taking into consideration CSD's 1H09 operating figures and assumption adjustments for shipment volume and rates, we cut our 2009 profit forecast by 35.4% to Rmb1.5bn for 2009 but raise our 2010 forecast by 3.7% to Rmb2.7bn. This is based on a cut in 2009 freight rate assumptions by 4.2% and an increase for 2010 by 0.3% and change in shipment volume assumptions by -2.8% and 10.4% for these two years. In view of the long-term development of CSD's new LNG business as well as expectations of a recovery for its operations in 2010, we upgraded our rating on CSD's H shares from SELL to BUY with our target price raised from HK\$6.80 to HK\$12.20. We only upgraded CSD's A shares from SELL to **HOLD** because of its relative high valuation. Our new target price stands at Rmb13.90.

#### Baltic Dry Index (BDI) Trend



Sources: Bloomberg

#### Key Statistics

% YoY	07	08	09E	Feb09	Mar	Apr	May	Jun	Jul
Shenzhen	10	2	(15)	(26)	(21)	(25)	(16)	(20)	(24)
Shanghai	25	7	(10)	(18)	(9)	(19)	(12)	(18)	(9)
Dalian	20	18	5	(9)	(6)	(6)	1	3	2
Tianjin	28	20	7	3	6	5	5	(3)	11
Qingdao	24	6	4	2	3	2	3	0	2
Xiamen	18	8	(5)	(12)	(8)	(16)	(13)	(24)	(11)
Ningbo	30	16	(6)	(22)	(4)	(16)	(10)	(8)	(4)
Guangzhou	40	22	(12)	(22)	(14)	(8)	(7)	(1)	1

Sources: MOC, BOCI Research estimates

## UTILITIES (China)

Top pick: **China Everbright Int'l**

HK listed – **Overweight**

A shares – **Neutral** ↓

- Domestic power generation continued to recover, recording a 4.8% YoY increase in July and a mere 0.7% drop in 7M09. As the August Purchasing Managers Index (PMI) had a robust showing of 54, we expect upcoming power generation to remain strong on an annual basis, but this may in turn decelerate due to the removal of the weather impact.
- Aggressive expansion in wind-power equipment and polysilicon manufacturing has led to severe overcapacity. We expect the per-MW wind-turbine prices and domestic solar-farm costs to drop further.
- Amendments to the 2006 renewable energy law have been proposed, highlighting unified macro-planning, compulsory grid off-taking and a dedicated renewable-energy development fund to subsidise tariffs.

### Nanhai Development (600323.SS/Rmb8.80) – HOLD

Nanhai's monopoly service areas of waste-to-energy (WTE) and sewage water treatment provide stability and a growth angle, whereas its expansion bottleneck may be a concern.

### China Resources Power (0836.HK/HK\$19.12) – BUY

China Resources Power (CRP) reported a 126% surge in 1H09 net profit, above our expectation. We have revised up our 2009 earnings forecast by 27%.

### Beijing Enterprise (0392.HK/HK\$38.45) – BUY

With a sufficient capital base and solid mid- and downstream gas assets, Beijing Enterprise is a highly stable and good-quality utility player. Our NAV estimate stands at HK\$43.70.

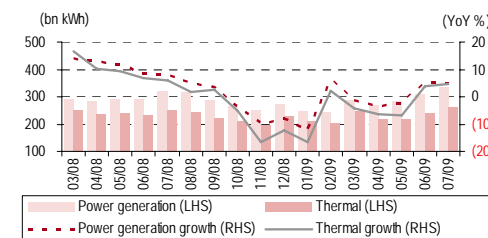
### Huadian Power (1071.HK/HK\$2.548; 600027.SS/Rmb5.12) – BUY (H); HOLD (A)

Huadian posted net profit of Rmb545m in 1H09, which met our forecast. We still see the stock as a cheap play on the demand recovery with the strong growth in its power assets and potential coal mines.

### China Everbright Int'l (0257.HK/HK\$2.95) – BUY

Net profit of China Everbright (CEI) surged 47% in 1H09. We have raised our 2009-11 EPS estimates on the WTE efficiency improvement and water tariff hike. The stock remains our top pick in the alternative energy and environmental sector.

#### Monthly Electricity Growth



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

#### Key Statistics

	2008	2009E	2010E	1H09	7M09
Power generation (bn kWh)	3,451	3,544	3,768	1,644	1,978
Power generation YoY%	5.7	2.7	6.3	(1.7)	(0.7)
Thermal YoY%	3.0	0.8	3.4	(4.8)	(3.5)
Hydro YoY%	20.0	9.7	18.4	15.7	13.1
Installed capacity YoY%	10.4	8.3	7.5	9.3	8.7
Utilisation hours	4,648	4,500	4,450	2,106	2,527
Thermal utilisation hours	4,885	4,691	4,640	2,236	2,665

Sources: Company data, BOCI Research estimates

UTILITIES (Hong Kong)

HK listed – Underweight

Top pick: CLP Holdings

■ Hong Kong utilities performed well amid the recent volatile markets. We continue to see the lack of meaningful near-term catalysts for local utilities despite their good defensiveness and stability.

HK & China Gas (0003.HK/HK\$18.32) – HOLD

Net profit of HK & China Gas (HKCG) increased 18.9% YoY to HK\$3bn in 1H09. We continue to see HKCG as well in progress to expand its piped-gas projects in the PRC in the coming 3-4 years, in addition to investing heavily in the new energy sector for longer-term growth. Our target price stands at HK\$18.00.

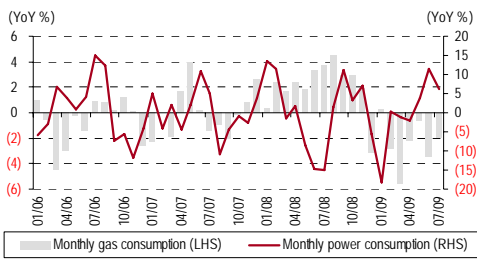
CLP Group (0002.HK/HK\$52.40) – HOLD

CLP Group's 1H09 net profit plunged 42.3% to HK\$3.2bn. We anticipate operational risks in Australia and thus attach lower asset valuations there. CLP is focusing on developments in Hong Kong and China such as gas supply, nuclear and renewable energy expansion, which offer support to its rating.

HK Electric (0006.HK/HK\$42.95) – SELL ↓

HK Electric posted a 16% drop in 1H09 net profit to HK\$2.67bn. Profit from its non-local operations more than doubled, accounting for one-third of the total, thanks to the inclusion of its new projects. It also gained from currency appreciation, which belied much of its book-value increase. We believe the spending on local operations may not see much upside and its overseas acquisitions lack visibility. We have lowered our NAV estimate to HK\$41.00.

Power and Gas Production/Consumption



Sources: Company data, BOCI Research estimates

CLP – Investment Summary

Year ended 31 Dec	2007	2008	2009E	2010E	2011E
Revenue (HK\$ m)	50,875	54,297	49,458	55,291	59,636
Change (%)	-	7	(9)	12	8
Net profit (HK\$ m)	10,694	10,423	7,697	8,420	8,684
Fully diluted EPS (HK\$)	4.441	4.328	3.196	3.496	3.606
Change (%)	-	(3)	(26)	9	3
Consensus EPS (HK\$)	-	-	3.423	3.639	3.688
Fully diluted P/E (x)	11.7	12	16.2	14.8	14.4
CFPS (HK\$)	8.02	5.02	6.14	7.25	7.51
P/CF (x)	6.5	10.3	8.4	7.1	6.9
EV/EBITDA (x)	8.4	8.1	9.8	9.2	8.8
DPS (HK\$)	2.48	2.479	2.205	2.342	2.344
Yield (%)	4.8	4.8	4.3	4.5	4.5

Sources: Company data, BOCI Research estimates

BOCI Stock Universe

China – HK

RIC Company	Y/E	Price (\$)	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\$)
<b>Automotive</b>																	
2357 AwiChina	Dec	2.62	13	150	29	4,745	0.04	0.13	70.0	19.9		252	0.0	0.0	XU Minle	Buy	3.30
1114 Brilliance Auto	Dec	0.95	(19)	135	49	2,127	0.05	0.06	20.9	16.7	33	25	0.0	0.0	WANG Yusheng	Sell	0.76
0203 Denway Motor	Dec	3.60	(10)	49	127	16,780	0.35	0.38	10.3	9.5	11	8	2.5	2.6	Eric HU	Buy	4.55
0489 Dongfeng Motor	Dec	8.20	(7)	228	203	23,315	0.65	0.75	12.7	10.9	21	16	0.8	0.9	Eric HU	Buy	9.75
0300 Kunming Machine (A#)	Dec	6.23	(6)	104	7	702	0.71	0.73	8.7	8.6	(3)	2	1.6	1.8	SHI Qi	Buy	7.16
1122 Qingling Motor	Dec	1.53	(9)	99	9	1,139	0.10	0.12	15.3	13.2	24	16	4.7	5.4	Eric HU	Buy	2.56
2338 Weichai Power (A#)	Dec	33.90	(14)	132	49	6,777	3.24	3.79	10.5	9.0	23	17	0.5	0.6	Eric HU	Buy	45.30
Average			(7)	128	67	7,941	0.73	0.85	21.2	12.5	18	48	1.4	1.6			
<b>Chemicals</b>																	
0338 Shanghai Petrochem (H#)	Dec	3.26	(16)	64	109	7,511	0.22	0.16	14.7	20.2	n.a.	(28)	0.0	1.7	Lawrence LAU	Sell	3.30
0297 Sinoferk HK Hldg (R)	Dec	3.74	(13)	(0)	115	30,791	(0.05)	0.20	n.m.	18.8	n.a.		0.0	0.5	NI Xiaoman	Hold	4.25
Average			(14)	32	112	19,151	0.09	0.18	14.7	19.5	n.a.	(28)	0.0	1.1			
<b>Conglomerates</b>																	
0291 China Resources (R)	Dec	19.56	(6)	45	129	21,862	0.95	1.06	20.7	18.4	(4)	12	2.0	2.2	Ashley CHEUNG	Buy	21.60
Average			(6)	45	129	21,862	0.95	1.06	20.7	18.4	(4)	12	2.0	2.2			
<b>Consumer Products</b>																	
2020 Anta	Dec	10.58	(13)	204	62	7,376	0.50	0.59	21.0	18.0	24	16	2.2	2.5	Sarah XING	Hold	11.15
0606 China Agri-Industries (R)	Dec	5.59	(2)	45	39	8,504	0.49	0.65	11.5	8.7	(34)	33	1.7	2.4	Jenny CHAN	Hold	4.15
3818 China Dongxiang (P)	Dec	5.05	(13)	173	101	13,761	0.29	0.35	17.7	14.4	5	22	2.3	2.8	Sarah XING	Buy	5.62
0506 China Foods (R)	Dec	4.91	0	70	15	10,278	0.27	0.31	18.2	15.8	59	15	1.8	2.0	Jenny CHAN	Buy	5.55
0904 China Green	Apr	8.05	(3)	30	12	3,288	0.50	0.62	16.0	13.1	3	23	0.9	2.0	Jenny CHAN	Buy	9.20
0359 China Haisheng Juice (P)	Dec	0.70	0	44	2	281	0.36	0.40	1.9	1.8	5	10	9.7	7.3	Jenny CHAN	Buy	2.50
3398 China Ting (P)	Dec	1.22	(13)	136	1	740	0.14	0.18	9.0	6.7	(25)	33	5.6	7.1	Sarah XING	Buy	0.60
1044 Hengan International	Dec	44.25	(1)	78	103	20,864	1.73	1.97	25.6	22.4	50	14	2.5	2.9	Sarah XING	Buy	46.00
0336 Huabao International	Mar	8.03	(4)	59	37	10,900	0.36	0.41	22.4	19.6	29	15	1.7	1.8	Jenny CHAN	Buy	9.70
2331 Li Ning	Dec	22.35	(7)	85	97	16,008	0.97	1.16	23.0	19.2	25	20	2.2	2.7	Sarah XING	Buy	25.00
2319 Mengniu Dairy	Dec	18.44	2	83	178	19,549	0.43	0.65	42.4	28.4		50	0.5	0.7	Jenny CHAN	Hold	19.35
0157 Natural Beauty (P)	Dec	1.30	(8)	7	3	894	0.11	0.12	11.6	10.7	(6)	9	6.0	6.5	Sarah XING	Buy	1.60
0886 Silver Base Group	Dec	2.87	(9)	n.a.	16	861	0.39	0.45	7.3	6.4	4	14	n.a.	3.9	Jenny CHAN	Buy	4.00
0322 Tingyi Holding	Dec	14.06	(3)	57	50	23,566	0.50	0.64	28.3	22.1	36	28	1.8	2.3	Jenny CHAN	Buy	16.00
0168 Tsingtao Brewery (A#)	Dec	28.50	8	76	42	18,665	0.96	1.21	29.5	23.5	57	26	1.7	2.2	ZHAO Zongjun	Buy	30.00
3331 Vinda International	Dec	5.86	9	179	14	2,649	0.31	0.36	18.9	16.2	78	16	1.3	1.6	Sarah XING	Buy	4.64
0151 Want Want China	Dec	4.21	(11)	31	59	26,519	0.16	0.23	27.2	18.1	0	50	1.8	3.7	Jenny CHAN	Buy	4.00
2088 Xiwang Sugar (P)	Dec	1.99	11	66	13	533	0.09	0.21	21.1	9.3	14	127	1.7	3.2	Jenny CHAN	Sell	1.22
8259 Yantai North Andre Juice (H)	Dec	0.34	(15)	12	4	266	0.12	0.14	2.7	2.4	40	12	10.8	12.2	Jenny CHAN	Buy	1.05
Average			(4)	80	45	9,763	0.46	0.56	18.7	14.6	20	28	3.1	3.9			
<b>Consumer Services</b>																	
0538 Aijisen	Dec	5.28	(4)	48	8	2,707	0.27	0.35	19.6	15.1	29	30	1.5	2.0	Sarah XING	Hold	4.40
1880 Belle International	Dec	7.17	(8)	111	110	20,577	0.31	0.35	23.0	20.4	16	13	1.2	1.3	Ashley CHEUNG	Sell	6.60
3308 Golden Eagle	Dec	10.82	10	99	40	5,493	0.35	0.64	30.8	16.8	(9)	83	3.2	1.0	LIU Du	Buy	12.48
0493 Gome Electrical Appliances	Dec	2.15	(7)	113	427	15,005	0.09	0.14	23.1	15.8	(38)	46	1.0	1.4	Ashley CHEUNG	Buy	2.50
0980 Lianhua Supermarket	Dec	16.08	6	67	7	4,481	0.81	1.08	19.9	14.9	14	34	2.0	2.7	Ashley CHEUNG	Buy	19.40
0825 New World Dep. Store	Dec	5.90	(15)	39	13	2,785	0.29	0.34	20.4	17.6	2	16	2.0	1.7	Ashley CHEUNG	Buy	7.40
3368 Parkson Group	Dec	11.16	(17)	27	51	14,318	0.39	0.48	28.3	23.2	15	22	1.8	2.2	ZHENG YUAN	Hold	12.00
1832 Time Ltd	Dec	4.05	23	98	0	885	0.26	0.32	15.3	12.5	31	23	2.8	n.a.	Ashley CHEUNG	Buy	4.10
8277 Wumart Store	Dec	12.20	(3)	112	20	8,216	0.41	0.49	29.9	24.9	11	20	1.7	2.0	Ashley CHEUNG	Buy	12.90
3389 Xinyu Hengdeli (P)	Dec	3.17	6	164	33	3,926	0.19	0.22	17.0	14.7	3	16	1.8	2.0	Sarah XING	Hold	3.35
Average			(2)	79	75	8,274	0.35	0.47	23.4	17.9	8	32	1.9	1.8			
<b>Energy</b>																	
1898 China Coal (A#)	Dec	10.22	(11)	66	312	42,007	0.73	0.82	14.0	12.5	19	12	2.1	2.3	Lawrence LAU	Buy	13.26
2883 China Oilfield Service (A#)	Dec	7.14	(19)	14	169	10,944	0.74	1.00	9.6	7.2	(5)	34	2.2	2.7	Lawrence LAU	Buy	7.49
0883 CNOOC Limited	Dec	10.42	(3)	44	1,059	134,845	0.75	1.07	13.9	9.7	(33)	43	3.4	3.7	Lawrence LAU	Buy	12.32
0639 Fushan Energy	Dec	5.29	2	173	229	13,990	0.35	0.37	15.3	14.3	104	8	2.6	2.8	Lawrence LAU	Buy	5.80
0857 PetroChina (A#)	Dec	8.80	(4)	30	1,041	193,270	0.69	0.88	12.8	10.0	(3)	27	3.5	4.5	Lawrence LAU	Buy	10.90
1088 Shenhua Energy (A#)	Dec	32.10	(3)	96	697	109,178	1.80	2.00	17.8	16.0	19	11	3.1	2.1	Lawrence LAU	Buy	36.28
0386 Sinopec (A#)	Dec	6.82	(4)	45	1,304	114,714	0.89	1.09	7.7	6.2	129	23	3.3	4.2	Lawrence LAU	Buy	8.51
1171 Yanzhou Coal (A#)	Dec	11.18	(12)	96	271	21,993	0.86	0.96	13.0	11.7	(42)	11	2.0	2.3	Lawrence LAU	Buy	15.59
Average			(7)	70	635	80,118	0.85	1.02	13.0	11.0	23	21	2.6	3.1			

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RIC Company	Price Y/E	1M. (4/9/09)	YTD. chg (%)	3M avg. chg (%)	Free float T/O	EPS 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\$)	
<b>Financials</b>																		
3988 Bank of China (A+)	Dec	3.95	4	86	1,413	300,298	0.35	0.37	11.2	10.5	24	6	4.6	4.9	YUAN Lin	Buy	4.41	
3328 Bank of Communication (A+)	Dec	9.48	1	70	517	218,298	0.62	0.61	15.4	15.6	(7)	(1)	2.5	2.4	YIN Jinhua	Hold	9.41	
0998 China Citic Bank (A+)	Dec	4.79	(8)	81	240	164,532	0.35	0.35	13.8	13.6	(11)	2	1.9	2.0	YUAN Lin	Sell	4.96	
0939 China Construction Bank (A+)	Dec	6.04	(2)	42	2,573	357,246	0.48	0.48	12.7	12.7	5	0	3.9	3.9	YUAN Lin	Hold	6.30	
0165 China Everbright Limited	Dec	20.80	(11)	118	144	15,039	0.64	0.63	32.5	33.0	0	(2)	0.3	0.3	Dickie WONG	Buy	22.00	
0966 China Insurance	Dec	22.25	0	87	57	12,398	0.74	0.97	30.1	22.9			31	0.3	0.4	Dickie WONG	Hold	19.00
2628 China Life (A+)	Dec	33.80	(2)	44	2,009	248,393	1.06	1.32	32.0	25.7	21	25	1.2	1.5	YUAN Lin	Hold	31.20	
3968 China Merchants Bank (A+)	Dec	17.38	(6)	57	591	46,003	1.02	1.13	17.0	15.4	(18)	10	1.2	1.2	YUAN Lin	Buy	19.38	
1398 ICBC (A+)	Dec	5.63	4	38	2,054	94,026	0.41	0.42	13.8	13.4	9	3	3.6	3.6	YUAN Lin	Hold	5.68	
2328 PICC	Dec	5.38	(14)	29	203	18,583	0.58		9.3		16		7.8	n.a.	YUAN Lin	Buy	12.60	
2318 Ping An (A+)	Dec	61.00	(10)	63	745	156,099	0.05	1.79	1,344	34.0	(98)	3,850	0.2	0.6	YUAN Lin	Hold	65.00	
<b>Average</b>			<b>(4)</b>	<b>65</b>	<b>959</b>	<b>148,265</b>	<b>0.57</b>	<b>0.81</b>	<b>139.2</b>	<b>19.7</b>	<b>(6)</b>	<b>392</b>	<b>2.5</b>	<b>2.1</b>				
<b>Industrials</b>																		
0914 Anhui Conch (A+)	Dec	50.65	(16)	42	179	22,362	2.31	3.56	21.9	14.2	38	54	0.9	1.4	Grace TANG	Buy	56.40	
1800 China Commun. Construction (H)	Dec	9.17	(10)	(4)	302	36,705	0.68	0.87	13.4	10.5	52	28	1.8	2.3	Jimmy LAM	Hold	10.00	
3323 China National Building Material	Dec	17.06	(7)	83	279	15,444	1.04	1.40	16.4	12.1	34	35	0.4	0.5	Grace TANG	Buy	22.01	
0390 China Railway (A+)	Dec	6.95	(2)	29	205	25,462	0.36	0.45	19.4	15.3	402	26	1.3	1.6	Patrick LI	Buy	8.20	
1186 China Railway Construction (A+)	Dec	11.74	(11)	2	196	20,568	0.55	0.78	21.3	15.1	65	41	1.2	1.6	Patrick LI	Buy	12.27	
1766 China South Locomotive (A+)	Dec	4.51	(5)	7	96	9,078	0.17	0.22	26.5	20.9	25	27	1.0	1.3	SHI Qi	Buy	4.75	
3898 CSR Times Electric (H)	Dec	12.40	(2)	98	32	5,645	0.54	0.69	22.8	17.9	26	27	2.0	2.6	SHI Qi	Buy	8.14	
1072 Dongfang Electric (A+)	Dec	39.75	(5)	105	65	19,283	2.31	2.80	17.2	14.2	275	21	0.1	0.1	HAN Ling	Buy	45.00	
3800 GCL-Poly Energy	Dec	2.18	(33)	257	97	1,461	0.19	0.35	11.3	6.2	21	82	2.6	4.7	HAN Ling	Buy	3.31	
0317 Guangzhou Shipyard Int'l (A+)	Dec	16.24	(5)	128	45	2,558	1.69	1.47	9.6	11.0	(10)	(13)	2.7	2.4	XU Minle	Buy	17.96	
3339 Lonking Holdings	Dec	4.66	(15)	135	40	2,344	0.85	0.98	5.5	4.8	20	16	4.6	5.3	Eric HU	Buy	6.36	
2689 Nine Dragons Paper (P)	Jun	9.49	4	329	130	12,216	0.39	0.33	24.2	28.5	(20)	(15)	0.0	0.7	Sarah XING	Sell	5.00	
1893 Sinoma	Dec	6.51	(15)	40	96	7,672	0.30	0.39	21.7	16.6	67	31	1.4	1.8	Lawrence LAU	Buy	7.52	
0505 Xingye Copper (P)	Dec	1.21	(15)	61	8	282	0.03	0.07	35.5	17.8		100	0.0	0.0	Sarah XING	Sell	0.40	
<b>Average</b>			<b>(10)</b>	<b>94</b>	<b>126</b>	<b>12,934</b>	<b>0.82</b>	<b>1.03</b>	<b>19.1</b>	<b>14.7</b>	<b>77</b>	<b>33</b>	<b>1.4</b>	<b>1.9</b>				
<b>Media</b>																		
1000 Beijing Media	Dec	3.90	(9)	52	0	280	0.27		14.6		2		5.8	n.a.	Allan NG	Sell	9.00	
2008 Phoenix Satellite TV	Dec	1.55	11	118	4	1,920	0.05	0.07	29.8	21.2	(2)	40	1.3	1.3	Allan NG	Buy	0.90	
0811 Xinhua Winshare	Dec	2.90	(5)	78	9	1,284	0.36	0.40	8.0	7.3	8	9	3.9	4.3	Allan NG	Buy	4.00	
<b>Average</b>			<b>(1)</b>	<b>83</b>	<b>4</b>	<b>1,161</b>	<b>0.23</b>	<b>0.23</b>	<b>17.4</b>	<b>14.3</b>	<b>(1)</b>	<b>25</b>	<b>3.7</b>	<b>2.8</b>				
<b>Metals &amp; Mining</b>																		
0347 Angang New Steel (A+)	Dec	15.54	(19)	79	368	16,865	0.21	0.74	73.6	21.1	(55)	249	0.7	2.4	Belle CHAN	Sell	12.50	
2600 CHALCO (A+)	Dec	8.77	(12)	115	538	35,583	(0.26)	0.28	n.m.	31.0			0.0	0.0	Belle CHAN	Hold	9.11	
3993 China Molybdenum (H)	Dec	6.33	(17)	80	113	7,006	0.16	0.29	39.3	21.7	(58)	81	0.8	1.5	Belle CHAN	Buy	11.47	
1053 Chongqing Iron & Steel (A+)	Dec	3.08	(26)	56	28	1,696	0.13	0.36	24.0	8.5	(67)	182	1.5	4.1	Belle CHAN	Hold	4.00	
2626 Hunan Nonferrous Metals	Dec	2.360	(6)	115	50	3,463	(0.06)	0.02	n.m.	104.0			0.0	0.0	Belle CHAN	Sell	1.97	
0358 Jiangxi Copper (A+)	Dec	17.48	(6)	208	613	21,137	1.45	1.75	12.1	10.0	69	21	2.5	3.0	Belle CHAN	Buy	26.29	
3330 Lingbao (H)	Dec	2.96	(3)	49	7	821	0.37	0.39	7.9	7.7	154	3	14.7	17.7	Belle CHAN	Hold	3.00	
0067 Lumina Resources Corp	Dec	3.27	(10)	n.a.	n.a.	3,586	0.33	0.53	9.9	6.2	31	60	0.0	4.1	Belle CHAN	Buy	4.92	
0323 Maanshan Iron and Steel (A+)	Dec	5.06	(22)	83	217	10,521	0.08	0.37	65.6	13.6	(35)	384	0.5	2.3	Belle CHAN	Buy	6.00	
1862 Sino Gold (P)	Dec	45.45	24	85	2	8,759	1.38	2.00	32.9	22.8	-	44	0.0	0.0	Belle CHAN	Hold	39.00	
3833 Xinjing Xinxin Mining (H)	Dec	4.54	(14)	127	25	3,130	0.11	0.19	40.0	24.1	(26)	66	0.6	1.0	Belle CHAN	Buy	5.13	
2899 Zijin Mining (A+)	Dec	7.03	(9)	50	220	30,667	0.30	0.37	23.8	19.1	23	25	2.0	2.5	Belle CHAN	Hold	6.80	
<b>Average</b>			<b>(10)</b>	<b>95</b>	<b>198</b>	<b>11,936</b>	<b>0.35</b>	<b>0.61</b>	<b>32.9</b>	<b>24.1</b>	<b>4</b>	<b>111</b>	<b>1.9</b>	<b>3.2</b>				
<b>Pharmaceuticals</b>																		
0874 Guangzhou Pharmaceutical (H/A)	Dec	4.18	(2)	60	13	919	0.61	0.73	6.8	5.8	6	19	7.3	10.3	HE Changming	Buy	6.14	
<b>Average</b>			<b>(2)</b>	<b>60</b>	<b>13</b>	<b>919</b>	<b>0.61</b>	<b>0.73</b>	<b>6.8</b>	<b>5.8</b>	<b>6</b>	<b>19</b>	<b>7.3</b>	<b>10.3</b>				

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RIC Company	Price Y/E	1M. (4/9/09)	YTD. chg (%)	3M avg. chg (%)	Free float T/O	EPS 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\$)
<b>Property</b>																	
3383 Agile Properties	Dec	9.73	(8)	141	217	14,529	0.49	0.48	19.8	20.1	(70)	(2)	1.0	0.8	Vivien ZHANG	Buy	12.40
2688 Beijing Capital Land	Dec	3.15	(15)	154	35	3,450	0.35	0.41	9.0	7.7	82	16	3.6	4.0	Vivien ZHANG	Buy	3.50
0832 Central China Real Estate	Dec	2.08	(13)	193	11	1,040	0.43	0.51	4.8	4.1	23	18	6.0	7.1	TIAN Shixin	Hold	10.50
0688 China Overseas (A)	Dec	16.98	(8)	58	500	64,764	0.74	0.93	22.8	18.2	15	25	1.0	1.4	Manfred HO	Hold	20.04
1109 China Resources Land (R)	Dec	17.48	(4)	84	310	30,540	0.67	0.95	26.1	18.4	43	42	0.6	0.8	Manfred HO	Buy	22.20
2007 Country Garden	Dec	3.24	(9)	71	141	21,733	0.16	0.31	20.7	10.6	64	95	1.7	3.4	Vivien ZHANG	Hold	3.60
3900 Greentown	Dec	11.56	(11)	263	74	7,002	0.93	1.36	12.4	8.5	56	46	1.4	2.9	Vivien ZHANG	Sell	11.10
0119 Poly (Hong Kong) (R)	Dec	6.90	(3)	277	134	3,693	0.25	0.64	27.4	10.9	108	152	0.3	0.7	Vivien ZHANG	Buy	8.20
1387 Renhe Commercial	Dec	1.74	(2)	47	296	14,964	0.18	0.29	9.8	6.1	64	61	5.1	8.2	Vivien ZHANG	Buy	2.40
0604 Shenzhen Investment (R)	Dec	3.25	(13)	136	107	5,352	0.29	0.41	11.2	7.9	7	43	3.6	5.1	Vivien ZHANG	Hold	4.30
0272 Shui On Land	Dec	4.90	(8)	120	204	9,228	0.22	0.39	22.1	12.4	(64)	78	0.6	0.9	Vivien ZHANG	Buy	6.00
3377 Sino-ocean Land (R)	Dec	8.05	(6)	N/A	204	22,700	0.32	0.91	25.2	8.8	(9)	184	1.2	3.3	Vivien ZHANG	Buy	10.00
<b>Average</b>			<b>(8)</b>	<b>140</b>	<b>186</b>	<b>16,583</b>	<b>0.42</b>	<b>0.63</b>	<b>17.6</b>	<b>11.1</b>	<b>27</b>	<b>63</b>	<b>2.2</b>	<b>3.2</b>			
<b>Technology</b>																	
1688 Alibaba.com	Dec	20.60	14	273	221	22,896	0.22	0.30	93.1	69.6	(18)	34	1.0	0.0	Frank HE	Buy	23.70
1211 BYD Company	Dec	54.20	15	327	203	13,333	1.22	1.49	44.6	36.3	115	23	0.8	1.0	Frank HE	Hold	40.00
0861 Digital China	Mar	7.26	30	224	12	3,566	0.67	0.82	10.9	8.8	60	23	2.0	2.8	Frank HE	Buy	8.70
0596 Inspur International	Mar	0.86	(35)	7	40	1,207	0.08	0.11	10.4	7.8	22	33	2.8	3.7	Frank HE	Buy	1.90
0992 Lenovo Group (R)	Mar	3.67	(7)	74	165	15,594	(0.20)	0.08	n.m.	27.4	n.a.	n.a.	0.8</				

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RIC Company	Y/E	Price (4/9/09) (HK\$)	1M chg. (%)	YTD chg. (HK\$ m)	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\$)	
<b>Consumer Products</b>																		
0330 Esprit Holdings	Jun	46.40	(17)	6	338	48,984	3.82	3.78	12.1	12.3	(26)	(1)	6.1	4.9	Ashley CHEUNG	Sell	45.70	
0709 Giordano International	Dec	2.25	(16)	15	9	3,290	0.11	0.18	19.7	12.4	(39)		5.9	3.0	Ashley CHEUNG	Sell	2.00	
0494 Li & Fung	Dec	27.80	13	109	218	33,201	0.97	1.31	28.6	21.2	43	35	2.8	3.8	Ashley CHEUNG	Buy	32.70	
0589 Ports Design	Dec	18.28	(13)	94	32	6,244	0.95	1.14	19.3	16.0	10	20	4.7	3.8	Sarah XING	Buy	21.60	
0210 Daphne International	Dec	5.28	(5)	319	17	4,558	0.32	0.41	16.6	12.8	6	30	1.3	1.7	Ashley CHEUNG	Buy	5.80	
<b>Average</b>			<b>(7)</b>	<b>109</b>	<b>123</b>	<b>19,255</b>	<b>1.23</b>	<b>1.37</b>	<b>19.3</b>	<b>14.9</b>	<b>(1)</b>	<b>28</b>	<b>3.6</b>	<b>3.6</b>				
<b>Consumer Services</b>																		
0341 Café de Coral	Mar	16.56	2	5	10	4,463	0.95	1.08	17.4	15.4	15	13	4.0	4.6	Ashley CHEUNG	Buy	17.30	
0052 Fairwood	Mar	6.46	(10)	19	3	459	0.62	0.61	10.4	10.5	(12)	(1)	5.9	5.7	Ashley CHEUNG	Sell	6.30	
0027 Galaxy Entertainment	Dec	2.50	6	136	31	2,474	0.26	n.a.	9.6	n.a.	1,200	n.a.	1.2	n.a.	Ashley CHEUNG	Buy	10.00	
1212 Lifestyle International	Dec	11.12	(9)	42	20	9,854	0.53	0.58	21.1	19.1	5	10	2.1	2.3	Ashley CHEUNG	Sell	9.50	
0200 Melco Int'l	Dec	5.20	(1)	102	65	3,448	1.40	n.a.	3.7	n.a.	66	n.a.	5.4	n.a.	Ashley CHEUNG	Sell	13.00	
3813 Pou Sheng Int'l	Sep	1.30	(4)	57	13	2,458	0.03	0.09	41.9	14.0	(79)	200	0.0	0.0	Ashley CHEUNG	Buy	1.39	
1836 Stella International	Dec	12.90	1	105	8	3,073	1.06	1.15	12.1	11.2	(14)	8	6.5	7.1	Ashley CHEUNG	Hold	13.80	
<b>Average</b>			<b>(2)</b>	<b>66</b>	<b>21</b>	<b>3,747</b>	<b>0.69</b>	<b>0.70</b>	<b>16.6</b>	<b>14.0</b>	<b>169</b>	<b>46</b>	<b>3.6</b>	<b>3.9</b>				
<b>Financials</b>																		
0662 Asia Financial Holdings	Dec	2.54	(2)	20	1	1,132	0.23	0.16	11.0	15.9	n.a.	(30)	2.8	2.0	Dickie WONG	Buy	2.80	
0023 Bank of East Asia	Dec	27.20	5	85	188	34,137	0.78	1.12	34.9	24.3	3,800	44	1.3	1.8	Dickie WONG	Hold	25.00	
2388 BOC Hong Kong	Dec	16.20	3	85	317	58,578	1.26	1.33	12.9	12.2	294	6	3.6	3.8	Dickie WONG	Buy	17.50	
1111 Chong Hing Bank	Dec	13.90	(3)	50	1	1,451	0.54	0.51	25.7	27.3	286	(6)	2.3	2.2	Dickie WONG	Sell	11.50	
2356 Dah Sing Banking	Dec	9.65	2	73	14	2,762	0.43	0.67	22.4	14.4	115	56	1.8	2.8	Dickie WONG	Hold	8.50	
0440 Dah Sing Financial	Dec	42.40	13	113	15	4,348	3.27	3.96	13.0	10.7	698	21	3.0	3.6	Dickie WONG	Hold	34.00	
0636 Fubon Bank	Dec	3.32	(15)	33	15	973	0.18	0.30	18.4	11.1	100	67	3.2	5.3	Dickie WONG	Sell	2.80	
0011 Hang Seng Bank	Dec	111.30	(7)	9	347	80,645	6.48	7.18	17.2	15.5	(12)	11	5.7	5.9	Dickie WONG	Buy	144.00	
0388 Hong Kong Exchange	Dec	141.70	(2)	93	93	1,091	142,579	3.77	4.05	37.6	35.0	(21)	7	2.4	2.6	Dickie WONG	Sell	115.00
0005 HSBC	Dec	82.05	(1)	20	2,289	993,297	4.08	3.80	20.1	21.6	(3)	(7)	4.5	3.7	Dickie WONG	Hold	74.30	
0349 ICBC (Asia)	Dec	16.16	7	95	25	5,982	1.04	1.02	15.5	15.8	39	(2)	3.8	3.8	Dickie WONG	Buy	16.00	
1389 Ming An (Holdings)	Dec	2.15	4	176	10	1,731	0.04	0.07	53.8	30.7	n.a.	75	0.5	0.5	Dickie WONG	Buy	0.95	
2888 Standard Chartered Bk	Dec	174.70	(4)	90	144	269,002	13.30	13.42	13.1	13.0	(1)	1	3.2	3.3	Dickie WONG	Hold	170.40	
0302 Wing Hang Bank	Dec	72.05	(9)	61	30	9,689	3.96	4.25	18.2	17.0	1	7	1.7	1.8	Dickie WONG	Sell	58.00	
<b>Average</b>			<b>(1)</b>	<b>72</b>	<b>320</b>	<b>114,736</b>	<b>2.81</b>	<b>2.99</b>	<b>22.4</b>	<b>18.9</b>	<b>441</b>	<b>18</b>	<b>2.8</b>	<b>3.1</b>				
<b>Industrials</b>																		
2314 Lee & Man	Mar	14.70	8	286	50	6,184	0.26	1.00	55.7	14.8	(79)	277	0.3	1.4	Sarah XING	Hold	8.50	
0303 V-Tech Holdings	Mar	64.25	0	96	29	9,483	4.53	5.31	14.2	12.1	(34)	17	6.4	6.6	Frank HE	Buy	53.00	
0551 Yue Yuen Industrial	Sep	21.95	(5)	43	45	13,879	1.64	1.78	13.4	12.3	(11)	9	3.0	2.8	Ashley CHEUNG	Buy	21.70	
<b>Average</b>			<b>1</b>	<b>142</b>	<b>42</b>	<b>9,849</b>	<b>2.14</b>	<b>2.70</b>	<b>27.8</b>	<b>13.1</b>	<b>(41)</b>	<b>101</b>	<b>3.2</b>	<b>3.6</b>				
<b>Media</b>																		
0100 Clear Media	Dec	3.32	(15)	232	2	870	0.21	0.34	15.9	9.8	(37)	62	0.0	0.0	Allan NG	Buy	4.50	
1097 I-Cable Commun.	Dec	0.90	(17)	55	1	599	0.01	0.06	112.5	15.8	n.a.	613	0.0	1.1	Allan NG	Sell	0.88	
0685 Media Chinese Int'l	Mar	1.21	15	4	0	132	0.18	n.a.	6.8	n.a.	57		7.4	n.a.	Allan NG	Buy	1.88	
0282 Next Media	Mar	1.01	(13)	12	2	634	0.11	0.12	9.4	8.7	(50)	8	0.0	0.0	Allan NG	Sell	1.25	
0018 Oriental Press Group	Mar	0.91	(4)	25	4	919	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Allan NG	Sell	1.14	
0583 SCMP Group	Dec	1.22	(7)	(53)	1	476	0.02	0.05	58.1	23.9	(81)	143	4.9	5.7	Allan NG	Sell	1.14	
0511 TVB	Dec	33.85	0	34	18	10,082	2.04	2.67	16.6	12.7	(15)	31	4.3	5.3	Allan NG	Buy	36.00	
<b>Average</b>			<b>(6)</b>	<b>44</b>	<b>4</b>	<b>1,959</b>	<b>0.43</b>	<b>0.65</b>	<b>36.6</b>	<b>14.2</b>	<b>(25)</b>	<b>171</b>	<b>2.8</b>	<b>2.4</b>				

HK – HK

RIC Company	Y/E	Price (4/9/09) (HK\$)	1M chg. (%)	YTD chg. (HK\$ m)	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\$)
<b>Property</b>																	
2778 Champion REIT	Dec	2.99	(4)	44	27	6,100	0.30	0.30	10.0	10.0		0	8.4	7.0	Vivien ZHANG	Hold	1.43
0001 Cheung Kong	Dec	93.10	(4)	27	449	129,381	8.26	7.88	11.3	11.8	15	(5)	2.6	2.7	Manfred HO	Hold	104.50
0041 Great Eagle	Dec	17.04	(5)	98	14	4,470	1.74	1.46	9.8	11.7	1,371	(16)	2.5	2.2	Vivien ZHANG	Hold	17.28
0405 GZI REIT	Dec	2.78	0	55	4	2,223	0.26	0.31	10.7	9.0	117	19	9.4	10.1	Vivien ZHANG	Hold	3.00
0010 Hang Lung Group	Jun	36.75	(7)	57	39	30,862	1.08	1.75	34.2	21.0	(43)	63	1.9	2.2	Manfred HO	Hold	43.80
0101 Hang Lung Properties	Jun	26.30	(4)	56	198	53,417	0.57	0.96	46.1	27.3	(53)	69	2.5	3.1	Manfred HO	Hold	30.70
0012 Henderson Land	Jun	48.30	(9)	68	168	48,324	2.58	2.43	18.7	19.9	(66)	(6)	1.2	2.3	Manfred HO	Hold	51.40
0014 Hysan Development	Dec	18.60	(12)	49	38	11,360	1.29	1.36	14.4	13.7	(16)	5	2.1	2.2	Vivien ZHANG	Buy	23.70
0683 Kerry Properties	Dec	37.00	(7)	79	120	24,710	2.46	2.20	15.0	16.8	19	(11)	2.2	2.5	Manfred HO	Hold	38.70
0066 MTR Corporation	Dec	27.40	(1)	53	116	35,884	1.08	1.23	25.4	22.2	(25)	14	1.7	1.7	Manfred HO	Hold	30.70
0017 New World Deve.	Jun	16.04	(12)	104	195	37,763	0.22	1.25	71.9	12.8	(91)	460	1.6	2.6	Manfred HO	Hold	15.10
0808 Prosperity REIT	Dec	1.24	1	38	3	1,286	0.06	0.06	20.7	20.7		0	8.9	8.9	Vivien ZHANG	Hold	1.23
0016 SHKP	Jun	108.90	(9)	69	680	161,947	4.59	4.72	23.7	23.1	4	3	2.3	2.4	Manfred HO	Buy	106.35
0083 Sino Land	Jun	13.90	(13)	73	177	32,010	0.60	0.88	23.1	15.9	(63)	46	2.7	2.2	Manfred HO	Sell	10.72
0823 The Link REIT	Mar	17.22	(0)	35	129	34,204	1.15	0.93	14.9	18.6	55	(20)	4.9	5.4	Vivien ZHANG	Buy	21.30
<b>Average</b>			<b>(6)</b>	<b>60</b>	<b>157</b>	<b>40,929</b>	<b>1.75</b>	<b>1.85</b>	<b>23.3</b>	<b>17.0</b>	<b>94</b>	<b>41</b>	<b>3.7</b>	<b>3.8</b>			
<b>Technology</b>																	
0522 ASM Pacific	Dec	49.35	(11)	96	30	9,060	0.60	1.89	82.0	26.1	(76)	214	2.4	3.1	Frank HE	Hold	49.80
2342 Comba Telecom	Dec	6.34	18	362	20	2,325	0.42	0.49	15.2	12.9	56	18	1.8	2.1	Frank HE	Buy	7.30
2038 Foxconn International	Dec	4.75	(10)	85	109	9,388	0.12	0.20	38.3	23.6	(6)	63	0.0	0.0	Frank HE	Hold	4.60
0903 TPV Technology	Dec	4.27	2	71	21	4,027	0.37	0.42	11.5	10.2	17	13	2.9	3.4	Frank HE	Buy	5.30
<b>Average</b>			<b>(0)</b>	<b>153</b>	<b>45</b>	<b>6,200</b>	<b>0.38</b>	<b>0.75</b>	<b>36.7</b>	<b>18.2</b>	<b>(2)</b>	<b>77</b>	<b>1.8</b>	<b>2.2</b>			
<b>Telecoms</b>																	
2332 Hutchison Telecom	Dec	1.66	(17)	42	26	3,276	0.87	(0.46)	1.9	n.m.	110		0.0	0.0	Allan NG	Sell	2.20
0008 PCCW	Dec	2.03	(5)	(14)	32	7,127	0.27	0.22	7.4	9.3	13	(20)	2.5	3.0	Allan		

China – A

RIC	Company	Price (4/9/09)	1M chg.	YTD chg.	3M avg. daily	Free float T/O	EPS mkt. cap. <sup>^</sup>	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price
		(¥)	(%)	(%)	(¥ m)	(¥ m)	(¥)	(¥)	(x)	(x)	(%)	(%)	(%)	(%)			(¥)	
<b>Agriculture</b>																		
600195	China Animal Husbandry	20.49	(7)	74	139	4,155	0.75	0.86	27.3	23.8	79	15	2.1	2.4	ZHAO Zongjun	Buy	23.00	
	Average	(7)	74	139	4,155	0.75	0.86	27.3	23.8	79	15	2.1	2.4					
<b>Automotive</b>																		
600166	Beiqi Foton Motor	14.51	(3)	202	253	8,284	0.85	0.92	17.1	15.8	125	8	0.1	0.6	WANG Yusheng	Buy	17.50	
000625	Changan Automobile (A/B)	10.58	(8)	188	329	13,335	0.60	0.77	17.8	13.8	5,860	28	0.2	1.1	WANG Yusheng	Buy	14.54	
000951	Zoomlion Heavy Industry	22.60	(15)	78	117	3,409	1.16	1.49	19.5	15.2	(9)	28	1.0	1.3	Eric HU	Hold	11.60	
000800	FAW Car	17.25	(5)	140	324	13,199	0.81	0.97	21.4	17.8	21	20	2.0	1.9	WANG Yusheng	Buy	19.60	
000927	FAW Xiali	7.28	(18)	91	97	2,323	0.19	0.29	39.4	25.1	194	57	0.4	1.2	WANG Yusheng	Sell	6.38	
600660	Fuyao Group Glass Ind.	10.23	(14)	163	268	9,446	0.43	0.64	23.6	16.0	252	48	0.0	2.1	WANG Yusheng	Buy	12.80	
600478	Hunan Corun New Energy	15.12	(24)	90	232	2,984	0.16	0.67	92.2	22.7	31	307	0.0	0.4	WANG Yusheng	Buy	20.01	
000550	Jiangling Motors (A/B)	17.81	(11)	112	67	4,457	1.04	1.13	17.2	15.8	14	8	1.7	2.2	WANG Yusheng	Buy	22.50	
002048	Huaxiang Electronic	8.45	(24)	135	126	3,108	0.53	0.50	16.0	16.8	81	(5)	0.8	1.3	WANG Yusheng	Hold	11.07	
600104	Shanghai Auto	19.37	2	261	386	27,916	0.73	1.14	26.6	17.0	628	57	0.7	1.3	WANG Yusheng	Buy	25.08	
000338	Weichai Power (A/H)	42.46	(7)	136	186	12,026	2.85	3.34	14.9	12.7	23	17	0.4	0.4	Eric HU	Buy	60.00	
000581	Weifu High Tech	9.79	(13)	96	134	3,308	0.59	0.65	16.7	15.1	72	10	1.7	1.8	WANG Yusheng	Hold	12.94	
600686	Xiamen King Long Motor Co	7.36	(20)	58	163	2,967	0.47	0.55	15.5	13.5	7	15	0.7	0.8	Eric HU	Hold	8.50	
600066	Zhengzhou Yutong Bus	13.57	(14)	51	141	4,728	0.79	0.96	17.2	14.1	(23)	22	3.4	4.2	Eric HU	Buy	17.30	
	Average	(12)	129	202	7,964	0.80	1.00	25.4	16.5	520	44	0.9	1.5					
<b>Chemicals</b>																		
600299	Blue Star New Chemical	11.91	(28)	62	191	1,858	0.36	0.49	32.7	24.2	7	35	0.8	0.9	NI Xiaoman	Hold	14.50	
600230	Changzhou Dahua	19.14	8	144	141	2,132	0.47	1.33	40.4	14.4	(26)	180	0.3	0.8	NI Xiaoman	Buy	26.60	
000839	CITIC Guoan	17.39	(7)	192	629	26,315	0.34	0.40	51.3	43.3	49	19	0.6	0.7	NI Xiaoman	Hold	18.00	
000589	Guizhou Tyre	14.65	9	228	207	2,493	0.62	0.65	23.7	22.6	208	5	1.3	1.3	CHEN Tian	Hold	12.80	
600426	Hualu Hengsheng	16.86	(18)	59	131	3,094	0.88	1.34	19.1	12.6	16	52	0.7	0.7	NI Xiaoman	Buy	24.00	
000707	Shuanguan Sci & Tech	7.22	(23)	37	145	2,501	0.72	0.84	10.0	8.6	26	17	4.2	4.2	CHEN Tian	Hold	10.10	
002037	Jiu Lian Development	15.18	14	96	45	1,292	0.60	0.69	25.4	22.0	91	16	1.2	1.4	CHEN Tian	Buy	15.00	
600423	Liuzhou Chemical	9.61	(22)	23	85	1,559	0.29	0.45	32.9	21.3	(15)	54	0.0	0.5	NI Xiaoman	Hold	11.60	
000792	Qinghai Salt Lake Potash	55.75	(10)	(2)	362	21,793	2.54	3.45	22.0	16.1	43	36	3.0	4.5	NI Xiaoman	Buy	69.10	
600409	Sanyou Chemical Industries	6.30	(29)	91	215	3,431	0.16	0.24	40.1	26.8	(28)	50	0.3	0.3	CHEN Tian	Hold	7.90	
000677	Shandong Helon	8.30	(13)	206	237	4,159	0.24	0.52	34.7	15.9	118	0.3	0.3	CHEN Tian	Buy	11.10		
600315	Shanghai Jahwa United	25.89	7	39	49	3,400	0.75	1.03	34.4	25.2	(12)	37	0.8	0.8	NI Xiaoman	Buy	29.00	
600688	Shanghai Petrochem (A/H)	10.64	(2)	92	168	7,661	0.13	0.02	n.m.	483.6		0.0	0.0	Lawrence LAU	Sell	2.80		
000731	Sichuan Meifeng	9.10	(19)	42	166	3,275	0.47	0.58	19.3	15.7	17	23	2.2	2.7	NI Xiaoman	Hold	11.60	
600500	Sinochem Int'l	11.04	(23)	42	282	9,049	0.44	0.54	25.1	20.3	(11)	24	1.4	1.6	NI Xiaoman	Hold	11.88	
600141	Xingfa Group	16.00	(18)	98	159	2,563	0.56	0.99	28.6	16.2	(43)	76	1.1	1.9	NI Xiaoman	Buy	22.00	
600486	Yangrong Chemical	35.62	(5)	42	38	2,638	1.73	2.14	20.6	16.7	10	24	0.5	0.5	CHEN Tian	Buy	42.80	
600309	Luzhou Wanhua	15.69	(23)	57	437	10,176	0.74	0.99	21.1	15.8	(18)	33	3.2	2.2	NI Xiaoman	Buy	23.50	
600096	Yuntianhua	23.63	(25)	34	391	5,465	0.10	0.98	n.m.	24.1		1.3	1.5	NI Xiaoman	Hold	27.40		
600352	Zhejiang Longsheng	8.76	(7)	178	283	5,773	0.72	0.80	12.1	11.0	1	10	0.3	0.3	CHEN Tian	Buy	11.00	
	Average	(12)	88	218	6,031	0.62	0.92	27.4	42.8	19	45	1.2	1.4					
<b>Consumer Products</b>																		
000848	Hebei Chengde Lolo	15.10	(17)	(5)	75	2,871	0.60	0.72	25.0	21.0	4	19	2.8	3.3	ZHAO Zongjun	Buy	16.50	
600519	Kweichow Moutai	155.37	1	43	470	70,386	5.20	6.42	29.9	24.2	29	23	1.6	1.9	ZHAO Zongjun	Buy	190.00	
600559	Laobaigan Liquor	22.07	(12)	176	81	1,473	0.32	0.44	69.0	50.2	39	38	0.6	0.9	ZHAO Zongjun	Buy	30.00	
000568	Luzhou Laojiao	28.95	(13)	59	498	20,706	1.14	1.37	25.4	21.1	25	20	2.8	3.4	ZHAO Zongjun	Buy	30.00	
600962	SDIC Zhonglu Fruit Juice	11.87	(19)	58	84	1,447	0.72	0.80	16.5	14.8	11	11	2.4	2.7	ZHAO Zongjun	Hold	17.93	
600779	Sichuan Swellfun	15.12	(13)	35	255	4,443	0.55	0.66	27.4	22.8	(14)	20	2.9	3.5	ZHAO Zongjun	Hold	17.00	
600809	Shanxi Xinghuacun Fen Wine	28.98	(16)	167	140	12,548	0.93	1.21	31.2	24.0	63	30	1.9	2.5	ZHAO Zongjun	Buy	33.00	
600600	Tsingtao Brewery (A/H)	28.84	4	44	125	18,861	0.85	1.07	33.9	27.0	57	26	1.5	1.9	ZHAO Zongjun	Buy	33.00	
000729	Yanjing Brewery	14.37	(10)	9	161	6,955	0.56	0.69	25.5	20.8	47	23	1.5	1.9	ZHAO Zongjun	Buy	18.00	
000869	Yantai Changyu (A/B)	54.40	(0)	12	68	4,518	2.05	2.51	26.7	21.7	21	22	2.6	3.2	ZHAO Zongjun	Buy	70.00	
000858	Yibin Wuliangye	23.38	(3)	75	1,130	88,750	0.80	1.00	29.3	23.5	67	25	0.2	0.5	ZHAO Zongjun	Buy	17.00	
600887	Yili Industrial Group	17.76	10	122	210	6,594	1.14	1.56	19	19	19	2.3	n.a.	ZHAO Zongjun	Sell	24.00		
	Average	(7)	66	275	19,963	1.24	1.54	29.6	24.6	31	23	1.9	2.3					

China – A

RIC	Company	Price (4/9/09)	1M chg.	YTD chg.	3M avg. daily	Free float T/O	EPS mkt. cap. <sup>^</sup>	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price
		(¥)	(%)	(%)	(¥ m)	(¥ m)	(¥)	(¥)	(x)	(x)	(%)	(%)	(%)	(%)			(¥)	
<b>Consumer Services</b>																		
600258	Beijing Capital Tourism	18.97	(3)	105	109	1,969	0.72	0.44	26.2	43.0	(3)	(39)	2.2	1.4	LIU Du	Hold	15.14	
002251	Better Life Com. Chain Share	22.93	(13)	9	87	2,260	0.64	0.83	35.8	27.5	(46)	30	0.6	0.7	ZHENG Yuan	Hold	22.60	
600828	Chengshang Group	23.72	20	144	19	1,590	0.64	0.58	37.1	40.9	28	(9)	0.0	0.2	LIU Du	Hold	13.40	
600138	CYTS	12.15	(8)	59	224	4,034	0.45	0.48	26.8	25.5	45	5	1.3	1.6	LIU Du	Hold	11.96	
600693	Fujian Dongbai Group	7.63	(14)	14	71	1,577	0.32	0.38	23.6	19.9	(17)	19	1.2	1.3	LIU Du	Buy	8.58	
002264	Fujian New HuaDu	29.13	(3)	61	34	779	0.69	0.92	42.3	31.8	10	33	1.7	1.1	ZHENG Yuan	Hold	32.00	
000978	Gullin Tourism	9.67	(15)	51	48	904	0.24	0.33	39.6	29.5	86	34	0.0	1.9	LIU Du	Hold	9.26	
600054	Huangshan Tourism (A/B)	15.00	(11)	12	90	1,768	0.40	0.53	37.2	28.2	1	32	1.2	1.5	LIU Du	Hold	13.41	
600754	Jin Jiang Development (A/B)	18.48	(20)	103	107	4,028	0.46	0.53	39.8	35.1	2	14	1.6	1.9	LIU Du	Hold	20.65	
002033	Lijiang Tourism	15.46	(8)	55	41	1,105	0.43	0.34	36.2	45.6	(8)	(21)	1.0	1.0	LIU Du	Hold	14.94	
600832	Shanghai Oriental Pearl	9.40	(17)	38	294	16,472	0.15	0.14	64.8	65.3	4	(1)	0.0	0.0	LIU Du	Sell	7.25	
002024	Suning Appliances	14.53	(8)	22	790	30,421	0.60	0.74	24.4	19.6	22	24	0.8	1.7	LIU Du	Buy	17.48	
600859	Wangfujing Dept Store																	

China – A

RIC	Company	Price (4/9/09)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (Y m)	Free float cap. (Y m)	EPS 09E (Y)	EPS 10E (Y)	P/E 09E (X)	P/E 10E (X)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)
<b>Industrials</b>																	
600585	Anhui Conch (AHH)	43.26	(28)	67	281	50,422	2.04	3.14	21.3	13.8	31	54	0.9	1.4	Grace TANG	Buy	49.00
600761	Anhui Heli	11.05	(13)	61	164	2,485	0.20	0.31	55.0	36.2	(62)	52	0.3	0.5	Eric HU	Hold	11.12
601390	China Railway (AHH)	6.16	(11)	14	934	28,866	0.32	0.39	19.5	15.6	508	25	1.3	1.6	Patrick LI	Buy	7.90
601186	China Railway Construction (AHH)	9.18	(14)	(9)	889	22,539	0.49	0.68	18.9	13.5	64	40	1.3	1.9	Patrick LI	Buy	12.32
600970	China Sinoma	32.44	(5)	103	112	2,016	1.74	2.09	18.6	15.6	87	20	3.0	3.6	Grace TANG	Buy	38.32
601766	China South Locomotive (AHH)	4.63	(17)	7	794	13,705	0.15	0.19	30.9	24.4	25	27	0.9	1.1	SHI Qi	Buy	5.10
600150	China State Shipbuilding	73.31	(22)	92	551	10,771	5.11	5.51	14.3	13.3	(19)	8	1.1	1.2	XU Minle	Buy	110.00
000012	CSG Holding (A)	14.66	(24)	72	456	16,962	0.51	0.66	28.7	22.2	50	29	1.0	1.4	HAN Ling	Hold	17.10
002074	Dongyuan Electric	9.90	(18)	4	64	822	0.46	0.63	21.5	15.7	64	37	1.4	1.9	HAN Ling	Hold	11.40
600875	Dongfang Electric (AHH)	43.20	(2)	45	365	19,051	1.87	2.31	23.1	18.7	835	24	0.0	0.1	HAN Ling	Buy	48.30
002164	Donly Transmission	14.37	(15)	56	36	647	0.73	0.94	19.7	15.3	49	29	0.8	1.0	SHI Qi	Buy	9.49
002011	Dunan Equipment	13.35	(7)	86	71	1,204	0.52	0.69	25.7	19.3	13	33	0.6	0.7	SHI Qi	Buy	17.25
002202	Goldwind Sci & Tech	28.73	(13)	59	880	32,982	0.96	1.09	29.9	26.4	48	14	0.5	0.5	HAN Ling	Hold	31.00
000528	Guangxi Liugong Machinery	16.67	(15)	111	239	6,610	1.06	1.13	15.8	14.7	77	7	0.9	0.9	Eric HU	Buy	20.37
600685	Guangzhou Shipyard Int'l (AHH)	26.40	(19)	114	285	4,243	1.24	1.29	21.3	20.5	(25)	4	1.2	1.3	XU Minle	Buy	29.78
600068	GZB Company Ltd.	11.01	(15)	25	290	8,616	0.76	1.00	14.5	11.0	56	32	1.9	2.5	Patrick LI	Buy	15.30
002204	Huarui Heavy Industry	23.01	(8)	51	59	1,231	0.85	1.12	27.1	20.5	42	32	0.6	0.7	SHI Qi	Buy	28.00
600801	Huaxin Cement (A)	19.78	(23)	34	65	1,758	1.25	1.96	15.8	10.1	10	57	0.8	1.3	Grace TANG	Buy	31.25
600308	Huatai Paper	12.36	(17)	103	162	4,031	1.43	1.75	8.6	7.1	26	22	24.3	2.4	Ni Xiaoman	Buy	22.80
002097	Hunan Sunward Intelligent	15.87	(30)	32	143	2,522	0.85	1.11	18.7	14.3	77	31	2.1	2.8	SHI Qi	Hold	19.05
600495	Jinxi Axle	18.08	(17)	3	52	1,099	0.79	1.08	22.9	16.7	7	37	0.9	1.2	SHI Qi	Buy	23.70
600586	Jinjing Group	13.85	(24)	189	265	5,011	0.24	0.54	57.7	25.6	26	125	0.5	1.2	HAN Ling	Hold	13.50
600499	Keda Industrial	13.61	(15)	153	163	3,558	0.37	0.60	36.8	22.7	6	62	0.4	0.7	SHI Qi	Buy	18.06
600806	Kunming Machine (AHH)	11.68	(17)	75	88	1,544	0.63	0.64	18.5	18.3	(3)	2	0.8	0.9	SHI Qi	Buy	13.86
002147	Fangyuan Slewing Ring	9.89	(21)	8	35	1,004	1.02	1.41	9.7	7.0	79	38	4.1	5.7	SHI Qi	Hold	12.76
600449	Saima Industry	23.78	(15)	39	174	3,153	1.70	2.87	14.0	8.3	21	69	1.3	2.2	Grace TANG	Buy	32.30
600312	Pingao Electric	17.12	1	49	302	8,111	0.39	0.64	44.5	26.7	(5)	66	0.4	0.7	HAN Ling	Hold	17.50
600425	Qingsong Bldg Mat. and Chem	10.80	(22)	48	134	2,471	0.66	0.95	16.3	11.4	104	43	3.8	5.4	Grace TANG	Buy	17.16
600031	Sany Heavy	30.12	(17)	115	340	17,479	1.26	1.59	23.9	18.9	52	26	0.8	1.1	SHI Qi	Buy	35.28
600170	Shanghai Construction Co.Ltd.	13.61	(17)	51	187	4,306	0.50	0.57	27.4	23.8	18	15	1.1	1.3	Patrick LI	Buy	17.20
600284	Shanghai Pudong Road & Bridge Const	12.71	(18)	44	222	4,398	0.41	0.77	30.7	16.5	29	86	0.8	1.5	Patrick LI	Buy	15.40
600820	Shanghai Tunnel Engineering	13.00	(19)	19	270	6,011	0.59	0.66	22.1	19.7	48	12	1.1	1.3	Patrick LI	Buy	19.80
000680	Shantui	10.29	(24)	36	255	6,170	0.69	0.75	14.9	13.7	5	9	1.4	1.5	SHI Qi	Buy	15.18
000837	Shinchan Machinery Deve.	6.76	(16)	50	77	1,722	0.26	0.32	26.0	20.9	21	24	1.0	1.2	Eric HU	Hold	8.07
000410	Shenyang Machine Tool	7.72	(25)	60	112	4,123	(0.01)	0.14	n.m.	56.4	(0.0)	0.4	Eric HU	Hold	8.40		
002028	Sieuan Electric	21.74	(4)	24	154	6,500	0.82	1.02	26.7	21.4	3	25	0.6	0.7	HAN Ling	Buy	28.00
002083	Sunvim Group	8.03	(22)	127	205	6,263	0.13	0.22	60.8	37.3	1	63	0.5	0.7	HAN Ling	Sell	8.59
600169	Taiyuan Heavy Industry	14.79	(14)	67	178	5,182	0.85	0.98	17.4	15.1	12	15	1.9	2.2	SHI Qi	Buy	17.50
000401	Tangshan Jidong Cement	13.62	(17)	38	200	8,921	0.69	0.97	19.6	14.0	74	40	1.0	1.1	Grace TANG	Buy	18.30
600550	Tainwei Baobian	32.17	(17)	59	845	18,750	0.77	1.02	41.8	31.5	(5)	32	0.7	1.0	HAN Ling	Buy	40.00
600590	Tellhow Sci & tech	11.39	(9)	156	133	3,302	0.39	0.52	29.2	21.9	63	33	1.1	1.4	HAN Ling	Hold	13.07
600582	TianDi Science & Technology	23.66	12	73	110	6,857	0.90	1.03	26.3	23.0	18	14	0.8	0.9	SHI Qi	Buy	22.50
002122	Tianma Bearing	26.50	(24)	(1)	174	3,935	1.20	1.46	22.1	18.2	26	22	0.9	1.1	SHI Qi	Buy	31.68
000877	Tianshan Cement	13.69	(12)	29	109	2,904	0.78	0.99	17.5	13.8	27	26	1.6	2.0	Grace TANG	Buy	16.38
600458	Times New Material	13.19	(14)	35	71	1,426	0.49	0.60	26.9	22.0	81	22	0.8	0.9	SHI Qi	Buy	9.80
002218	Topray Solar	23.37	(25)	113	200	2,380	0.14	0.35	168.1	66.6	(45)	153	0.2	0.4	HAN Ling	Sell	18.00
600580	Wolong Electric	15.85	(4)	124	118	3,144	0.64	0.87	25.0	18.2	39	37	1.0	1.4	HAN Ling	Buy	20.20
600089	TBEA	19.62	(3)	23	974	31,026	0.86	1.03	22.8	19.0	59	20	2.0	2.3	HAN Ling	Buy	22.60
600416	Xiangdian Electric	19.18	(15)	162	172	2,749	0.47	0.70	40.5	27.6	89	47	0.7	1.1	HAN Ling	Hold	20.14
000400	XJ Electric	21.52	9	64	192	5,694	0.42	0.60	51.2	35.9	320	43	0.3	0.4	HAN Ling	Hold	16.50
000425	Xugong Science & Technology	29.54	(11)	90	172	8,372	1.68	1.91	17.6	15.5	740	14	0.6	0.6	SHI Qi	Buy	38.80
000157	Zoomlion Heavy Industry	23.50	(6)	131	472	17,514	1.31	1.73	18.0	13.6	39	32	0.5	0.7	Eric HU	Buy	34.60
Average		(15)	65	269	8,395	0.86	1.11	28.3	20.6	77	36	1.5	1.4				

China – A

RIC	Company	Price (4/9/09)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (Y m)	Free float cap. (Y m)	EPS 09E (Y)	EPS 10E (Y)	P/E 09E (X)	P/E 10E (X)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)
<b>Media</b>																	
600037	Beijing Gehua CATV	11.39	(11)	20	325	6,326	0.22	0.22	52.0	51.1	(29)	2	1.3	1.3	Allan NG	Sell	9.30
600880	B-ray Media	20.10	(5)	52	142	4,721	0.72	0.94	28.1	21.4	37	32	1.1	1.4	LIU Du	Buy	25.46
600825	Xinhua Media	10.31	(18)	21	102	2,631	0.28	0.28	36.8	35.4	1	4	1.1	1.2	LIU Du	Sell	8.73
Average		(11)	31	190	4,560	0.40	0.49	38.98	35.96	2.78	12.45	1.16	1.29				
<b>Metals &amp; Mining</b>																	
000898	Angang New Steel (AHH)	12.26	(34)	76	506	14,103	0.19	0.65	66.3	18.9	(55)	250	0.8	2.6	Belle CHAN	Hold	14.70
600019	Baosteel	7.03	(30)	52	1,199	33,240	0.15	0.32	48.5	21.7	(61)	123	0.8	1.8	Belle CHAN	Buy	12.00
601600	CHALCO (AHH)	13.59	(31)	121	1,234	55,141	(0.23)	0.25	n.m.	54.6	0.0	0.0	0.0	0.0	Belle CHAN	Buy	26.94
600357	Chengde Xinxin Vanadium	7.41	(34)	62	274	4,215	0.75	0.84	9.9	8.8	28	13	5.4	5.4	XU Minle	Buy	8.95
601005	Chongqing Iron & Steel (AHH)	5.61	(26)	63	141	3,083	0.11	0.32	49.6	17.6	(67)	182	0.7	2.0	Belle CHAN	Hold	6.40
000831	Shanxi Guanlu	9.07	(26)	127	343	3,909	0.01	0.10	907.0	90.7	0	900	0.0	0.1	LE Yukun	Hold	3.40
600362	Jiangxi Copper (AHH)	35.41	(26)	255	881	42,818	1.28	1.54	27.8	23.0	69	21	1.1	1.3	Belle CHAN	Buy	54.69
601958	Jinduicheng Molybdenum	18.29	(25)	118	695	9,836	0.22	0.41	82.8	44.9	(76)	84	0.4	0.8	LE		

China – A

RIC	Company	Price (4/9/09) (¥)	1M chg. (%)	YTD chg. (%)	3M avg. daily TIO (¥ 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 (¥)	
<b>Transport</b>																		
601111	Air China (A#)	7.98	(20)	95	462	13,081	0.42	0.16	19.2	50.2	(62)	1.0	0.0	DU Jianping	Buy	12.44		
600012	Anhui Expressway (A#)	5.21	(12)	38	62	3,284	0.44	0.50	11.7	10.5	6	12	4.3	Liu Huiming	Hold	5.30		
600115	China Eastern Airlines(A#)	5.54	(9)	34	55	2,157	0.06	0.12	86.6	44.7		94	0.0	DU Jianping	Hold	6.34		
600125	China Railway Tielong	7.25	(12)	30	176	5,075	0.35	0.40	20.6	18.1	20	14	1.0	Patrick LI	Hold	7.55		
600026	China Shipping (A#)	12.55	(32)	54	324	6,837	0.46	0.80	27.3	15.7	(71)	74	0.7	Jimmy LAM	Hold	13.90		
600029	China Southern Airlines (A#)	5.22	(27)	64	446	7,877	0.10	0.06	51.2	90.0		(43)	0.0	DU Jianping	SELL	4.06		
000039	CIMC (A#)	10.34	(25)	67	311	7,982	0.46	0.33	22.6	31.6	(13)	(29)	1.3	0.9	Jimmy LAM	Sell	9.30	
601866	CSCI (A#)	5.08	(19)	92	524	11,870	(0.23)	(0.06)	n.m.	n.m.		27	0.0	0.0	Jimmy LAM	Sell	3.05	
601006	Daqin Railway	9.92	(17)	24	1,050	25,811	0.45	0.57	22.1	17.4	(13)	27	2.6	3.3	Patrick LI	Buy	13.10	
601333	GS Railway (A#)	4.41	(18)	19	347	12,184	0.17	0.20	25.6	22.2	1	16	1.5	1.8	Patrick LI	Hold	4.96	
600004	Guangzhou Baiyun Airport	8.92	(16)	27	160	9,027	0.45	0.54	19.6	16.7	8	18	2.6	3.0	DU Jianping	Buy	12.32	
600035	Chutian Expressway	4.82	(14)	28	82	2,380	0.36	0.40	13.4	12.2	11	10	3.0	3.3	Liu Huiming	Hold	5.03	
600221	Hainan Airlines	4.85	(22)	55	217	8,560	0.10	0.12	51.1	42.2		21	0.0	0.0	LI Yan	Hold	5.34	
600377	Jiangsu Expressway (A#)	5.79	(12)	6	93	2,334	0.38	0.47	15.1	12.3	24	23	5.6	6.9	Liu Huiming	Hold	5.73	
600269	Jiangxi Ganyue Expressway	15.25	(14)	96	383	10,331	1.03	1.20	14.8	12.8	9	16	1.6	1.9	Liu Huiming	Buy	16.43	
600350	Shandong Expressway	5.21	(11)	7	151	3,505	0.28	0.32	18.4	16.5	(23)	12	2.4	2.7	Liu Huiming	Buy	4.40	
600591	Shanghai Airlines	6.10	(6)	39	63	5,478	0.10	0.21	59.8	28.5		110	0.0	0.0	DU Jianping	Hold	6.86	
600009	Shanghai Airport	14.04	(20)	25	395	14,339	0.34	0.47	41.5	29.9	(24)	39	0.4	0.5	DU Jianping	Hold	13.73	
000089	Shenzhen Airport	7.03	(15)	33	138	4,627	0.37	0.39	19.1	18.2	160	5	2.9	3.0	DU Jianping	Hold	8.12	
600548	Shenzhen Expressway(A#)	5.27	(17)	20	61	1,149	0.30	0.35	17.7	15.0	29	18	2.3	2.7	Liu Huiming	Buy	7.00	
000900	Xiandai Investment	18.82	(8)	60	184	5,295	1.71	1.89	11.0	9.9	19	11	4.9	5.4	Liu Huiming	Buy	25.59	
600320	Zhenhua Heavy Industry	10.34	(23)	65	428	17,243	0.54	0.68	19.3	15.2	(32)	27	1.3	1.6	Jimmy LAM	Buy	14.60	
	<b>Average</b>		(16)	44	278	8,201	0.39	0.46	28.0	25.2	7	20	1.8	2.0				
<b>Utilities</b>																		
000690	Baohua New Energy	8.49	(21)	36	266	6,891	0.50	0.49	17.0	17.3	56	(2)	1.2	1.2	YU Nian	Buy	10.80	
600900	China Yangtze Power Corp	13.33	(16)	(9)	1,372	65,492	0.38	0.71	35.1	18.9	(9)	86	1.5	2.9	YU Nian	Buy	16.64	
601991	Datang Int'l Power (A#)	9.66	(17)	50	226	59,173	0.18	0.25	53.4	38.2	159	40	1.0	1.0	Peter YAO	Hold	9.70	
600795	GD Power	6.80	(21)	22	515	28,154	0.21	0.26	32.9	26.2	(24)	26	0.6	0.7	YU Nian	Buy	7.35	
600323	Nanhai Development	8.80	(12)	12	66	174,632	0.34	0.47	30.0	26.6	29.6	(5)	(10)	1.1	0.9	YU Nian	Hold	9.42
000027	Shenzhen Energy Group	11.75	(18)	45	247	6,986	0.85	0.70	13.8	16.9	81	(18)	1.4	1.1	YU Nian	Buy	12.30	
600027	Huadian Power (A#)	5.12	(22)	34	200	15,414	0.23	0.35	22.5	14.5		55	1.1	1.6	Peter YAO	Hold	6.30	
600011	Huaneng Power (A#)	7.50	(22)	8	226	28,932	0.30	0.37	25.1	20.4		23	1.9	2.4	Peter YAO	Hold	9.40	
600886	SDIC Huajiang Power	9.03	(26)	(1)	196	9,523	0.27	0.37	33.6	24.5	(62)	37	0.7	0.8	YU Nian	Buy	10.52	
	<b>Average</b>		(20)	23	406	27,571	0.36	0.44	29.2	22.1	33	31	1.2	1.5				

Germany

RIC	Company	Price (4/9/09) (€)	1M chg. (%)	YTD chg. (%)	3M avg. daily TIO (€ 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 (€)
<b>Agriculture</b>																	
5AB	Asian Bamboo AG	16.62	52	170	0	93	1.96	2.22	8.5	7.5	59	13	1.2	1.3	Jenny CHAN	Buy	14.48
	<b>Average</b>		52	170	0	93	1.96	2.22	8.5	7.5	59	13	1.2	1.3			
<b>Industrial</b>																	
ZEF	Zhong De Waste Tech.	11.40	(19)	(17)	0	76	1.09	1.55	10.5	7.4	(37)	42	0.0	0.0	Frank LAI	BUY	16.90
	<b>Average</b>		(19)	(17)	0	76	1.09	1.55	10.5	7.4	(37)	42	0.0	0.0			

Singapore

RIC	Company	Price (4/9/09) (S\$)	1M chg. (%)	YTD chg. (%)	3M avg. daily TIO (S\$m)	Free float mkt. cap.* (S\$m)	EPS 09E (S\$)	EPS 10E (S\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (S\$)
<b>Consumer Product</b>																	
CZAI	China Zaino International	0.31	20	69	3	118	0.07	0.08	4.5	4.0	(30)	11	4.5	5.0	Frank LAI	Buy	0.32
	<b>Average</b>		20	69	3	118	0.07	0.08	4.5	4.0	(30)	11	4.5	5.0			
<b>Consumer Services</b>																	
CHHS	China Hongxing Sports	0.25	23	32	9	460	0.02	0.02	14.5	11.6	(53)	25	1.7	2.6	Frank LAI	Buy	0.28
	<b>Average</b>		23	32	9	460	0.02	0.02	14.5	11.6	(53)	25	1.7	2.6			
<b>Industrial</b>																	
Midas	Midas Holdings	0.82	(4)	69	18	451	0.04	0.05	21.0	16.1	0	31	1.8	2.4	Frank LAI	Buy	1.17
	<b>Average</b>		(4)	69	18	451	0.04	0.05	21.0	16.1	0	31	1.8	2.4			
<b>Property</b>																	
YLLG	Yanlord Land	2.38	(16)	166	35	1,617	0.14	0.18	17.0	13.4	20	26	0.6	0.8	Frank LAI	Buy	3.42
	<b>Average</b>		(16)	166	35	1,617	0.14	0.18	17.0	13.4	20	26	0.6	0.8			

NB: Buy = ≥ +10% compared with the relevant benchmark index over a 6-month period; Sell = ≤ -10% compared with the relevant benchmark index over a 6-month period; Hold = ≤ +10% and ≥ -10% compared with the relevant benchmark index over a 6-month period; Not Rated (NR)  
 \*: Represents total figures, while others are averages  
 \* Initiating coverage, Arrows (▲) indicate a change in rating or a change in earnings forecast of at least 5% during the past month  
 Sources: Reuters, BOCI Research estimates

Calendar of Events

Economic data (China)

	Description	Date
CPI	Aug09	11/09
Retail Sales	Aug09	11/09
VAIO	Aug09	11/09
FAI	Aug09	11/09

Economic data (Hong Kong)

	Description	Date
Unemployment rate	Jun09 - Aug09	17/09
Composite CPI	Aug09	22/09
Trade balance	Aug09	24/09
Retail sales value	Aug09	29/09

Results announcements (China)

Company	Date
Shanghai Jahwa United (600315.SS)	2Q09 9/4/2009

Results announcements (Hong Kong)

Company	Date
Central China Real Estate (0832.HK)	1H09 9/3/2009
China Resources Enterprise (0291.HK)	1H09 9/3/2009
Singamas (P) (0716.HK)	1H09 9/3/2009
China Ting Group (P) (3398.HK)	1H09 9/4/2009
Minmetals Land (0230.HK)	1H09 9/4/2009
Vinda International (3331.HK)	1H09 9/4/2009
China Agri-Industries (R) (0606.HK)	1H09 9/8/2009
China Communications Construction (H) (1800.HK)	1H09 9/8/2009
China Resources Gas (1193.HK)	1H09 9/8/2009
Denway Motor (0203.HK)	1H09 9/8/2009
Lonking Holdings (3339.HK)	1H09 9/8/2009
Mengniu Dairy (2319.HK)	1H09 9/8/2009
Agile Property (3383.HK)	1H09 9/9/2009
China Dongxiang (P) (3818.HK)	1H09 9/9/2009
China Yurun Food Group (1068.HK)	1H09 9/9/2009
Greentown (3900.HK)	1H09 9/9/2009
Shenzhen Investment (R) (0604.HK)	1H09 9/9/2009
Sino Land (0083.HK)	FY09 9/9/2009
Beijing Media (1000.HK)	1H09 9/10/2009
China Merchants Holdings (R) (0144.HK)	1H09 9/10/2009

Phoenix Satellite TV (2008.HK)	2Q09	9/10/2009
China Foods (R) (0506.HK)	1H09	9/11/2009
China Haisheng Juice (P) (0359.HK)	1H09	9/11/2009
China Resources Land (R) (1109.HK)	1H09	9/11/2009
GCL-Poly Energy Holdings Limited (3800.HK)	1H09	9/11/2009
Shenyin Wanguo (0218.HK)	1H09	9/11/2009
Xingye Copper (P) (0505.HK)	1H09	9/11/2009
Melco Int'l (0200.HK)	1H09	9/11/2009
Ajisen (China) (0538.HK)	1H09	9/14/2009
Guangdong Investment (R) (0270.HK)	1H09	9/14/2009
Nine Dragons Paper (P) (2689.HK)	FY09	9/14/2009
SCMP Group (0583.HK)	1H09	9/14/2009
CM China Direct Investments (0133.HK)	1H09	9/15/2009
Sinoma (1893.HK)	1H09	9/15/2009
Time Ltd (1832.HK)	1H09	9/15/2009
SHKP (0016.HK)	FY09	9/15/2009
Beijing Enterprises (0392.HK)	1H09	9/17/2009
China High Speed (0658.HK)	1H09	9/17/2009
China Power Int'l (2380.HK)	1H09	9/17/2009
Xiniao Gas (2688.HK)	1H09	9/18/2009
Galaxy Entertainment (0027.HK)	1H09	9/18/2009
Brilliance Auto (1114.HK)	1H09	9/19/2009
Fushan Energy (0639.HK)	1H09	9/22/2009
Wasion Meter (3393.HK)	1H09	9/22/2009
Aeon Credit (0900.HK)	1H09	9/23/2009
Lingbao (H) (3330.HK)	1H09	9/23/2009
SEEC Media (P) (0205.HK)	1H09	9/24/2009
Shimao Property (0813.HK)	1H09	9/25/2009
Pou Sheng International (3813.HK)	3Q09	9/25/2009
Yue Yuen Industrial (0551.HK)	3Q09	9/25/2009
China Power New Energy (0735.HK)	FY09	9/30/2009

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